

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 CLINTON AREA TRANSIT SYSTEM	County CLINTON
Fiscal Year End SEPTEMBER 30, 2007	Opinion Date MARCH 26, 2008	Date Audit Report Submitted to State MARCH 28, 2008	

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"/>	SINGLE AUDIT REPORTS		
Certified Public Accountant (Firm Name) LAYTON & RICHARDSON, P.C.		Telephone Number 517-332-1900		
Street Address 1000 COOLIDGE RD		City EAST LANSING	State MI	Zip 48823
Authorizing CPA Signature <i>Merrick A. Richardson</i>		Printed Name MERRICK A. RICHARDSON		License Number MI-5710

CLINTON AREA TRANSIT SYSTEM
CLINTON COUNTY
ST. JOHNS, MICHIGAN
FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2007
AND
INDEPENDENT AUDITORS' REPORT

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Clinton Area Transit System
St. Johns, Michigan

We have audited the accompanying financial statements of the business-type activities of Clinton Area Transit System as of and for the year ended September 30, 2007, which collectively comprise the Organization's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of Clinton Area Transit System. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller 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 respective financial position of the business-type activities of Clinton Area Transit System as of September 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 21, 2008, on our consideration of Clinton Area Transit System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the 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 important for assessing the results of our audit.

The management's discussion and analysis and the required supplementary information on pages 3 through 9 and 26 through 42 are not a required part of the basic financial statement but are supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

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Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Clinton Area Transit System's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of Clinton Area Transit System. The schedule of expenditures of federal awards 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. The supplemental financial information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Hayton & Richardson, P.C.

Certified Public Accountants

East Lansing, Michigan
March 21, 2008

Clinton Area Transit System Management's Discussion and Analysis

The goal of this discussion and analysis is to provide highlights to the Clinton Area Transit System's (Clinton Transit) financial activities for the Fiscal Year ended September 30, 2007. Readers are encouraged to read this section in conjunction with the accompanying basic financial statements.

Financial Highlights

- **Assets:** Clinton Transit assets exceeded its liabilities by \$1,343,809. All of this amount may be used to meet ongoing Transit obligations to citizens and creditors. The total assets increased by \$1,018,048. The increase was due to the following: purchasing new buses during the Fiscal Year under a Capital Grant at a cost of \$913,991, and collection of tax millage.
- **Ridership** increased from FY 2006's ridership of 3,447, up 8%. The total operating miles increased from the FY 2006's total of 334,258 to FY 2007's 423,829, up 27%.
- **Funding** from FY 2005 (Section 5309), Z11 became available March, 2006 for \$1.4 Million to purchase much needed vehicles, facility, computer/GPS, maintenance, and communication equipment.

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 Clinton Transit, which include notes that explain in more detail some of the information in the financial statements. This report is presented in a format as required by GASB Statement No. 34.

As an Act 196 Transit Authority, Clinton Transit provides demand-response service for residents of Clinton County and for people who work in Clinton County. Transportation purposes are medical, employment, recreation, education and shopping.

Clinton Area Transit System Management's Discussion and Analysis

Required Financial Statements

The financial statements report information on Clinton 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 Clinton Transit's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations of Clinton Transit creditors (liabilities). It also provides the basis for evaluating the capital structure of Clinton Transit and assessing the Authority's liquidity and financial flexibility.

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 Clinton Transit's operations over the past year and can be used to determine whether Clinton Transit has successfully recovered all of its costs through user fees and other charges, profitability and credit worthiness.

The final required financial statement is the Statement of Cash Flows. This 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 the cash come from, what was the cash used for, and what was the change in the cash balance during the reporting period.

Financial Analysis of Clinton Area Transit System

The Statement of Net Assets and the Statement of Activities provides the information to determine how Clinton Transit did financially during FY 2007 and 2006. 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 Clinton Transit's financial health.

Net Assets

Clinton Transit's Condensed Statement of Net Assets and Statement of Revenue, Expenses, and Changes in Fund Net Assets are presented in the following Tables. Comparative financial data is included for FY 2007 and FY 2006.

**Clinton Area Transit System
Management's Discussion and Analysis**

**Table 1
Condensed Statement of Net Assets
FY 2007 – FY 2006**

	FY 2007	FY 2006
Current Assets	\$ 508,758	\$232,445
Fixed Assets	<u>886,243</u>	<u>138,937</u>
Total Assets	<u>\$1,395,001</u>	<u>\$371,382</u>
Current Liabilities	\$ 44,573	\$ 38,000
Other Current Liabilities	<u>6,619</u>	<u>7,622</u>
Total Current Liabilities	<u>51,192</u>	<u>45,622</u>
Invested in Capital Assets	886,243	138,937
Unrestricted	<u>457,566</u>	<u>186,823</u>
Total Net Assets	<u>\$1,343,809</u>	<u>\$325,760</u>

**Clinton Area Transit System
Management's Discussion and Analysis**

**Table 2
Condensed Statement of Revenue, Expenses,
And Changes in Fund Net Assets
FY 2007 – FY 2006**

	FY 2007	FY 2006
Operating Revenue	\$ 188,737	\$210,319
Non-operating Revenue	<u>1,888,699</u>	<u>675,974</u>
Total Revenue	2,077,436	886,293
Depreciation Expense	188,889	68,194
Other Operating Expenses	<u>870,499</u>	<u>597,655</u>
Total Expenses	1,059,388	665,849
Change in Net Assets(Retained Earnings)	1,018,048	220,444
Beginning Net Assets (Retained Earnings)	<u>325,761</u>	<u>105,316</u>
Ending Net Assets (Retained Earnings)	<u>\$1,343,809</u>	<u>\$325,760</u>

The Statement of Net Assets shows the change in financial position of net assets. The Depreciation expense of \$188,889 is a non-cash expense, which represents the reduction in the value of vehicles and office equipment. Due to the nature of Clinton Transit's capital, this cost is not considered in the day-to-day fiscal management process because of the capital grants available through State and Federal funding.

Clinton Transit's operating revenue decreased by \$21,582 due to changes in contracts with other institutions and a 40% fare decrease as of January 2007. Non-operating revenue increased by approximately 180%, or \$1,212,725 primarily due to receiving millage monies and capital grants for the purchase of new buses.

Total operating expenses has increased by 46%, or \$272,844 which was expected due to the increase of service with resulting increases in labor, bus maintenance, fuel costs, and depreciation.

**Clinton Area Transit System
Management's Discussion and Analysis**

Capital Assets

The acquisition of new vehicles is generally funded by (80%) Federal sources and (20%) State match from the Michigan Department of Transportation. This funding source also allows Clinton Transit to use all of its operating revenues on daily service and not tie up those incomes with debt payments for equipment. Following State depreciation guidelines, expected life of vehicles is 4-7 years, depending on the type.

- Funding from FY 2005 (Section 5309), Z11 enabled Clinton Transit to order 12 buses which were delivered in late fall of 2006 and 5 minivans were delivered in spring of 2007.

**Table 3
Capital Assets
FY 2007 – FY 2006**

	FY 2007	FY 2006
Buses	\$1,307,507	\$508,450
Van & Minivans	92,628	205,088
Office Furniture & Equipment	<u>67,555</u>	<u>45,352</u>
Subtotal	\$1,467,690	\$758,890
Less: Accumulated Depreciation	(<u>581,447</u>)	(<u>619,953</u>)
Net Property & Equipment	\$ <u>886,243</u>	\$ <u>138,937</u>

Debt Administration

Clinton Transit has no long term debt as of September 30, 2007.

**Clinton Area Transit System
Management's Discussion and Analysis**

Economic Factors

Many of the funds that subsidize public transportation operations are appropriated by both State and Federal governments. Budget dollars in charts below are eligible budget dollars.

Section 5311 Federal operating funds have increased as detailed in the table below: The net change in federal operating dollars of \$51,781 is due to increase in expenditures and instead of subsidy percentage.

Fiscal Year	Budget Total	Subsidy Amount	Subsidy Percentage	Net Change in Dollars	Net Change in Percentage
FY 02	\$435,000	\$46,448	10.68%		
FY 03	\$467,500	\$51,191	10.68%	\$4,743	0.0%
FY 04	\$421,500	\$46,154	10.95%	\$(5,037)	0.0%
FY 05	\$402,460	\$49,905	12.40%	\$3,751	1.45%
FY 06	\$596,737	\$89,510	15.00%	\$39,605	2.6%
FY 07	\$883,071	\$141,291	16.00%	\$51,781	1.0%
FY 08	\$1,253,497	\$187,275	15.00%	\$45,984	-1.0%
FY 09	\$1,357,562	\$217,210	16.00%	\$29,935	1.0%

State operating assistance was increased from FY 05, an increase of .81% as detailed in the table below:

Fiscal Year	Budget Total	Subsidy Amount	Subsidy Percentage	Net Change in Dollars	Net Change in Percentage
FY 02	\$ 435,000	\$199,457	45.85%		
FY 03	\$ 467,500	\$204,765	43.80%	\$ 5,308	-2.05%
FY 04	\$ 421,500	\$178,027	42.24%	\$ (26,738)	-1.56%
FY 05	\$ 402,460	\$154,696	38.44%	\$ (23,331)	-3.80%
FY 06	\$ 596,737	\$234,219	39.25%	\$ 66,989	+ .81%

**Clinton Area Transit System
Management's Discussion and Analysis**

FY 07	\$ 883,071	\$341,042	38.62%	\$106,823	-63.0%
FY 08	\$1,253,497	\$482,170	38.47%	\$141,128	-15.0%
FY 09	\$1,357,562	\$490,759	36.15%	\$8,589	-2.32%

The \$106,823 net increase in state operating dollars from FY 06 to FY 07 is due to the increase in expenditures instead of subsidy percentage. From FY 02 to FY 07 there has been 7.23 decrease in subsidy percentage. This trend continues in FY 09 with another 2.47 decrease for a total of 9.7. This translates into a decrease of \$131,684 based on FY 09 budget figures. This alarming trend is placing many rural public transit systems in jeopardy of staying in existence. Because of the millage passed in fall of 2005, Clinton Transit is still expanding with incremental steps and the above loss is absorbed in that expansion.

The millage for 2007 was levied at .1986. The millage is necessary to significantly expand service to all the residents of Clinton County. Currently, priority is given to medical trips, persons with disabilities, and senior citizens. May 2007, Clinton Transit expanded to all rural areas of the county three days a week, four times a day. March 2008, is the target date to expand in rural areas from three to five days a week, four times a day. Summer of 2008, Clinton Transit plans to expand again in rural areas from four to six times a day. Daytime workers will benefit significantly from these two additional times.

Contact Information

This financial report is designed to provide our customers and creditors with a general overview of Clinton Transit's' finances and demonstrate the Authority's accountability for the funds it receives. Anyone having questions regarding this report or desiring additional information may contact the General Manager for Clinton Area Transit System at 304 N. Brush Street, St. Johns, Michigan, 48879. The telephone number is (989) 224-3161.

CLINTON AREA TRANSIT SYSTEM
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2007

ASSETS

CURRENT ASSETS	
Cash	\$ 296,134
Investment	128,624
Accounts receivable	12,112
Due from other governmental units	60,648
Prepaid expenses	<u>11,240</u>
TOTAL CURRENT ASSETS	<u>508,758</u>
CAPITAL ASSETS	
Vehicles	1,400,135
Equipment	<u>67,555</u>
TOTAL CAPITAL ASSETS	1,467,690
Less: accumulated depreciation	<u>(581,447)</u>
NET CAPITAL ASSETS	<u>886,243</u>
TOTAL ASSETS	<u>\$ 1,395,001</u>

LIABILITIES AND NET ASSETS

LIABILITIES	
CURRENT LIABILITIES	
Accounts payable	\$ 20,735
Accrued payroll	21,631
Accrued vacation and sick pay	<u>2,207</u>
TOTAL CURRENT LIABILITIES	<u>44,573</u>
LONG-TERM LIABILITIES	
Accrued vacation and sick pay	<u>6,619</u>
TOTAL LIABILITIES	<u>51,192</u>
NET ASSETS	
RETAINED EARNINGS	
Unreserved	<u>1,343,809</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,395,001</u>

See accompanying notes to financial statements.

CLINTON AREA TRANSIT SYSTEM
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2007

	PROGRAM REVENUES				
EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRI- BUTIONS	CAPITAL GRANTS AND CONTRI- BUTIONS	BUSINESS TYPE ACTIVITIES	
FUNCTIONS/PROGRAMS					
Primary Government					
Business-Type Activities	\$ 1,059,388	\$ 188,737	\$ 467,637	\$ 961,955	\$ 558,941
General Revenues					
Property tax revenue					437,661
Gain on sale of capital assets					3,300
Miscellaneous revenue					5,529
Unrestricted investment earnings					12,617
Total General Revenues					459,107
Change in Net Assets					1,018,048
NET ASSETS, OCTOBER 1					325,761
NET ASSETS, SEPTEMBER 30					\$ 1,343,809

See accompanying notes to financial statements.

CLINTON AREA TRANSIT SYSTEM
STATEMENT OF INCOME AND RETAINED EARNINGS
FOR THE YEAR ENDED SEPTEMBER 30, 2007

OPERATING REVENUES	\$ 188,737
OPERATING EXPENSES	<u>1,059,388</u>
LOSS FROM OPERATIONS	<u>(870,651)</u>
NONOPERATING REVENUES	
Federal sources	904,275
State sources	525,317
Local sources	<u>459,107</u>
TOTAL NONOPERATING REVENUES	<u>1,888,699</u>
NET INCOME	1,018,048
RETAINED EARNINGS, OCTOBER 1	<u>325,761</u>
RETAINED EARNINGS, SEPTEMBER 30	<u><u>\$ 1,343,809</u></u>

See accompanying notes to financial statements.

CLINTON AREA TRANSIT SYSTEM
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED SEPTEMBER 30, 2007

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 189,182
Payment to suppliers	(256,001)
Payment to employees	(611,003)
	<u>(677,822)</u>
NET CASH USED IN OPERATING ACTIVITIES	
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Federal grants	116,553
State grants	350,513
Job access grant	13,886
Local contributions	5,827
Property taxes	437,661
	<u>924,440</u>
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchase of capital assets	(936,194)
Proceeds from sale of capital assets	3,300
Proceeds from capital contributions	923,442
	<u>(9,452)</u>
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of certificate of deposit	(52,834)
Interest received	12,617
	<u>(40,217)</u>
NET CASH USED IN INVESTING ACTIVITIES	
NET INCREASE IN CASH AND CASH EQUIVALENTS	196,949
CASH , OCTOBER 1	99,185
CASH , SEPTEMBER 30	\$ <u>296,134</u>
 RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY (USED IN) OPERATIONS	
Loss from operations	\$ (870,651)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities	
Depreciation	188,889
Increase in accounts receivable	445
Increase in prepaid expense	(2,076)
Decrease in accounts payable	(6,252)
Increase in accrued payroll	10,619
Increase in accrued vacation and sick pay	1,204
	<u>(677,822)</u>
	<u>\$ (870,651)</u>

See accompanying notes to financial statements.

CLINTON AREA TRANSIT SYSTEM
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007

NOTE 1: ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Clinton Area Transit System (the Transit) was established under the applicable laws of the State of Michigan Public Act 196, as amended, to operate a transportation system within the County of Clinton on October 18, 2001. Public Act 196 known as the "Public Transportation Authority Act" authorizes the formation of public transportation authorities with certain powers and duties as separate and distinct political subdivisions within the State of Michigan.

Prior to the formation of Clinton Area Transit System, public transportation services were provided to the residents of Clinton County by a nonprofit organization know as Community Resource Volunteers. To facilitate the transition of providing transportation to the residents of Clinton County, vehicles and other related equipment purchased by Community Resource Volunteers with federal and state assistance were transferred to the Transit during the fiscal year ended September 30, 2002.

Clinton Area Transit System is eligible to receive 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. Clinton Area Transit System provides demand response services within Clinton County. The Transit also provides special services on a contractual basis to nonprofit agencies within the County.

A. Reporting Entity

The accompanying financial statements are exclusive presentations of the financial condition and results of operations of Clinton Area Transit System. The Transit has followed the guidelines of the Governmental Accounting Standards Board's Statement No. 14, and has determined that no entities should be consolidated into its general purpose financial statements as component units. Therefore, the reporting entity consists of the primary government financial statements.

B. Basis of Presentation

The accounts of Clinton Area Transit System 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:

C. 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.

CLINTON AREA TRANSIT SYSTEM
NOTES TO FINANCIAL STATEMENTS - Continued
SEPTEMBER 30, 2007

NOTE 1: **ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -**
Continued

D. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e. the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary organization of Clinton Area Transit System.

The statement of activities demonstrates the degree to which the direct expenses of a function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services and privileges provided 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. All taxes are reported as general revenue.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from provided services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expense for enterprise funds and internal service funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

E. Measurement Focus, Basis of Accounting, and Financial Statements

The proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. In the individual fund statements and schedules, the proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are reported when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

CLINTON AREA TRANSIT SYSTEM
 NOTES TO FINANCIAL STATEMENTS - Continued
 SEPTEMBER 30, 2007

NOTE 1: **ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES –**
 Continued

F. Cash

Clinton Area Transit System cash accounts consist of checking and savings accounts. The balances in the cash accounts are available to meet current operating requirements. For the purposes of the statement of cash flows, the proprietary funds consider all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

G. Receivables

Receivables have been recognized for all significant amounts due the Transit. Management feels all accounts receivable are collectible; therefore, no allowance for bad debt has been recorded.

H. Capital Assets

The accounting and reporting treatment applied to the capital assets associated with a fund are determined by its measurement focus. The proprietary fund is accounted for on a cost of services or "capital maintenance" measurement focus. This means that all assets and all liabilities (whether current or noncurrent) associated with the activity are included on the balance sheet.

Capital assets are defined by the Transit as assets with an initial, individual cost of more than \$5,000, except for assets purchased with federal and/or state grants which are capitalized regardless of the amount, and an estimated useful life in excess of one year.

Capital assets are recorded at cost, or if donated, at fair market value at the date of donation. Expenses that materially extend the useful life of existing assets are capitalized. Depreciation of all exhaustible fixed assets used by the proprietary fund is charged as an expense against operations. Accumulated depreciation is reported on the proprietary fund balance sheet. Depreciation is computed on the straight-line method over the estimated useful lives of the related assets.

The estimated useful lives are as follows:

ASSET	DEPRECIABLE LIFE
Vehicles	4-7 years
Equipment	4-7 years

I. Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires the use of estimates and assumptions that affect the reporting of certain assets, liabilities, revenues, and expenditures. Actual results may differ from estimated amounts.

CLINTON AREA TRANSIT SYSTEM

NOTES TO FINANCIAL STATEMENTS - Continued

SEPTEMBER 30, 2007

NOTE 1: ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES –
Concluded

J. 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.

K. Cost Allocation Plan

The Transit has two cost allocation plans where the methodology has been approved by the State of Michigan, Department of Transportation. These cost allocations are for non-urban services. The cost allocation plan is for the Job Access Reverse Commute grant. This cost allocation plan was adhered to in the preparation of the financial statements.

NOTE 2: CASH

Clinton Area Transit System is authorized to invest any of its funds in one or more of the following:

- A. Bonds, securities and other obligations of the United States or any agency or instrumentality of the United States.
- B. 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, saving bank, or credit union whose deposits are insured by an agency of the United States government and which it maintains a principal office or branch office located in this state under the laws of 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 of Act No. 105 of the Public Acts of 1855, as amended, being Section 21,145 and 21,146 of Michigan Compiled Laws.
- C. Commercial paper rated at time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase.
- D. The United States government or federal agency obligations repurchase agreements.
- E. Bankers acceptances of United States banks.
- F. Mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental agencies 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.

CLINTON AREA TRANSIT SYSTEM

NOTES TO FINANCIAL STATEMENTS - Continued

SEPTEMBER 30, 2007

NOTE 2: CASH - Concluded

The amounts below are classified by Governmental Accounting Standards Board Statement No. 40 in the following category:

Cash on the balance sheet consists of the following:

Checking and savings accounts	\$ 295,494
Petty cash	<u>640</u>
	\$ <u>296,134</u>
Investments	
Certificate of deposit	\$ <u>128,624</u>

Deposits are carried at fair market value. The Transit is authorized to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations. Investments can also be made in U.S. bonds and notes, certain commercial paper, U.S. government repurchase agreements, bankers acceptances and mutual funds, and investment pools that are composed of authorized investment vehicles.

At September 30, 2007, the Transit's cash and investments were classified as follows:

Insured	\$ <u>100,000</u>
Uninsured and uncollateralized	\$ <u>324,568</u>

Deposit and Investment Risk

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified in the summary of significant accounting policies. The Transit'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. State law limits investments to specific government securities, certificates of deposit and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the list of authorized investments in the summary of significant accounting policies. The Transit's investment policy does not have specific limits in excess of state law on investment credit risk. Credit risk ratings have been identified above for the Transit's investments.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Transit does not have a deposit policy for custodial credit risk. As of September 30, 2007, \$371,080 of the Transit's bank balance of \$471,080 was exposed to custodial credit risk.

Uninsured and uncollateralized	\$ <u>371,080</u>
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CLINTON AREA TRANSIT SYSTEM
NOTES TO FINANCIAL STATEMENTS - Continued
SEPTEMBER 30, 2007

NOTE 3: DUE FROM FEDERAL AND STATE GOVERNMENTS

Clinton Area Transit System receives funding from the U.S. Department of Transportation under Section 5311 Operating Grants. The computation of the amount due from the federal government as of September 30, 2007, is as follows:

Net eligible expenses	\$ 836,519	
Funding rate	<u>17.0%</u>	
Section 5311 revenue	142,208	
Funding received	<u>(96,212)</u>	
Balance due from year ended September 30, 2007		\$ <u>45,996</u>
Due from federal government		<u>45,996</u>

Clinton Area Transit System receives funding from the State of Michigan for the State of Michigan Operating Assistance Program. The computation of the amount due from the State of Michigan under the Operating Assistance Agreement as of September 30, 2007, is as follows:

Eligible costs	\$ 841,519	
Funding rate	<u>38.6208%</u>	
Funding earned	325,001	
Funding received	<u>(341,049)</u>	
Balance due to for year ended September 30, 2007		\$(16,048)
Balance due from prior year		<u>9,571</u>
Due to state government		<u>(6,477)</u>

Clinton Area Transit System receives funding from the State of Michigan for the Job Access Reverse Contract Program. The computation of the amount due from the State of Michigan under the Job Access Reverse Contract as of September 30, 2007 is as follows:

Eligible costs	\$ 25,215	
Funding received	<u>(13,886)</u>	
Balance due from year ended September 30, 2007		<u>11,329</u>
Due from Capital Contract Z6		<u>9,800</u>
TOTAL DUE FROM (TO) STATE AND FEDERAL GOVERNMENT		\$ <u>60,648</u>

CLINTON AREA TRANSIT SYSTEM
NOTES TO FINANCIAL STATEMENTS - Continued
SEPTEMBER 30, 2007

NOTE 4: CAPITAL ASSETS

A summary of the Transit's capital assets at September 30, 2007, follows:

	BALANCE SEPTEMBER 30, 2006	ADDITIONS	DELETIONS	BALANCE SEPTEMBER 30, 2007
Capital Assets Being Depreciated				
Vehicles	\$ 713,538	\$ 913,991	\$ 227,394	\$ 1,400,135
Equipment	<u>45,352</u>	<u>22,203</u>	<u> </u>	<u>67,555</u>
Total	758,890	936,194	227,394	1,467,690
Less: accumulated depreciation	<u>619,952</u>	<u>188,889</u>	<u>227,394</u>	<u>581,447</u>
Net property and equipment	<u>\$ 138,938</u>	<u>\$ 747,305</u>	<u>\$ </u>	<u>\$ 886,243</u>

The depreciation expense was \$188,889 for year ended September 30, 2007.

NOTE 5: SHORT-TERM DEBT

The Transit uses a revolving line of credit for \$80,000 to cover potential cash flow shortages. The balance as of September 30, 2007 was \$0. The revolving line of credit renews annually.

NOTE 6: COMPENSATED ABSENCES

Paid leave time is earned in varying amounts depending on an employee's classification and the number of hours worked. A maximum of forty (40) hours of paid leave time may be carried over to the subsequent year.

Full time employees can earn one hundred twenty (120) hours of paid leave time per year. Leave time is accrued at a rate of 4.616 hours per pay period. Part time employees earn two (2) hours of paid leave time for any pay period in which at least forty (40) hours are worked.

Accrued sick and vacation payable at September 30, 2007 was \$8,826.

CLINTON AREA TRANSIT SYSTEM
NOTES TO FINANCIAL STATEMENTS - Continued
SEPTEMBER 30, 2007

NOTE 7: RETIREMENT PLAN

Clinton Area Transit System employees participate in a Simple IRA Plan, which became effective on May 2, 2002.

All Transit System employees who are expected to receive at least \$5,000 in compensation for the calendar year are eligible to participate in the plan. The Transit is required to pay contributions to the plan that match the participant's contribution up to a maximum of three (3) percent of employee compensation. Participants may contribute up to one hundred (100) percent of their salary, up to the IRS maximum.

For the year ended September 30, 2007, the Transit contributed \$6,261 to the retirement plan. The Transit had a total payroll of \$492,721 and covered payroll of \$216,340.

NOTE 8: RELIANCE ON FUNDING SOURCES

The Transit receives a majority of its support from state and federal grant revenues. A significant reduction in the level of this support, if it were to occur, would have an effect on the Transit's programs and activities.

NOTE 9: RISK MANAGEMENT

Clinton Area Transit System is a member of the Michigan Transit Pool Self-Insurance Pool ("Pool") established pursuant to an Intergovernmental Agreement entered into by the member Transit Agencies and Authorities.

This Pool was established for the purpose of making a self-insurance pooling program available for Michigan Transit Agencies and Authorities, which includes, but is not limited to, bodily injury liability, property damage liability, and personal injury liability related to vehicle operation of Clinton Area Transit System.

Clinton Area Transit System pays an annual premium to the Pool for this coverage. The agreement for the formation of the Pool provides that the Pool will be self-sustaining through member premiums.

Clinton Area Transit System continues to carry commercial insurance for employee health, workers' compensation, and other insurance including general liability and commercial building insurance.

Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three (3) fiscal years.

CLINTON AREA TRANSIT SYSTEM
NOTES TO FINANCIAL STATEMENTS - Concluded
SEPTEMBER 30, 2007

NOTE 10: CONTINGENT LIABILITIES

Amounts received or receivable under grant programs are subject to audit and adjustment by the grantor agencies, principally the Federal and State governments. Any disallowed claims, including amounts already collected, may constitute a liability of the transit agency. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the Transit expects such amounts, if any, to be immaterial.

NOTE 11: PROPERTY TAXES

Property taxes attach as an enforceable lien on property as of the date they are levied. In August, 2005, the citizens of Clinton County passed a millage for operational purposes. The total mills levied in December, 2006 were .1986 mills. Property tax collections as of September 30, 2007 were \$437,661.

SUPPLEMENTARY INFORMATION

CLINTON AREA TRANSIT SYSTEM
STATEMENT OF OPERATING REVENUES
FOR THE YEAR ENDED SEPTEMBER 30, 2007

OPERATING REVENUES	
Passenger fares	\$ 52,607
Contract rides	<u>136,130</u>
 TOTAL OPERATING REVENUES	 <u>\$ 188,737</u>

CLINTON AREA TRANSIT SYSTEM
STATEMENT OF OPERATING EXPENSES BY CATEGORY
FOR THE YEAR ENDED SEPTEMBER 30, 2007

	OPERATIONS	MAINTENANCE	GENERAL ADMINISTRATION	TOTAL
Labor				
Operator's salaries and wages	\$ 247,502	\$	\$	\$ 247,502
Other salaries and wages	29,380	42,698	85,777	157,855
Dispatcher's salaries and wages	72,964			72,964
Fringe benefits				
Other fringe benefits	110,017	14,056	14,171	138,244
Retirement	2,993	159	3,109	6,261
Contractual services				
Advertising fees			8,951	8,951
Audit cost			5,000	5,000
Other services	11,288	30,328	3,349	44,965
Materials and supplies consumed				
Fuel and lubricants	87,553	671		88,224
Tires and tubes	4,105			4,105
Other materials and supplies	4,321	28,383	12,644	45,348
Utilities			10,124	10,124
Insurance	13,462			13,462
Other insurance			4,920	4,920
Taxes and fees	2,488			2,488
Miscellaneous expenses				
Travel and meetings	2,801	166	1,244	4,211
Association dues			1,075	1,075
RTAP expenses			3,149	3,149
Advertising fees			500	500
Operating leases and rentals			11,151	11,151
Depreciation	<u>188,889</u>			<u>188,889</u>
TOTAL OPERATING EXPENSES	<u>\$ 777,763</u>	<u>\$ 116,461</u>	<u>\$ 165,164</u>	<u>\$ 1,059,388</u>

CLINTON AREA TRANSIT SYSTEM
STATEMENT OF NONOPERATING REVENUES - LOCAL
FOR THE YEAR ENDED SEPTEMBER 30, 2007

NON-OPERATING REVENUES - LOCAL	
Local operating assistance	
Property tax revenue	\$ 437,661
Advertising	3,200
Miscellaneous	2,329
Gain on sale of capital assets	3,300
Interest earnings	<u>12,617</u>
 TOTAL NONOPERATING REVENUES - LOCAL	 <u>\$ 459,107</u>

CLINTON AREA TRANSIT SYSTEM
STATEMENT OF NONOPERATING REVENUES - STATE AND FEDERAL
FOR THE YEAR ENDED SEPTEMBER 30, 2007

State of Michigan Grants	
Formula operating assistance (ACT 51)	\$ 325,001
Adjustment of prior year reimbursement	3,837
Capital grants-5309 Z10	25,400
Capital grants-5309 Z11	157,398
Capital grants-5309 Z6	1,960
Job Access Reverse Contract-Computer	590
Job Access Reverse Contract	<u>11,131</u>
Total State Grants	<u>525,317</u>
Federal grants	
U.S.D.O.T. operating grant - Section 5311	142,208
Adjustment of prior year reimbursement	(3,411)
Capital grants-5309 Z10	101,600
Capital grants-5309 Z11	639,044
Capital grants-5309 Z6	7,840
Job Access Reverse Contract-Computer	2,362
Job Access Reverse Contract	11,132
RTAP funds	<u>3,500</u>
Total Federal Grants	<u>904,275</u>
 TOTAL NONOPERATING REVENUES - STATE AND FEDERAL	 \$ <u><u>1,429,592</u></u>

CLINTON AREA TRANSIT SYSTEM
STATEMENT OF NET ELIGIBLE EXPENSES
FOR THE YEAR ENDED SEPTEMBER 30, 2007

	FEDERAL SEC 5311 REVENUE	STATE OPERATING ASSISTANCE	JOB ACCESS REVERSE CONTRACT
OPERATING EXPENSES			
Labor	\$ 465,993	\$ 465,993	\$ 12,328
Fringe benefits	140,760	140,760	3,745
Contractual services	57,529	57,529	1,387
Materials and supplies	134,056	134,056	3,621
Utilities	9,877	9,877	247
Insurance	17,930	17,930	452
Taxes and fees	2,430	2,430	58
Miscellaneous	8,774	8,774	161
Leases and rentals	10,887	10,887	264
Depreciation	<u>188,889</u>	<u>188,889</u>	
TOTAL OPERATING EXPENSES	<u>1,037,125</u>	<u>1,037,125</u>	<u>22,263</u>
LESS INELIGIBLE EXPENSES			
Audit fee	5,000		
Charter expenses	2,891	2,891	
Advertising expenses	500	500	
RTAP	3,149	3,149	
Other	177	177	
Depreciation	<u>188,889</u>	<u>188,889</u>	
TOTAL INELIGIBLE EXPENSES	<u>200,606</u>	<u>195,606</u>	
NET ELIGIBLE EXPENSES	<u>\$ 836,519</u>	<u>\$ 841,519</u>	22,263
Maximum Section 5311 reimbursement 17.00% of \$836,519	<u>\$ 142,208</u>		
Maximum State operating assistance 38.6208% of \$841,519		<u>\$ 325,001</u>	
Computer purchase through JARC			<u>2,952</u>
Maximum Job Access Grant 100% of \$25,215			<u>\$ 25,215</u>

CLINTON AREA TRANSIT SYSTEM
STATEMENT OF MILEAGE DATA (UNAUDITED)
FOR THE YEAR ENDED SEPTEMBER 30, 2007

	PUBLIC TRANSPORTATION MILEAGE
Demand Response Vehicle Miles	
First Quarter	91,870
Second Quarter	101,061
Third Quarter	122,624
Fourth Quarter	<u>108,274</u>
Total Demand Response Vehicle Miles	423,829
LESS:	
Vehicle mileage for Job Access Reverse Contract	(14,537)
Vehicle mileage for Charter Service	<u>(1,705)</u>
Total Vehicle Mileage for Regular Service	<u><u>407,587</u></u>

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

CLINTON AREA TRANSIT SYSTEM
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2007

FEDERAL AND STATE GRANTOR/PASS THROUGH GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	PASS- THROUGH GRANTOR'S NUMBER	PROGRAM AWARD AMOUNT	TOTAL SYSTEM EXPENSES
FEDERAL				
<u>U.S. Department of Transportation</u>				
Passed through MDOT				
Operating Assistance - Section 5311				
FY 06-07	20.509	2003-0095/Z12	\$ 142,208	\$ 142,208
Adjustment of prior year	20.509		(3,411)	(3,411)
RTAP training funds	20.507		3,500	3,500
Capital grant-5309	20.500	2002-0095/Z6	7,840	7,840
Capital grant-5309	20.500	2002-0095/Z10	101,600	101,600
Capital grant-5309	20.500	2002-0095/Z11	639,044	639,044
Job Access Reverse Contract-Computer	20.516	2007-0195/Z1	2,362	2,362
Job Access Reverse Contract	20.516	2007-0195/Z1	11,132	11,132
TOTAL FEDERAL AWARDS			<u>904,275</u>	<u>904,275</u>
STATE				
<u>Michigan Department of Transportation</u>				
Operating Assistance - ACT 51				
FY 06-07	N/A	N/A	325,001	325,001
Adjustment of prior year			3,837	3,837
Capital grant-5309	20.500	2002-0095/Z6	1,960	1,960
Capital grant-5309	20.500	2002-0095/Z10	25,400	25,400
Capital grant-5309	20.500	2002-0095/Z11	157,398	157,398
Job Access Reverse Contract-Computer	20.516	2007-0195/Z1	590	590
Job Access Reverse Contract	20.516	2007-0195/Z1	11,131	11,131
TOTAL STATE AWARDS			<u>525,317</u>	<u>525,317</u>
TOTAL FEDERAL AND STATE AWARDS			<u>\$ 1,429,592</u>	<u>\$ 1,429,592</u>



Layton & Richardson, P.C.

Certified Public Accountants

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
Clinton Area Transit System
St. Johns, Michigan

We have audited the financial statements of the business-type activities of Clinton Area Transit System as of and for the year ended September 30, 2007, which collectively comprise Clinton Area Transit System's basic financial statements and have issued our report thereon dated March 21, 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 Clinton Area Transit System's internal control over financial reporting 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 Clinton Area Transit System's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Clinton Area Transit System's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting 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 combination of control deficiencies, that adversely affects Clinton Area Transit System'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 Clinton Area Transit System's financial statements that is more than inconsequential will not be prevented or detected by Clinton Area Transit System's internal control. We consider the following deficiencies to be significant deficiencies in internal control over financial reporting:

2007-1 SEGREGATION OF DUTIES

Due to the limited personal in the accounting department, the Transit lacks segregation of duties over several areas, including cash receipting, journal entry processes, and cash disbursements. The limited size of the staff does not allow for segregating duties. The Transit should be aware of these areas and attempt to establish procedures to minimize this lack of controls. **Management response: An internal control policy is currently in the process of being written. Management and the Board feel necessary segregation of duties has taken place for the size of the Organization.**

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2007-2 PREPARATION OF FINANCIAL STATEMENTS

Michigan governments are required to prepare financial statements in accordance with U.S. 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).

It has historically been common for many small to medium-sized 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.

The condition noted in the preceding paragraph exists at Clinton Area Transit System. 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.

As a result of this condition, the employees and/or management do 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.

Management response: The Board will be looking at hiring another accounting firm to help in the preparation of financial statements.

2007-3 FRAUD RISK MANAGEMENT PROGRAM

During the course of our audit, we noted that the Transit has not developed or implemented a fraud risk management program. Management is responsible for the detection and prevention of fraud, misappropriations, and other inappropriate conduct.

Fraud is defined as the intentional, false representation or concealment of a material fact for the purpose of inducing another to act upon. Each member of the management team should be familiar with the types of improprieties that might occur within his or her area of responsibility, and be alert for any indication of irregularity.

Due to the Transit not developing a fraud risk assessment and monitoring program it is unable to assess the organization's vulnerabilities to fraudulent activity and whether any of those exposures could result in material misstatement of the financial statements.

We recommend that the Transit develop and formally implement a fraud risk management program that is appropriate to the size and complexity of the organization. Such a fraud risk management program may involve actively searching for fraudulent transactions through the use of techniques such as data mining, but should also include informing management and employees as to the nature of fraud and actions expected to be taken if fraud is suspected. This would include publishing a definition of fraud, a statement that fraud will not be tolerated within the organization, and instructions for reporting fraud within the chain of command.

Management response: The Board is currently in the process of implementing this fraud risk management program that all employees will adhere to.

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 Clinton Area Transit System'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. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Clinton Area Transit System's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

We noted certain matters that we reported to management of Clinton Area Transit System, in a separate letter dated March 21, 2008.

This report is intended solely for the information and use of management and the Transit's Board and is not intended to be and should not be used by anyone other than these specified parties.



Certified Public Accountants

East Lansing, Michigan
March 21, 2008



Layton & Richardson, P.C.
Certified Public Accountants

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Directors
Clinton Area Transit System
St. Johns, Michigan

Compliance

We have audited the compliance of Clinton Area Transit System with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement that are applicable to each of its major federal programs for the year ended September 30, 2007. Clinton Area Transit System's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Clinton Area Transit System's management. Our responsibility is to express an opinion on Clinton Area Transit System's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining on a test basis, evidence about Clinton Area Transit System's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Clinton Area Transit System's compliance with those requirements.

In our opinion, Clinton Area Transit System complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2007.

Internal Control Over Compliance

The management of Clinton Area Transit System is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Clinton Area Transit System's internal control over compliance.

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A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of Clinton Area Transit System as of and for the year ended September 30, 2007, and have issued our report thereon dated March 21, 2008. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise Clinton Area Transit System's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-profit Organizations* and is not a required part of the financial statements. Such information has been subjected to auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

This report is intended for the information of the management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.



Certified Public Accountants

East Lansing, Michigan
March 21, 2008

CLINTON AREA TRANSIT SYSTEM
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2007

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the general purpose financial statements of Clinton Area Transit System.
2. Significant deficiencies in internal control were disclosed by the audit of the financial statements. See findings below. None were considered to be a material weakness.
3. No instances of noncompliance material to the financial statements of Clinton Area Transit System were disclosed during the audit.
4. No significant deficiencies relating to the audit of the major federal award programs are reported.
5. The auditor's report on compliance for the major federal award programs for Clinton Area Transit System expresses an unqualified opinion.
6. There are no audit findings relative to the major federal award programs for Clinton Area Transit System.
7. The programs tested as major programs included: Michigan Department of Transportation – Federal Transit – Capital Investment Grants, CFDA No. 20.500
8. The threshold for distinguishing Types A and B programs was \$500,000.
9. Clinton Area Transit System was determined to be a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENT AUDIT

See findings 2007-01, 2007-02, and 2007-03 in 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* on pages 33-34.

C. FINDINGS AND QUESTIONED COSTS -- MAJOR FEDERAL AWARD PROGRAMS AUDIT

None.

CLINTON AREA TRANSIT SYSTEM
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2007

NOTE 1: BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Clinton Area Transit System and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

CLINTON AREA TRANSIT SYSTEM
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2007

FEDERAL AND STATE GRANTOR/PASS THROUGH GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	PASS- THROUGH GRANTOR'S NUMBER	PROGRAM AWARD AMOUNT	TOTAL SYSTEM EXPENSES
FEDERAL				
<u>U.S. Department of Transportation</u>				
Passed through MDOT				
Operating Assistance - Section 5311				
FY 06-07	20.509	2003-0095/Z12	\$ 142,208	\$ 142,208
Adjustment of prior year	20.509		(3,411)	(3,411)
RTAP training funds	20.507		3,500	3,500
Capital grant-5309	20.500	2002-0095/Z6	7,840	7,840
Capital grant-5309	20.500	2002-0095/Z10	101,600	101,600
Capital grant-5309	20.500	2002-0095/Z11	639,044	639,044
Job Access Reverse Contract	20.516	2007-0195/Z1	2,362	2,362
Job Access Reverse Contract	20.516	2007-0195/Z1	11,132	11,132
TOTAL FEDERAL AWARDS			<u>\$ 904,275</u>	<u>\$ 904,275</u>



LETTER OF COMMENTS RECOMMENDATIONS

Board of Directors
Clinton Area Transit System
St. Johns, Michigan

We have recently completed our audit of the records of Clinton Area Transit System for the year ended September 30, 2007. As part of our audit, we made a study and evaluation of the Organization's system of internal accounting controls and procedures to the extent we considered necessary solely to determine the nature, timing and extent of our auditing procedures. Accordingly, we do not express an opinion on the system of internal accounting control taken as a whole.

Although we did not observe any material errors or weaknesses in accounting or financial management, the following recommendations are intended to improve the efficiency and effectiveness of control procedures:

PRIOR YEAR RECOMMENDATIONS

CASH DISBURSEMENTS

Accounts payable checks are returned to the preparer for mailing after they are signed. We recommend that after the accounts payable checks are signed, they be given to someone independent of the accounts payable function for mailing. This will provide better controls in the cash disbursements area. **This has not been implemented. Current year status: We noted during our testing that the checks are still returned to the preparer. The preparer detaches one check stub and attaches it to the invoice coversheet and the paid invoice. The check preparer then gives the check with the other check stub to the secretary. The secretary compares it to the check stub and mails the check. We recommend the checks be given to the secretary first. The secretary would then give one check stub along with the invoice and invoice coversheet to the check preparer. This will increase controls by ensuring the person who prepared the check not receive it back after signing. Management response: This will be correcting during the current year.**

During our testing, we noted the check number and date of check are not written on the invoice itself to cancel the invoice. Rather, the invoice coversheet has this information. The invoice is stamped "paid" only. However, we also noted instances where more than one invoice was paid using one check but not all invoices were cancelled. We recommend the check number and date of check also be written on the invoice itself as it may become detached from the invoice coversheet. This will increase controls over cash disbursements by reducing the chance for duplicate payment of invoices. **Current year status: This recommendation has been implemented.**

During our testing, we noted an instance where the check was payable to an authorized check signer and signed by the same authorized check signer. We recommend having a different authorized check signer sign for checks such as this. This will increase controls over cash by helping to reduce the chance of theft and fraud. **Current year status: This recommendation has been implemented.**

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PRIOR YEAR RECOMMENDATIONS - Continued

CASH DISBURSEMENTS - Concluded

During our audit, we noted checks issued to replenish petty cash are written payable to "CASH". We recommend the check to replenish petty cash be written payable to an individual. This will increase controls over cash by ensuring only an authorized individual cashes the check and gets the cash to replenish petty cash thereby reducing the chance for theft or fraud. **Current year status: This recommendation has been implemented.**

CASH RECEIPTS

Supporting documentation, (such as copies of checks taken in) is sometimes not attached to the deposit ticket. We recommend that copies of all checks taken in and all driver signed manifests be attached to deposits. We also recommend that the deposit slip be prepared by someone independent of cash receipts and accounts receivable records. This will provide better internal control over cash since cash receipts are not issued with every receipt. **Management response: Drivers are now required to sign all manifests before turning in to the bookkeeper. Also, a person independent of the accounts receivable function will open mail and prepare daily deposit. We noted during our testing that some of these recommendations have not been implemented.** Copies of the checks are made. Each bus driver has their own prenumber cash receipt book and each driver uses receipts in order. However, not all driver manifests are signed. The general manager opens the mail and initials deposit slips prepared by the bookkeeper. **Management response: All driver's manifests will be signed and all copies will be included in deposits. Current year status: We noted during our testing that not all driver's manifests were signed. We also noted that the general manager initials the calculator tape, not the deposit slip. This has been corrected. Further, we noted all check copies were included. We recommend all driver's manifest be signed by both the driver and the verifier.**

Additionally, we recommend that the bus drivers' cash be locked or kept in a secure location on the bus until the end of the driver's shift. We recommend someone independent of reconciling the deposit and entering the cash receipts into the computer system take the deposit to the bank. **Current year status: This recommendation has been implemented.**

We noted during our audit that receipts are given to customers only when the customer asks for a receipt. We recommend a receipt be given to the customer even when the customer does not ask for one. The receipts should be given in numeric order. This will improve documentation of cash receipts and thereby will improve controls over cash receipts. **We noted during our testing that this recommendation has not been implemented. Current year status: This recommendation has not been implemented.**

Monies received over the counter are not totaled at the end of the day. Rather, they are totaled the next morning. We recommend the monies be totaled at the end of the day prior to being put in the safe. This will help to increase controls over cash receipts by helping to decrease the chance for theft and fraud. **Management response: This will be implemented during the current year. Current year status: This recommendation has not been implemented. This will be implemented during the current year.**

Checks are not stamped "FOR DEPOSIT ONLY" immediately upon receipt. We recommend the checks be stamped immediately. This will increase controls over cash receipts by helping to decrease the chance for theft and fraud. **Current year status: This recommendation has been implemented.**

PRIOR YEAR RECOMMENDATIONS - Continued

CASH RECEIPTS - Concluded

We noted during our testing an instance where a driver's manifest was not filled out completely. We recommend requiring the drivers to fill out the driver's manifest so that it is complete. This will increase controls over cash and make it easier to follow the audit trail. **Current year status: This recommendation has been implemented.**

PAYROLL

During our audit, we noted that pay rate authorizations were not noted in the employee files. We also noted differences between employees' authorized withholding and the withholding in the payroll system. We recommend that a file be established for each employee and that a written pay rate authorization be placed in each file. We further recommend that tax withholding forms (federal, state and local if applicable) and other withholding authorizations (AFLAC) be placed in the file. This will improve the controls over payroll. **Current year status: All of these recommendations have been implemented.**

Payroll taxes are prepared by the same individual who performs the payroll function. We recommend having someone independent of the payroll function prepare the payroll taxes. **Current year status: This recommendation has been implemented.**

The payroll journal is not reviewed prior to the checks being printed. We recommend a preliminary payroll journal be printed and given to the General Manager for review prior to the printing of payroll checks. This will increase controls over payroll. **Current year status: This recommendation has been implemented.**

We noted during our testing an instance where the hours per the timesheet did not agree with the hours paid per the payroll journal. The payroll period prior to this check had an extra hour under another category. Therefore, the system carried over this extra hour. We recommend carefully reviewing the hours entered into the payroll software. This will increase controls over payroll, ensure no one is overpaid, and will help to ensure this situation does not happen again. **Current year status: This recommendation has been implemented.**

FUEL CREDIT CARD

We noted during our audit that the usage of the fuel credit card for each bus or minivan is not reviewed in detail. The dollar amount is compared to the receipt given by the bus driver, but the usage is not reviewed. We recommend reviewing the gallons and times per day each bus or minivan was fueled. If a bus or minivan was fueled twice in one day, we recommend obtaining an explanation for the extra usage. Further, we recommend each driver keep a fuel log. The fuel log would include the date, mileage, and dollar amount for each time the fuel credit card is used. This log should be compared to the fuel statement. Requiring the drivers to keep a fuel log and reviewing the gallons and how frequently each fuel credit card is used will help to detect and reduce fraud and theft. **Management response: This will be implemented during the current year. Current year status: All of these recommendations have been implemented except the fuel log. However, the new software (PC Trans) keeps track of odometer reading and when the bus/minivan is fueled. Management response: This will be implemented during the current year.**

PRIOR YEAR RECOMMENDATIONS - Concluded

ELECTRONIC TRANSFERS

We noted during our testing that the Organization has the ability to do electronic transfers between their bank accounts. Currently, a second authorization is not required by the bank. We recommend requiring the bank to obtain a second authorization prior to any electronic transfer. The bank should either call or e-mail a second authorized individual for final approval. Furthermore, the transfers should be restricted to only the Organization's accounts within the bank. This will increase controls over cash and help to detect and reduce fraud and theft. **Current year status: This recommendation has been implemented.**

CURRENT YEAR RECOMMENDATIONS

CASH DISBURSEMENTS

We noted during our testing an instance where the vendor name per the check did not agree with the vendor name on the invoice. We recommend the name per the check agree with the vendor name on the invoice. Any deviations should be explained and noted on the invoice. **Management response: This will be implemented during the current year.**

We noted during our testing an instance where a check was issued paying two invoices, but only one invoice was presented as support. We recommend all invoices be presented for support when the checks are signed and that invoices be approved prior to any checks being printed. **Management response: This will be implemented during the current year.**

We noted during our testing that most of the invoices do not get initialed for approval. Rather, the invoice coversheet that is attached to the invoice gets approved. We recommend the actual invoices get approved. **Management response: This will be implemented during the current year.**

We noted during our testing an instance where the vendor name portion of the vendor invoice was detached and returned with the check as a remittance advice. We recommend a copy of the original be made and then attached to the rest of the invoice to prove who the invoice is from. **Management response: This will be implemented during the current year.**

CASH RECEIPTS

We noted during our testing that the new "PCTrans Driver Log" manifest does not contain an area for verifier signature. We recommend editing the driver log by adding a line for both the signature and the date signed for the verifier. **Management response: This will be implemented during the current year.**

We are grateful to the Organization's management and employees for the assistance and cooperation that we received during the audit, and we thank them.

Very truly yours,



Certified Public Accountants

East Lansing, Michigan
March 21, 2008