

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 BATA	County Grand Traverse
Fiscal Year End 9/30/07	Opinion Date 3/21/08	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 type="checkbox"/>	N/A	
Certified Public Accountant (Firm Name) Dennis, Gartland & Niergarth		Telephone Number 231-946-1722	
Street Address 415 Munson Avenue		City Traverse City	State Zip MI 49686
Authorizing CPA Signature <i>Heidi Wendel</i>	Printed Name Heidi Wendel		License Number 1101024113

BATA

FINANCIAL STATEMENTS
AND REPORT OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS

September 30, 2007 and 2006

CONTENTS

Page

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS.....	2
FINANCIAL STATEMENTS	
BALANCE SHEETS - PROPRIETARY FUND.....	4
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS - PROPRIETARY FUND.....	5
STATEMENTS OF CASH FLOWS - PROPRIETARY FUND.....	6
NOTES TO FINANCIAL STATEMENTS.....	7
SUPPLEMENTAL INFORMATION	
SCHEDULE 1 - OPERATING REVENUES.....	17
SCHEDULE 2 - OPERATING EXPENSES.....	18
SCHEDULE 3 - NON-OPERATING REVENUES.....	20
SCHEDULE 4 - EXPENSES BY CONTRACT AND GENERAL OPERATIONS.....	21
SCHEDULE 5 - NET ELIGIBLE COST COMPUTATIONS OF GENERAL OPERATIONS.....	23
SCHEDULE 6 - DETAILS OF FEDERAL INELIGIBLE EXPENSES.....	25
SCHEDULE 7 - STATEMENT OF CAPITAL CONTRIBUTIONS - GRANTS.....	26
SCHEDULE 8 - VEHICLE HOURS AND PASSENGERS.....	27
SCHEDULE 9 - MILEAGE DATA.....	28
FEDERAL AND STATE PROGRAM REPORTS	
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS.....	30
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS.....	31
REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH <i>OMB CIRCULAR A-133</i>	32
SCHEDULE OF FINDINGS AND QUESTIONED COSTS.....	34
SUMMARY SCHEDULE OF PRIOR FINDINGS AND QUESTIONED COSTS.....	37
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	38



DENNIS, GARTLAND & NIERGARTH

Business and Financial Advisors
Our clients' success – our business

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Authority Board
BATA

We have audited the accompanying financial statements of **BATA** as of and for the years ended September 30, 2007 and 2006, as listed in the table of contents. These financial statements are the responsibility of BATA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of BATA as of September 30, 2007 and 2006, and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

BATA has not presented a management discussion and analysis that the Governmental Accounting Standards Board has determined necessary to supplement, although not required to be part of, the basic financial statements.

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The supplemental information on pages 17 - 26 and the Schedule of Expenditures of Federal and State Awards on page 30, which is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, are presented for purposes of additional analysis and are not a required part of the financial statements of BATA. Such information has been subjected to the auditing procedures applied during the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

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To the Authority Board
BATA
Page 2

As required by the Michigan Department of Transportation, vehicle hours, number of passengers transported and schedules of mileage for the years ended September 30, 2007 and 2006 appear on pages 27 and 28. This supplemental information was not audited by us and, accordingly, we do not express an opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 21, 2008 on our consideration of BATA's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

Dennis, Gartland & Niergarth

March 21, 2008

BATA

BALANCE SHEETS - PROPRIETARY FUND

September 30,

	<u>2007</u>	<u>2006</u>
ASSETS		
CURRENT ASSETS		
Cash	\$ 75,700	\$ 132,868
Accounts receivable less allowance for bad debts of \$5,000 and \$15,000 for 2007 and 2006, respectively	43,253	61,465
Grants receivable		
State	477,624	287,425
Federal	255,206	538,587
Prepaid insurance	<u>52,937</u>	<u>61,024</u>
Total current assets	904,720	1,081,369
PROPERTY, VEHICLES AND EQUIPMENT, net	<u>4,151,954</u>	<u>4,694,556</u>
Total assets	<u>\$ 5,056,674</u>	<u>\$ 5,775,925</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Notes payable to bank	\$ 350,000	\$ 310,312
Accounts payable	250,312	285,308
Accrued expenses	303,172	370,287
Accrued insurance	9,690	18,857
Due to State	<u>-</u>	<u>85,590</u>
Total current liabilities	<u>913,174</u>	<u>1,070,354</u>
NET ASSETS		
Invested in capital assets, net of related debt	4,151,954	4,694,556
Restricted for new services	1,143,452	1,038,742
Deficit	<u>(1,151,906)</u>	<u>(1,027,727)</u>
Total net assets	<u>4,143,500</u>	<u>4,705,571</u>
Total liabilities and net assets	<u>\$ 5,056,674</u>	<u>\$ 5,775,925</u>

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

BATA

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS - PROPRIETARY FUND

For the years ended September 30,

	<u>2007</u>	<u>2006</u>
Operating revenues (Schedule 1)	\$ 536,446	\$ 533,150
Operating expenses (Schedule 2)	<u>6,456,397</u>	<u>5,547,097</u>
Total operating loss	<u>(5,919,951)</u>	<u>(5,013,947)</u>
Non-operating revenues (Schedule 3)	5,411,058	4,811,100
Non-operating expenses (Schedule 4)	<u>55,988</u>	<u>45,062</u>
Total non-operating income	<u>5,355,070</u>	<u>4,766,038</u>
Net loss before capital contributions	(564,881)	(247,909)
Capital contributions - grants (Schedule 7)	<u>2,810</u>	<u>1,849,537</u>
(DECREASE) INCREASE IN NET ASSETS	(562,071)	1,601,628
Net assets, beginning of year	<u>4,705,571</u>	<u>3,103,943</u>
Net assets, end of year	<u>\$ 4,143,500</u>	<u>\$ 4,705,571</u>

BATA

STATEMENTS OF CASH FLOWS - PROPRIETARY FUND

For the years ended September 30,

	<u>2007</u>	<u>2006</u>
Operating activities		
Cash received from customers	\$ 553,848	\$ 548,123
Cash payments to suppliers and employees	<u>(6,036,879)</u>	<u>(4,919,051)</u>
Net cash used by operating activities	<u>(5,483,031)</u>	<u>(4,370,928)</u>
Capital and related financing activities		
Federal capital grant	2,810	1,293,445
Acquisition of property and equipment	(24,151)	(1,901,461)
Proceeds from debt	350,000	1,483,989
Repayment of debt	(310,312)	(1,276,225)
Interest paid	<u>(8,300)</u>	<u>(20,834)</u>
Net cash provided (used) by capital and related financing activities	<u>10,047</u>	<u>(421,086)</u>
Noncapital financing activities		
Federal, State, local grants and property taxes	5,366,990	4,699,092
Other non-operating revenues	104,814	75,667
Non-operating expenses paid	<u>(55,988)</u>	<u>(45,062)</u>
Net cash provided by noncapital financing activities	<u>5,415,816</u>	<u>4,729,697</u>
NET DECREASE IN CASH	(57,168)	(62,317)
Balance of cash, beginning of year	<u>132,868</u>	<u>195,185</u>
Balance of cash, end of year	<u>\$ 75,700</u>	<u>\$ 132,868</u>

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

BATA

NOTES TO FINANCIAL STATEMENTS

NOTE A - REPORTING ENTITY AND SIGNIFICANT ACCOUNTING POLICIES

BATA was created July 17, 1997 pursuant to the Michigan Public Transportation Authority Act of 1986 P.A. 196. Funding is provided by grants under Act 51 of Public Acts of 1951, as amended, and Section 18 of the Mass Transportation Act of 1964. BATA provides public transportation to the general public in non-urbanized areas including Grand Traverse and Leelanau Counties.

The accounting policies of BATA conform to generally accepted accounting principles as applicable to governmental units. The accounting and reporting framework and the more significant accounting principles and practices of BATA are discussed in subsequent sections of this note. The remainder of the notes are organized to provide explanations, including required disclosures, of BATA's financial activities for the fiscal years ended September 30, 2007 and 2006.

The Financial Reporting Entity

BATA's financial statements include the accounts of all BATA operations. In evaluating BATA as a reporting entity, management has addressed all potential component units (traditionally separate reporting units) for which BATA may or may not be financially accountable and, as such, be includable within BATA's financial statements. In accordance with GASB Statement No. 14, BATA is financially accountable if it appoints a voting majority of an organization's governing board and (1) it is able to impose its will on the organization or (2) there is a potential for the organization to provide specific financial benefit to or impose specific financial burden on BATA. Additionally, BATA is required to consider other organizations for which the nature and significance of their relationship with BATA are such that exclusion would cause BATA's financial statements to be misleading or incomplete.

Based on this criteria, management has not identified any potential component units requiring consideration for inclusion in BATA's financial statements.

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.

Proprietary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned and their expenses are recognized when they are incurred.

BATA's proprietary fund applies all applicable Governmental Accounting Standards Board ("GASB") pronouncements as well as following all Financial Accounting Standards Board ("FASB") pronouncements issued through November 30, 1989 except for those that conflict with or contradict GASB pronouncements. BATA's reporting entity does not apply FASB pronouncements issued after November 30, 1989.

NOTES TO FINANCIAL STATEMENTS - Continued

Enterprise Fund Accounting

BATA is accounted for as an enterprise fund, a proprietary fund type. The enterprise fund is used to account for operations (a) 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 are financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

All proprietary funds are 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 their activity are included on their balance sheet. Their reported net assets is segregated into invested in capital assets, net of related debt, and restricted and unrestricted components. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in net total assets.

Cash

For purposes of the statement of cash flows, BATA considers cash on hand, demand deposits and short-term investments in investment pools and government money market funds with maturities of three months or less when purchased to be cash.

Fixed Assets and Depreciation

Property and equipment are stated at cost or fair market value at date of acquisition. Costs relating to maintenance and repairs are charged to expense, whereas those for renewals and betterments, when significant in amount, are capitalized. A provision for depreciation has been established on a straight-line basis using 3 to 20 year useful lives.

Restricted Assets

A portion of BATA's tax levy is restricted for the development and provision of new services. New services are first funded with State and Federal funding and subsequently with local tax revenues. Accordingly, a portion of net assets are restricted, representing unspent tax monies relative to new services.

Except as noted above, when both restricted and unrestricted resources are available for use, it is BATA's policy to use restricted resources first, then unrestricted resources as needed.

Operating and Non-Operating Revenues

BATA's operating revenues are tied to its primary purpose of providing public transportation to the general public in Grand Traverse/Leelanau Counties. Grants received to help finance operations are classified as non-operating revenues.

NOTES TO FINANCIAL STATEMENTS - Continued

Grants

BATA receives two distinct types of grants from governmental agencies:

- Operating grants are used to fund BATA's day-to-day operations and to meet normal expenses of those operations.
- Capital grants are used for capital expenditures.

Property Taxes

Property taxes are levied, billed and attached as enforceable liens on December 1 of BATA's fiscal year. Various municipalities collect and remit taxes until February 15, at which time the uncollected real property taxes are turned over to the counties as delinquent. Delinquent real property taxes are funded by the county and remitted to BATA. Delinquent personal property tax remains outstanding until collected from the taxpayer by the various municipalities and remitted to BATA.

For the years ended September 30, 2007 and 2006, BATA levied .2370 mills for operations and .0947 mills for new services per \$1,000 of taxable valuation of \$5,877,677,142 and \$5,399,404,968, respectively.

Compensated Absences

Vacation and sick pay are recorded as an expenditure at the time the benefit is earned by the employee, taking into consideration maximum contractual amounts.

Use of Estimates in the Preparation of Financial Statements

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

Reclassifications

Certain amounts in the prior year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.

NOTE B - CASH

At September 30, 2007 and 2006, BATA's cash included the following:

	<u>2007</u>	<u>2006</u>
Cash on hand	\$ 220	\$ 220
Bank deposits	<u>75,480</u>	<u>132,648</u>
	<u>\$ 75,700</u>	<u>\$ 132,868</u>

NOTES TO FINANCIAL STATEMENTS - Continued

Custodial Credit Risk - Deposits

In the event of a bank failure, BATA's bank deposits may not be returned. As of September 30, 2007 and 2006, \$0 and \$161,147, respectively, of BATA's bank deposits of \$71,027 and \$261,147, respectively, were exposed to custodial credit risk because they were uninsured and uncollateralized.

NOTE C - PROPERTY, VEHICLES AND EQUIPMENT

Major classes of property, vehicles and equipment consisted of the following:

	September 30, 2005	Additions	Transfers	September 30, 2006
Shop equipment	\$ 112,911	\$ -	\$ -	\$ 112,911
Operating equipment	555,699	69,744	-	625,443
Vehicles	2,798,299	434,454	-	3,232,753
Office equipment and furniture	269,419	70,284	-	339,703
Buildings	<u>1,079,885</u>	<u>1,326,979</u>	<u>78,196</u>	<u>2,485,060</u>
Total depreciable assets	4,816,213	1,901,461	78,196	6,795,870
Less accumulated depreciation	(3,098,953)	(497,149)	-	(3,596,102)
Construction-in-process	78,196	-	(78,196)	-
Land	<u>1,494,788</u>	-	-	<u>1,494,788</u>
Total capital assets, net	<u>\$ 3,290,244</u>	<u>\$ 1,404,312</u>	<u>\$ -</u>	<u>\$ 4,694,556</u>
	September 30, 2006	Additions	Deletions	September 30, 2007
Shop equipment	\$ 112,911	\$ -	\$ -	\$ 112,911
Operating equipment	625,443	-	-	625,443
Vehicles	3,232,753	24,151	-	3,256,904
Office equipment and furniture	339,703	-	-	339,703
Buildings	<u>2,485,060</u>	-	-	<u>2,485,060</u>
Total depreciable assets	6,795,870	24,151	-	6,820,021
Less accumulated depreciation	(3,596,102)	(566,753)	-	(4,162,855)
Land	<u>1,494,788</u>	-	-	<u>1,494,788</u>
Total capital assets, net	<u>\$ 4,694,556</u>	<u>\$ (542,602)</u>	<u>\$ -</u>	<u>\$ 4,151,954</u>

Total depreciation expense for the years ended September 30, 2007 and 2006 was \$566,753 and \$497,149, respectively.

Substantially all fixed assets have been contributed by the State of Michigan. When fixed assets have lost their utility, the assets must either be returned to the State or proceeds from the sale thereof must be turned over to the State.

NOTES TO FINANCIAL STATEMENTS - Continued

NOTE D - NOTES PAYABLE TO BANK

Changes in notes payable to bank are as follows:

<u>Fiscal Year Ending</u>	<u>Beginning Balance</u>	<u>New Debt</u>	<u>Payments</u>	<u>Ending Balance</u>
September 30, 2006	\$102,548	\$310,312	\$102,548	\$310,312
September 30, 2007	\$310,312	\$350,000	\$310,312	\$350,000

A summary of notes payable is as follows:

	<u>2007</u>	<u>2006</u>
Term note payable to bank not to exceed \$300,000; payable in monthly installments of \$14,000; bearing interest at 8%; maturity July 2007.	\$ -	\$ 137,105
Draw note payable to bank not to exceed \$1,200,000; interest payable in monthly installments at .25% below the bank's prime rate; maturity February 2007.	-	173,207
Note payable to bank not to exceed \$500,000; payable on demand; bearing interest at .5% below the bank's prime rate.	<u>350,000</u>	<u>-</u>
	<u>\$ 350,000</u>	<u>\$ 310,312</u>

BATA has entered into a short-term borrowing arrangement with a bank in the amounts of \$500,000 and \$1,500,000 for the years ended September 30, 2007 and 2006, respectively, due to the timing of tax collection and grant receipts. The principal balance due was \$350,000 and \$310,312 at September 30, 2007 and 2006, respectively.

Interest expense for the years ended September 30, 2007 and 2006 was \$8,300 and \$20,834, respectively.

NOTE E - OPERATING LEASES

BATA leases various vehicles and equipment under operating leases. Total rent expense for the years ended September 30, 2007 and 2006, was \$59,507 and \$34,387, respectively. Future minimum lease payments are as follows:

<u>Years Ending</u> <u>September 30,</u>	
2008	\$ 63,877
2009	46,799
2010	29,470
2011	26,586
2012	<u>8,862</u>
	<u>\$ 175,594</u>

NOTES TO FINANCIAL STATEMENTS - Continued

NOTE F - INSURANCE POOL

BATA's primary risk of loss includes physical damage to the fleet and general liability. During the year ended September 30, 1988, BATA and 18 other transportation authorities formed the Michigan Transit Pool ("MTP"). There are two insurance programs offered by MTP. BATA participates in both the Direct Property Damage Program, which is a self-insured fund providing insurance coverage for physical damage and comprehensive losses to BATA's fleet of vehicles, and the Michigan Transit Pool Liability Trust Fund, providing general liability coverage. The Direct Property Damage Program uses excess insurance to reduce its exposure to individual comprehensive claims in excess of \$100,000 up to a maximum of \$400,000 per occurrence. Any exposure in excess of these limits would be the responsibility of the member. The Liability Trust Fund provides for up to \$5 million of coverage per occurrence.

The Direct Property Damage Program directly allocates losses incurred by a member between \$2,000 (the amount of the per-occurrence deductible) and \$10,000 (the risk-shared threshold). Risk shared losses include losses above the \$10,000 not covered by excess reinsurance. Risk shared losses will be allocated between all members participating in the collision and primary comprehensive coverage program based upon a member's average book value, divided by total participating average book value, multiplied by the total amount of risk shared losses. The actual calculation of risk shared losses will extend beyond the fiscal year-end to encompass expenses incurred to close all claims for the policy period. In the event of excess losses, all pooled losses will first be paid out of initial deposits. Should losses exceed this amount, the contingency margin will be used to pay losses. In this event, all systems will be billed the amount necessary to replenish the contingency margin within thirty (30) days.

Each authority contributes to the Liability Trust Fund an annual premium which is actuarially determined based upon BATA's vehicle hours, vehicle miles and number of passengers for the preceding year. During the initial year of the pool, BATA also contributed to the contingency reserve of the pool, which was intended to be a one-time payment. Claims less than \$50,000 are deducted directly from the applicable authority's premium deposit and subsequently billed back to BATA. Claims over \$50,000 are paid out of a pool in which all authorities participate. Each authority is credited with interest earned on its premium deposit and is charged for its share of claims as well as administrative expenses. If a refund or additional premium is due to/from BATA, such adjustment will be made approximately six months after the pool's fiscal year-end of November 30.

During the year ended September 30, 2004, BATA incurred a retrospective rate increase of \$291,079. Annual payments were made on the liability during subsequent years. During the year ended September 30, 2006, BATA received a retrospective rate adjustment of \$106,728 which was applied against the remaining liability of \$97,028. The liability was \$0 at September 30, 2006.

NOTE G - RETIREMENT PLANS

Defined Contribution Plan

BATA was the plan administrator of the Bay Area Transportation Authority Employee Deferred Compensation Plan (the "Plan"), a 401(k) retirement plan, which was terminated in April 2006. Employees were required to contribute 1.5% of gross payroll at a minimum and were eligible for an additional employer contribution equal to 7.0% of contributing employees' gross payroll. Employees were vested 100% immediately in all contributions made to the Plan. Employer contributions for the years ended September 2006 and 2005 amounted to \$81,738 and \$178,169, respectively. Participant contributions for the years ended September 2006 and 2005 were approximately \$80,000 and \$159,000, respectively.

In April 2006, BATA replaced its existing 401(k) Plan. It now contributes to the Municipal Employees' Retirement System of Michigan ("MERS") defined contribution plan. Employees are required to contribute 1.5% of gross payroll at a minimum and are eligible for an additional employer contribution equal to 7% of contributing employees' gross payroll. Employer contributions to this plan were \$74,336 and \$37,472 for the years ended September 30, 2007 and 2006, respectively.

Defined Benefit Plan

In April 2006, BATA joined the Municipal Employees' Retirement System of Michigan ("MERS") defined benefit plan. MERS is an agent multiple-employer public employees pension plan and is a tax-qualified plan under Section 401(a) of the Internal Revenue Service Code. MERS is an independent non-profit public corporation established by the Legislature pursuant to Public Act 220 of 1996, and is an instrumentality of the participating municipalities and courts. BATA is responsible for the employer contributions needed to provide MERS benefits for its employees and former employees under the Michigan Constitution and the MERS Plan Document. MERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to MERS, 1134 Municipal Way, Lansing, MI 48917, or by calling (800) 767-6377 or on the State of Michigan's website at www.michigan.gov.

Funding Policy

BATA is required to contribute at an actuarially determined rate for the defined benefit plan. The rate for the year ended September 30, 2007 was 7.81% and 7.33% of covered payroll for salaried and hourly employees, respectively. Total covered payroll for the current year was \$2,165,038. If a member leaves the employ of the municipality, or dies, without a retirement allowance or other benefit payable on his/her account, the member's accumulated contributions plus interest are refunded to the member or to the member's beneficiary.

Contributions Required and Contributions Made

MERS funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are designed to accumulate sufficient assets to pay benefits when due. The actuarial assumptions include (a) 8% investment rate of return (b) projected salary increases of 4.5% per year compounded annually and (c) additional projected salary increases of 0% to 8.4% per year, depending on age, attributable to merit, longevity and promotions. Both (a) and (b) include an inflation component. The normal cost and amortization payment for the years ended December 31, 2007 and 2006 were determined using the entry age normal funding method.

NOTES TO FINANCIAL STATEMENTS - Continued

Actuarial Accrued Liability at December 31, 2006

Actuarial Valuation

Retirees and beneficiaries currently receiving benefits	\$ 0
Terminated employees (vested former members) not yet receiving benefits	0
Non-vested terminated employees (pending refunds of accumulated member contributions)	4,817
Current employees	
Accumulated employee contributions including allocated investment income	328,390
Employer financed	<u>172,005</u>
Total actuarial accrued liability	505,212
Net assets available for benefits at actuarial value (market value is \$470,975)	<u>464,478</u>
Unfunded actuarial accrued liability	<u>\$ 40,734</u>

Trend Information

<u>Fiscal Years Ended</u> <u>September 30,</u>	<u>Annual Pension</u> <u>Cost (APC)</u>	<u>Percentage of</u> <u>APC Contributed</u>	<u>Net Pension</u> <u>Obligation</u>
2007	\$ 152,375	100 %	\$ 0
2006	\$ 81,039	100 %	\$ 0

Schedule of Funding Progress

<u>Actuarial</u> <u>Valuation Date</u> <u>December 31,</u>	<u>Actuarial</u> <u>Value of</u> <u>Assets</u>	<u>Actuarial</u> <u>Accrued</u> <u>Liability (AAL)</u>	<u>Unfunded</u> <u>AAL</u> <u>(UAAL)</u>	<u>Funded</u> <u>Ratio</u>	<u>Covered</u> <u>Payroll</u>	<u>UAAL as a %</u> <u>of Covered</u> <u>Payroll</u>
2006	\$ 464,478	\$ 505,212	\$ 40,734	92 %	\$2,089,501	2 %

NOTE H - SELF-INSURED HEALTH BENEFITS

BATA self-insures certain dental benefits for its employees which, in the aggregate, has minimal financial exposure. The maximum expense is \$800 per year, per employee.

NOTE I - CONTINGENT LIABILITIES

BATA participates in a number of State and Federally assisted grant programs which are subject to program compliance audits by the grantors. Accordingly, BATA's compliance with applicable grant requirements will be established at some future date. The amount, if any, of expenses which may be disallowed by the granting agencies cannot be determined at this time, although BATA expects such amounts, if any, to be immaterial.

NOTES TO FINANCIAL STATEMENTS - Continued

BATA is a defendant in two lawsuits resulting from vehicle accidents. Potential losses will be covered by insurance with the exception of a \$50,000 self-insured retention requirement.

NOTE J - STATEMENT OF CASH FLOWS

Reconciliation of operating loss to net cash used by operating activities:

	<u>2007</u>	<u>2006</u>
Operating loss	\$ (5,919,951)	\$ (5,013,947)
Add depreciation expense not requiring outlay of cash	566,753	497,149
Add contributed services not requiring outlay of cash	32,436	36,341
Add interest paid	8,300	20,834
Change in receivables	18,212	14,973
Change in prepaid expenses	8,087	(20,186)
Change in accounts payable	(53,853)	26,328
Change in accrued expenses	(56,615)	146,153
Change in due to State	(85,590)	(78,573)
Change in deferred revenue	<u>(810)</u>	<u>-</u>
Net cash used by operating activities	<u>\$ (5,483,031)</u>	<u>\$ (4,370,928)</u>

NOTE K - SUBSEQUENT EVENT

In October 2007, BATA incurred a note payable to a bank for \$150,000. The loan matures May 1, 2008 and bears interest at 7.25%. The note was paid in full November 2007.

In November 2007, BATA incurred a note payable to a bank for \$300,000. The loan matures November 28, 2012 and bears interest at 7.25%.

SUPPLEMENTAL INFORMATION

BATA

SCHEDULE OF OPERATING REVENUES

For the years ended September 30,

	<u>2007</u>	<u>2006</u>
Operating revenues		
Passenger fares	\$ 243,432	\$ 271,208
Special transit fees	291,916	261,896
Freight tariffs	<u>1,098</u>	<u>46</u>
 Total operating revenues	 <u>\$ 536,446</u>	 <u>\$ 533,150</u>

BATA

SCHEDULE OF OPERATING EXPENSES

For the year ended September 30, 2007

	<u>Operations</u>	<u>Maintenance</u>	<u>General and Administrative</u>	<u>Total</u>
Operating expenses				
Labor				
Operators' salaries and wages	\$ 2,394,262	\$ -	\$ -	\$ 2,394,262
Other salaries and wages	325,597	271,117	233,139	829,853
Fringe benefits	628,993	119,775	181,771	930,539
Other services	7,528	239,458	320,738	567,724
Materials and supplies consumed				
Fuels and lubricants	415,836	362	-	416,198
Other materials and supplies	41,440	229,431	85,667	356,538
Utilities				
Other	29,948	2,601	40,800	73,349
Telephone	-	-	41,225	41,225
Casualty and liability cost				
Premiums for public liability and property damage insurance	98,595	-	-	98,595
Other insurance	-	-	28,771	28,771
Purchased transportation	603	-	-	603
Miscellaneous expenses				
Travel and meetings	675	221	13,967	14,863
Other miscellaneous expense	17,454	242	33,251	50,947
Advertising and promotion media	-	-	2,182	2,182
Leases and rentals	37,656	322	21,529	59,507
Interest expense	-	-	8,300	8,300
Provision for bad debts	16,188	-	-	16,188
Depreciation	<u>386,922</u>	<u>267</u>	<u>179,564</u>	<u>566,753</u>
Total operating expenses	<u>\$ 4,401,697</u>	<u>\$ 863,796</u>	<u>\$ 1,190,904</u>	<u>\$ 6,456,397</u>

BATA**SCHEDULE OF OPERATING EXPENSES**

For the year ended September 30, 2006

	<u>Operations</u>	<u>Maintenance</u>	<u>General and Administrative</u>	<u>Total</u>
Operating expenses				
Labor				
Operators' salaries and wages	\$ 2,118,243	\$ 648	\$ -	\$ 2,118,891
Other salaries and wages	240,596	220,334	255,611	716,541
Fringe benefits	515,293	108,746	159,666	783,705
Other services	3,303	163,610	135,136	302,049
Materials and supplies consumed				
Fuels and lubricants	484,766	151	-	484,917
Other materials and supplies	38,181	247,453	32,493	318,127
Utilities				
Other	32,657	3,991	7,918	44,566
Telephone	-	-	36,770	36,770
Casualty and liability cost				
Premiums for public liability and property damage insurance	69,435	-	-	69,435
Other insurance	-	-	16,269	16,269
Purchased transportation	2,529	-	-	2,529
Miscellaneous expenses				
Travel and meetings	1,919	18	17,640	19,577
Other miscellaneous expense	9,923	1,280	29,297	40,500
Advertising and promotion media	-	413	4,040	4,453
Leases and rentals	15,630	66	21,112	36,808
Interest expense	-	-	20,834	20,834
Provision for bad debts	33,977	-	-	33,977
Depreciation	<u>475,782</u>	<u>-</u>	<u>21,367</u>	<u>497,149</u>
Total operating expenses	<u>\$ 4,042,234</u>	<u>\$ 746,710</u>	<u>\$ 758,153</u>	<u>\$ 5,547,097</u>

BATA

SCHEDULE OF NON-OPERATING REVENUES

For the years ended September 30,

	<u>2007</u>	<u>2006</u>
State of Michigan operating grants		
State operating	\$ 2,287,564	\$ 1,988,264
Job Access	20,000	-
Adjustments to prior year contracts	<u>10,682</u>	<u>78,791</u>
Total State of Michigan operating grants	<u>2,318,246</u>	<u>2,067,055</u>
Federal operating grants		
U.S. D.O.T. grants - Section 5311		
Contract 00-0012 - operating assistance	-	852,730
Contract 07-00170 - operating assistance	<u>1,001,254</u>	<u>-</u>
Property tax revenues	<u>1,954,308</u>	<u>1,779,307</u>
Other non-operating income		
Interest income	7,034	11,680
Commissions	33,491	32,538
Contributed services	32,436	36,341
Miscellaneous income	<u>64,289</u>	<u>31,449</u>
Total other non-operating income	<u>137,250</u>	<u>112,008</u>
Total non-operating revenues	<u>\$ 5,411,058</u>	<u>\$ 4,811,100</u>

BATASCHEDULE OF EXPENSES BY CONTRACT
AND GENERAL OPERATIONS

For the year ended September 30, 2007

	Total Operating System	Total Non-Operating System*	Total
Expenses			
Labor	\$ 3,224,115	\$ 41,526	\$ 3,265,641
Fringe benefits	930,539	12,124	942,663
Services	567,724	-	567,724
Materials and supplies	772,736	-	772,736
Utilities	114,574	2,338	116,912
Casualty and liability costs	127,366	-	127,366
Advertising and promotion	2,182	-	2,182
Leases and rentals	59,507	-	59,507
Interest expense	8,300	-	8,300
Depreciation	566,753	-	566,753
Purchased transportation	603	-	603
Provision for bad debts	16,188	-	16,188
Miscellaneous	<u>65,810</u>	<u>-</u>	<u>65,810</u>
Subtotal	6,456,397	55,988	6,512,385
Less ineligible expenses	<u>621,557</u>	<u>-</u>	<u>621,557</u>
Total eligible expenses	<u>\$ 5,834,840</u>	<u>\$ 55,988</u>	<u>\$ 5,890,828</u>

* Indian Trails commission expenses and other services

BATA**SCHEDULE OF EXPENSES BY CONTRACT
AND GENERAL OPERATIONS**

For the year ended September 30, 2006

	Total Operating System	Total Non-Operating System*	Total
Expenses			
Labor	\$ 2,835,432	\$ 34,472	\$ 2,869,904
Fringe benefits	783,705	8,930	792,635
Services	302,049	-	302,049
Materials and supplies	803,044	-	803,044
Utilities	81,336	1,660	82,996
Casualty and liability costs	85,704	-	85,704
Advertising and promotion	4,453	-	4,453
Leases and rentals	36,808	-	36,808
Interest expense	20,834	-	20,834
Depreciation	497,149	-	497,149
Purchased transportation	2,529	-	2,529
Provision for bad debts	33,977	-	33,977
Miscellaneous	<u>60,077</u>	<u>-</u>	<u>60,077</u>
Subtotal	5,547,097	45,062	5,592,159
Less ineligible expenses	<u>576,056</u>	<u>-</u>	<u>576,056</u>
Total expenses	<u>\$ 4,971,041</u>	<u>\$ 45,062</u>	<u>\$ 5,016,103</u>

* Indian Trails commission expenses and other services

BATA

**SCHEDULE OF NET ELIGIBLE COST COMPUTATIONS
OF GENERAL OPERATIONS**

For the year ended September 30, 2007

	Federal Operating Assistance 07-00170	State Operating Assistance
Expenses		
Labor	\$ 3,265,641	\$ 3,265,641
Fringe benefits	942,663	942,663
Services	567,724	567,724
Materials and supplies	772,736	772,736
Utilities	116,912	116,912
Casualty and liability costs	127,366	127,366
Advertising and promotion	2,182	2,182
Leases and rentals	59,507	59,507
Interest expense	8,300	8,300
Depreciation	566,753	566,753
Purchased transportation	603	603
Provision for bad debts	16,188	16,188
Miscellaneous	<u>65,810</u>	<u>65,810</u>
Total expenses	<u>6,512,385</u>	<u>6,512,385</u>
Less ineligible expenses		
Interest expense	8,300	8,300
Depreciation	535,232	535,232
Dues	393	393
Project Zero/Job Access	20,000	20,000
Regional transportation	5,515	5,515
Contributed services	32,436	-
Provision for bad debts	16,188	16,188
Other ineligible expenses	<u>3,493</u>	<u>3,493</u>
Total ineligible expenses	<u>621,557</u>	<u>589,121</u>
Less incidental revenue	<u>1,098</u>	<u>-</u>
Net eligible expenses	<u>\$ 5,889,730</u>	<u>\$ 5,923,264</u>
Maximum Section 5311 reimbursement (17%)	<u>\$ 1,001,254</u>	
Maximum for State operating assistance 38.62% of eligible costs		<u>\$ 2,287,564</u>

BATA

SCHEDULE OF NET ELIGIBLE COST COMPUTATIONS
OF GENERAL OPERATIONS

For the year ended September 30, 2006

	Federal Operating Assistance 02-0012	State Operating Assistance
Expenses		
Labor	\$ 2,869,904	\$ 2,869,904
Fringe benefits	792,635	792,635
Services	302,049	302,049
Materials and supplies	803,044	803,044
Utilities	82,996	82,996
Casualty and liability costs	85,704	85,704
Advertising and promotion	4,453	4,453
Leases and rentals	36,808	36,808
Interest expense	20,834	20,834
Depreciation	497,149	497,149
Purchased transportation	2,529	2,529
Provision for bad debts	33,977	33,977
Miscellaneous	<u>60,077</u>	<u>60,077</u>
Total expenses	<u>5,592,159</u>	<u>5,592,159</u>
Less ineligible expenses		
Interest expense	20,834	20,834
Depreciation	470,598	470,598
Dues	338	338
Project Zero/Job Access	(281)	(281)
Regional transportation	1,634	1,634
Audit fees	12,615	-
Contributed services	36,341	-
Provision for bad debts	<u>33,977</u>	<u>33,977</u>
Total ineligible expenses	<u>576,056</u>	<u>527,100</u>
Less incidental revenue	<u>46</u>	<u>-</u>
Net eligible expenses	<u>\$ 5,016,057</u>	<u>\$ 5,065,059</u>
Maximum Section 5311 reimbursement (17%)	<u>\$ 852,730</u>	
Maximum for State operating assistance 39.25% of eligible costs		<u>\$ 1,988,264</u>

BATA

SCHEDULE OF DETAILS OF FEDERAL INELIGIBLE EXPENSES

For the years ended September 30,

	<u>2007</u>	<u>2006</u>
Interest expense	\$ 8,300	\$ 20,834
Depreciation		
Depreciation accrued on assets purchased with grant funds are ineligible	535,232	470,598
MPTA dues		
A portion of MPTA dues is ineligible and, accordingly, has been excluded from eligible expenses. For fiscal years 2007 and 2006, 7.0% and 6.8%, respectively, has been determined to be ineligible	393	338
Project Zero	20,000	(281)
Contributed services	32,436	36,341
Regional transportation expenses	5,515	1,634
Audit fees	-	12,615
Provision for bad debts	16,188	33,977
Other ineligible expenses	<u>3,493</u>	<u>-</u>
Total ineligible expenses	<u>\$ 621,557</u>	<u>\$ 576,056</u>

BATA

STATEMENT OF CAPITAL CONTRIBUTIONS - GRANTS

For the years ended September 30,

	<u>2007</u>	<u>2006</u>
Grants received		
Contract 01-0899	\$ -	\$ 61,247
Contract 02-0012/Z11	-	18,906
Contract 02-0012/Z15	-	341,538
Contract 02-0012/Z16	-	18,166
Contract 02-0012/Z17	-	691,476
Contract 02-0012/Z20	-	71,500
Contract 02-0012/Z21	2,810	594,441
Contract 02-0012/Z23	<u>-</u>	<u>52,263</u>
Total capital contributions - grants	<u>\$ 2,810</u>	<u>\$ 1,849,537</u>

BATA

SCHEDULE OF VEHICLE HOURS AND PASSENGERS

For the year ended September 30, 2007

	Vehicle Hours	Passengers			Total Passengers
		Regular Passengers	Senior Passengers	Handicapped Passengers	
First quarter	35,702	43,586	23,708	51,555	118,849
Second quarter	35,966	50,614	23,791	55,436	129,841
Third quarter	36,268	42,298	25,219	52,581	120,098
Fourth quarter	36,497	39,083	30,273	54,499	123,855
Miscellaneous adjustments	<u>(478)</u>	<u>(1,426)</u>	<u>22</u>	<u>(251)</u>	<u>(1,655)</u>
Total	<u>143,955</u>	<u>174,155</u>	<u>103,013</u>	<u>213,820</u>	<u>490,988</u>

SCHEDULE OF VEHICLE HOURS AND PASSENGERS

For the year ended September 30, 2006

	Vehicle Hours	Passengers			Total Passengers
		Regular Passengers	Senior Passengers	Handicapped Passengers	
First quarter	32,030	39,218	20,632	50,846	110,696
Second quarter	32,599	44,847	20,668	54,130	119,645
Third quarter	32,861	36,726	25,879	52,609	115,214
Fourth quarter	<u>35,140</u>	<u>37,895</u>	<u>24,752</u>	<u>53,248</u>	<u>115,895</u>
Total	<u>132,630</u>	<u>158,686</u>	<u>91,931</u>	<u>210,833</u>	<u>461,450</u>

BATA

MILEAGE DATA

For the year ended September 30, 2007

	<u>Public Transportation Mileage</u>
Demand-response	
First quarter	490,202
Second quarter	502,243
Third quarter	496,429
Fourth quarter	503,038
Miscellaneous adjustments	<u>(7,510)</u>
Total demand-response	<u><u>1,984,402</u></u>

MILEAGE DATA

For the year ended September 30, 2006

	<u>Public Transportation Mileage</u>
Demand-response	
First quarter	446,876
Second quarter	470,119
Third quarter	461,351
Fourth quarter	<u>485,955</u>
Total demand-response	<u><u>1,864,301</u></u>

FEDERAL AND STATE PROGRAM REPORTS

BATA
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
September 30, 2007

Federal Grantor/ Pass Through Grantor Program Title	Pass-Through Grantor's Number	Federal CFDA Number	Accrued (Deferred) Revenue 09/30/06	Prior Year Expenditures	Grant Expenditures	Current Year Receipts	BATA and Audit Adjustment	Accrued (Deferred) Revenues 09/30/07
United States Department of Transportation								
Passed through Michigan Department of Transportation								
Section 5311 Operating Assistance								
	02-0012/Z14	20 509	\$ 18,006	\$ -	\$ -	\$ 18,006	\$ -	\$ -
	02-0012/Z22	20.509	152,116	849,811	-	93,026	-	59,090
	07-00170/Z22	20.509	-	-	1,001,254	805,901	-	195,353
Section 5311	02-0012/Z20	20 509	57,200	57,200	-	57,200	-	-
Section 5311	02-0012/Z21	20.509	138,566	475,553	2,248	184,498	44,447	763
Section 5311	02-0012/Z23	20.509	41,810	41,810	-	60,344	18,534	-
Section 5311	01-0899	20.509	48,998	2,455	-	48,998	-	-
Section 5311	02-0012/Z16	20.509	14,533	14,533	-	18,912	4,379	-
Section 5309	02-0012/Z17	20 500	67,358	553,181	-	-	(67,358)	-
Total Federal financial assistance			<u>\$ 538,587</u>	<u>\$ 1,994,543</u>	<u>\$ 1,003,502</u>	<u>\$ 1,286,885</u>	<u>\$ 2</u>	<u>\$ 255,206</u>
Operating assistance								
Act 51 03-04		N/A	\$ 2,376	\$ -	\$ -	\$ 13,058	\$ 10,682	\$ -
Act 51 04-05		N/A	(85,590)	-	-	(85,590)	-	-
Act 51 05-06		N/A	192,933	1,988,264	-	-	-	192,933
Act 51 06-07		N/A	-	-	2,287,564	2,023,063	-	264,501
Section 5311	02-0012/Z20	N/A	14,300	14,300	-	14,300	-	-
Section 5311	02-0012/Z21	N/A	34,641	118,888	562	46,125	11,112	190
Section 5311	02-0012/Z23	N/A	10,453	10,453	-	15,086	4,633	-
Section 5311	01-0899	N/A	12,249	12,249	-	12,249	-	-
Section 5311	02-0012/Z16	N/A	3,633	3,633	-	4,728	1,095	-
Section 5309	02-0012/Z17	N/A	16,840	138,295	-	-	(16,840)	-
JARC	07-0170-FY07	N/A	-	-	20,000	-	-	20,000
Total State financial assistance			<u>\$ 201,835</u>	<u>\$ 2,286,082</u>	<u>\$ 2,308,126</u>	<u>\$ 2,043,019</u>	<u>\$ 10,682</u>	<u>\$ 477,624</u>

BATA

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

September 30, 2007

Note 1 The Schedule of Expenditures of Federal and State Awards is prepared on the accrual basis of accounting.

Note 2 Management has reported that expenditures in this Schedule of Expenditures of Federal and State Awards are equal to those amounts reported in the annual or final cost reports. Unallowed differences, if any, have been disclosed to the auditor.

Note 3 The financial reports, including claims for advances and reimbursements and amounts claimed or used for matching are timely, complete, accurate and contain information that is supported by the books and records from which the general purpose financial statements have been prepared with the exception listed in the Schedule of Findings and Questioned Costs as Finding Number 2007-3. Grant receipts are reported on the Schedule of Expenditures of Federal and State Awards, as passed through the Michigan Department of Transportation.

Note 4 A reconciliation of expenditures on the Schedule of Expenditures of Federal and State Awards sources reported on the financial statements are as follows:

Federal expenditures per Schedule of Expenditures of Federal and State Awards	\$ 1,003,502
Capital contracts reported as invested in fixed assets	<u>(2,248)</u>
Federal sources per financial statements	<u>\$ 1,001,254</u>

Note 5 The schedule reflects adjustments noted in the final reconciliation process with the Michigan Department of Transportation.



DENNIS, GARTLAND & NIERGARTH

Business and Financial Advisors
Our clients' success – our business

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

To the Authority Board
BATA

Compliance

We have audited the compliance of **BATA** 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. BATA's major Federal programs are identified in the summary of auditors 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 BATA's management. Our responsibility is to express an opinion on BATA's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; 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 BATA'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 BATA's compliance with those requirements.

In our opinion, BATA 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.

Member of



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Internal Control Over Compliance

The management of BATA 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 BATA's 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 compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of BATA's internal control over compliance.

Our consideration of the internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in BATA's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified a deficiency in internal control over compliance that we consider to be a material weakness.

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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as Finding Number 2007-3 to be a significant deficiency.

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. We consider the significant deficiency in internal control over compliance described in the accompanying schedule of findings and questioned cost as item 2007-3 to be a material weakness.

BATA's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit BATA's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board members, management, Michigan Department of Transportation, 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.

Dennis, Gartland & Niergarth

March 21, 2008

BATA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

September 30, 2007

Current Year

Section 1 - Summary of Auditor's Results.

1. The audit report on BATA's financial statements was unqualified.
2. There were significant deficiencies in internal control reported as a result of the audit of the general purpose financial statements. The significant deficiencies were deemed to be material weaknesses.
3. There were no compliance findings disclosed that were material to BATA's financial statements.
4. There was one significant deficiency disclosed in internal control over major programs. The significant deficiency was deemed to be a material weakness.
5. The report over compliance for major programs was unqualified.
6. There were audit findings that were required to be reported.
7. BATA's major program was Section 5311 (CFDA No. 20.509).
8. The dollar threshold for distinguishing between Type A and Type B programs was \$300,000.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - Continued

Section 2 - Findings in Accordance with Generally Accepted Government Auditing Standards.

Finding Number 2007-1

Criteria: Adequate oversight of the accounting records and timely reconciliations of all significant general ledger accounts must be performed in order to accurately represent the financial position of BATA.

Condition: Inadequate oversight of the accounting department and the absence of a controller resulted in a lack of internal controls related to account reconciliations.

Cause: Oversight of the accounting records and financial reporting was delegated to the controller. Near the end of the fiscal year ended September 30, 2006, BATA's controller left employment. This resulted in BATA's inability to perform month-end reconciliations and produce accounting records in accordance with Generally Accepted Accounting Principles.

Effect: As a result of this condition, considerable resources were spent in an effort to accurately report the results of operations and the financial position as of September 30, 2007.

Management's Response: Management engaged consultants to assist in reconciling all accounts and is taking steps to train current staff to perform monthly reconciliations of all significant accounts. Management has hired a qualified individual to perform the oversight role needed in the accounting department, as well as implement processes that would not allow for the departure of one individual to cause an inability by BATA as a whole to prepare accurate accounting records.

Finding Number 2007-2

Criteria: Adequate segregation of duties for BATA is necessary to minimize the likelihood that fraud or errors could occur and not be detected.

Condition: BATA has not achieved a complete segregation of duties among employees who have both access to assets and accounting responsibilities.

Cause: The small size of the accounting department creates an inherent lack of segregation of duties.

Effect: As a result of this condition, BATA lacks proper segregation of duties and is exposed to an increased risk of misstatement of its financial statements.

Management's Response: BATA has evaluated the manner in which they segregate duties and, although have added two full-time finance positions, believe the cost associated with adding additional staff to achieve a complete segregation is not justified by the expected benefits.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - Continued

Section 3 - Current Year Findings and Questioned Costs in Accordance with OMB Circular A-133.

Finding Number 2007-3

Program: Section 5311 Operating Assistance CFDA Number 20.509.

Criteria: OMB Circular A-87, Cost Principles to State, Local and Indian Tribal Governments, Section C, Paragraph 1j, requires costs be adequately documented.

Condition: The quarterly and annual reports filed with the State of Michigan Department of Transportation could not be verified with the accounting records because BATA did not retain the detail used to prepare the reports. Adjustments were posted after the reports had been filed.

Cause: Supporting documentation was not retained for the reports that were filed.

Effect: As a result of this condition, the reports BATA filed with the State of Michigan could not be verified to actual financial results for the same period.

Management's Response: BATA uses a report which summarizes and pulls financial data directly from the accounting software in order to comply with the Michigan Department of Transportation's quarterly and annual reporting requirement. BATA could only locate the supporting third quarterly report during the fiscal year 2007 audit. BATA will retain a copy of all future supporting reports.

BATA

SUMMARY SCHEDULE OF PRIOR FINDINGS AND QUESTIONED COSTS

September 30, 2006

Section 1 - Findings in Accordance with Generally Accepted Government Auditing Standards.

Finding Number 2006-1

Criteria: Adequate oversight of the accounting records and timely reconciliations of all significant general ledger accounts must be performed in order to accurately represent the financial position of BATA.

Condition: Inadequate oversight of the accounting department and the absence of a controller resulted in a lack of internal controls related to account reconciliations.

Cause: Oversight of the accounting records and financial reporting was delegated to the controller. Near the end of the fiscal year ended September 30, 2006, BATA's controller left employment. This resulted in BATA's inability to perform month-end reconciliations and produce accounting records in accordance with Generally Accepted Accounting Principles.

Effect: As a result of this condition, considerable resources were spent in an effort to accurately report the results of operations and the financial position as of September 30, 2006.

Management's Response: Management engaged consultants to assist in reconciling all accounts and is taking steps to train current staff to perform monthly reconciliations of all significant accounts. Management is also committed to hiring a qualified individual to perform the oversight role needed in the accounting department, as well as implement processes that would not allow for the departure of one individual to cause an inability by BATA as a whole to prepare accurate accounting records.

Current Status: The finding is repeated for the year ended September 30, 2007. Management hired a new controller in early 2008.

Finding Number 2006-2

Criteria: Adequate segregation of duties for BATA is necessary to minimize the likelihood that fraud or errors could occur and not be detected.

Condition: BATA has not achieved a complete segregation of duties among employees who have both access to assets and accounting responsibilities.

Cause: The small size of the accounting department creates an inherent lack of segregation of duties.

Effect: As a result of this condition, BATA lacks proper segregation of duties and is exposed to an increased risk of misstatement of its financial statements.

Management's Response: BATA has evaluated the manner in which they segregate duties and believe the cost associated with adding additional staff to achieve a complete segregation is not justified by the expected benefits.

Current Status: The finding is repeated for the year ended September 30, 2007.

Section 2 - Findings and Questioned Costs in Accordance with OMB Circular A-133.

No findings.



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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***

To the Authority Board
BATA

We have audited the financial statements of *BATA* as of and for the years ended September 30, 2007 and 2006, and have issued our report thereon dated March 21, 2008. We conducted our audits 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 audits, we considered BATA'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 BATA's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of BATA'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 BATA'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 BATA's financial statements that is more than inconsequential will not be prevented or detected by BATA's internal control. We consider the deficiencies 2007-1 and 2007-2 described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting.

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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 BATA'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 both of the significant deficiencies described above are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether BATA'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*.

We also noted certain other matters that we reported to management of BATA in a separate letter dated March 21, 2008.

BATA's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit BATA's response and, accordingly, we express no opinion it.

This report is intended solely for the information and use of the BATA Board, management, Michigan Department of Transportation, 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.

Dennis, Gartland & Niergarth

March 21, 2008



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Our clients' success - our business

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AUDIT-RELATED COMMUNICATIONS

To the Authority Board
BATA

We have audited the financial statements of BATA for the year ended September 30, 2007 and have issued our report thereon dated March 21, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated February 29, 2008, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

Internal Controls

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

However, during our audit, we became aware of various matters that are opportunities for strengthening internal controls and operating efficiency. The following summarizes our comments and suggestions regarding these matters. This letter does not affect our report dated March 21, 2008 on the financial statements of BATA.

Internal controls are the policies and procedures put in place to reduce the potential for undetected mistakes or fraud. Like most small organizations, your internal control system may have some inherent weaknesses due to the absence of an adequate segregation of incompatible duties (one or a few people do everything). Everybody can make mistakes and most frauds are perpetrated by people held in a position of trust so this is an issue regardless of the qualities of the people working for you.

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Internal controls are designed both to protect you from corrupt employees, customers, vendors and others and to protect honest employees from innocent mistakes and misplaced suspicions. There typically are opportunities to reduce the risk of undetected mistakes or fraud through the implementation of a few relatively easy internal control procedures. We would be happy to work with you to identify your greatest risk exposures and offer suggestions for ways to reduce that risk with simple cost-effective procedures.

During our engagement we did identify the following internal control matters for your consideration:

Update on comments from prior year audit

A substantial amount of fare box revenues is received in cash. Although the total amount of cash received annually is insignificant when compared to total operations, proper controls should be in place to ensure the safeguarding and prevent the misappropriation of assets. We recommend management review the cash handling procedures specifically related to fare box receipts.

In 2006, we recommended BATA's Board review and approve the executive director's expense reports. This approval process was in place for all of 2007 with the Board President approving the expense reports.

During the course of the prior year audit, we noted cash receipts which were deposited in the bank but were not applied to the related receivable. As a result, the aged accounts receivable was inherently misstated. In the current year, the accounts receivable module of the accounting software was used to match cash receipts with receivables. In addition, the new controller spent a substantial portion of time reconciling the accounts receivables and writing-off some of the old uncollectible amounts. At September 30, 2007, there were receivables of approximately \$12,000 over a year old. We recommend the outstanding receivables continue to be investigated and written off when deemed uncollectible.

In 2006, bank reconciliations were not done timely throughout the year and were not done using the accounting software. Bank reconciliations should be done and completed at the end of each month no later than the 10th day of the month following a month-end. The process of reconciling the bank accounts provides information on transactions that might get overlooked through normal daily operations and allows management to monitor the completeness of the accounting records. This continued to be a problem in 2007. However, at the time of audit fieldwork, the bank reconciliations were complete and up to date through February 2008. We recommend management continue to monitor the timely completion of bank reconciliations using the accounting software system. We also recommend the executive director or a Board member be assigned the task of verifying completion of the reconciliations and reviewing them for any unusual transactions.

During 2006, the process to ensure proper cut-off of month-end and year-end recording of transactions was not effective. The dates used on checks and invoices did not correlate with the period transactions were posted in. The dates used to date documents such as checks and invoices and the dates used to post transactions need to be defined and used consistently when recording transactions. This issue still existed early in 2007, but was corrected during the year.

During 2006 there was an overall underutilization of the accounting software with many transactions and activities being handled outside the software. The accounts receivable module, the accounts payable module and the bank reconciliation features were the prime areas where the features must be used. Although this remained an issue during 2007, management has since implemented proper use of the accounting modules mentioned.

The fixed assets of BATA are maintained on a schedule and depreciated over time. The schedule should reflect current year additions and deletions in order to properly maintain the depreciation records. The process for adding new purchases to the schedule did not allow for proper recording of new additions in 2006. In 2007, however, the schedule was properly updated for additions. There were no disposals accounted for in the previous or current year. Management should continue to review the fixed asset detail on an annual basis and determine if items recorded are still in use at BATA.

During 2006, BATA changed from three retirement plans (PERT, MFS and Kemper) to one plan through the Michigan Employees Retirement System ("MERS"). The three plans were dissolved in three different methods with some of the funds going directly to employees, other funds going to BATA and then to new employee accounts. The corresponding taxes were handled differently in all cases. The process for handling these funds should have involved an escrow account to hold employee funds until the new plan was ready to receive funds. These funds were reconciled as of September 30, 2007, by another accounting firm and the controller and it is believed the liability is fairly stated at year-end. These funds, however, were deposited and disbursed through the general checking account, not allowing for proper segregation of assets. At September 30, 2007 the plans were still not completely closed. As of this report date, however, the plan has been fully closed out and final remittances have been made to the plan.

During 2007, employee deferrals for retirement contributions were not always made timely. At September 30, 2007 there was an amount remaining to be remitted relating to employee deferrals. Currently, employee deferrals are being made timely and the amount owed at year end has been remitted.

As noted in the prior year, the transfer station began operations in July 2006. It was noted a cash register was on-site, but not in service as of September 30, 2006. Although not fully in service throughout 2007, the cash register was being used by September 30, 2007.

Other general items noted at September 30, 2006 that would indicate room for strengthening controls included: delays in depositing cash; documentation for paid expenses was lacking in some cases and in other cases included just a payment voucher number with no other documentation; records for voided checks were not maintained; and potential for lost revenue existed with the ability to miss billing customers. These conditions continued in 2007. As of August 2007, however, it was noted cash deposits are being made on a daily basis. Inconsistency of account numbers used for revenue posting, along with misfiling of documentation also came to light during the current year audit.

As a matter of convenience, BATA has relied upon its auditors to prepare the note disclosures for external reporting in accordance with GAAP. As a consequence, BATA has not developed the tools and resources necessary to prepare reports in conformity with GAAP. Management cannot rely on their auditors as part of their internal control structure. The 2007 financial statements were prepared by BATA, however, the note disclosures were primarily compiled by the auditors.

New comments from current year audit

The annual budget should be adopted prior to the start of the fiscal year. The fiscal year 2008 budget was not approved until October 31, 2007. A process should be implemented to ensure approval of the annual budget before the start of the fiscal year on October 1st.

The performance of the single audit resulted in one finding. It was noted the quarterly and annual reports filed with the State of Michigan could not be substantiated with the accounting information of the Agency, as the accounting reports used to prepare the quarterly reports for the State were not retained. The accounting software provides a report for managements use to prepare and submit the quarterly reports required by the State of Michigan. The reports provided by the accounting system were not retained and are not able to be recreated from the system as subsequent entries were made since the filing of the quarterly reports. In addition, the vehicle hours, mileage and passenger information filed on the four quarterly reports did not reconcile to the annual report filed and the original data used to prepare those reports was not retained. The single audit finding relates to non retention of the source documents used for filings with the State.

Significant Accounting Policies

Management is responsible for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by BATA are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2007. We noted no transactions entered into by BATA during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Restricted Net Assets (Repeat Comment)

Restricted net assets arise if externally imposed by a creditor or imposed by law through constitutional provisions or enabling legislation. Enabling legislation authorized the government to assess, levy, charge or otherwise mandate payment of resources and includes a legally enforceable requirement that those resources be used only for the specific purpose stipulated in the legislation. The enforceability of the restriction cannot ultimately be proved unless tested through the judicial process. BATA needs to remain aware of the spending of restricted net assets and maintain a game plan to spend restricted net assets which are accumulating through the .10 mills tax levy approved to allow BATA to provide new public transportation services.

Accounting Estimates

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

We have evaluated management's estimates of amount due to/from the State and Federal grants as compared to the preliminary reimbursement rate for urbanized areas under 100,000 population as a basis for concluding about reasonableness of those estimates.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on BATA's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, the adjustments we proposed, whether recorded or unrecorded by BATA, either individually or in the aggregate, did not indicate matters that could have a significant effect on BATA's financial reporting process. Any adjustments needed to reconcile accounts at year end were done prior to commencement of the audit.

Recorded Adjustments

Recorded adjustments made at the time of the audit were primarily determined by management. The entries made to prepare for the audit were done in advance of audit fieldwork, resulting in a greatly reduced number of journal entries under the audit.

At the time of the audit, entries made by management were recorded to adjust accounts receivable, accounts payable, and grants receivable.

There Were No Disagreements with Management

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

Consultations with Other Independent Accountants

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

Issues Discussed Prior to Retention of Independent Auditors

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

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit. The audit fieldwork took place after management hired a controller in January 2008. The controller was able to provide audit schedules needed, prepare account reconciliations and perform adjustments as needed to prepare for the audit. Since the controller was hired after fiscal year ended September 30, 2007, many of the comments from the prior year audit remained as any changes needed were not implemented yet. During the small amount of time between the hiring of the controller and the onset of the audit, the Authority was well prepared to perform the year end audit.

Other Items and General Comments

Cash Flow/Net Assets (Repeat Comment)

Tax monies are collected by the various municipalities December through February each year. As a result, it is necessary for BATA to borrow money on a short-term basis to cover its expenses. We recommend a 3 - 5 year plan be implemented whereby the need for borrowing is eliminated or reduced.

BATA's unrestricted net assets are approximately \$3 million. However, this entire amount is invested in fixed assets leaving an unrestricted operating deficit of \$1,157,232. In other words, BATA does not have much liquidity in the event unforeseen circumstances arise. The 3 - 5 year plan referred to above should also address the liquidity of BATA.

Conflict of Interest Policy (Repeat Comment)

Many organizations adopt a conflict of interest policy whereby in the event an officer or director of the organization has any direct or indirect interest in, or relationship with, any individual or organization which proposes to enter into any transaction with the organization, such person shall give notice of such interest or relationship. The individual would also refrain from discussing or voting on the particular transaction in which he has an interest to affect a decision to participate or not participate in such transaction.

BATA should consider Board adopted policies for other matters such as use of company vehicles, cell phone usage, use of credit cards, purchasing and capitalization of fixed assets as well.

Accounting Personnel and Staffing Needs

As noted previously, for 2006, BATA was not able to prepare for the audit or provide reasonably adjusted records without the assistance of an outside accounting firm. This was true for 2007 as well. Management relied on outside consultants throughout 2007 to keep the accounting records and to begin preparation for the audit. Ultimately, however, a controller was hired and final audit preparedness was placed on the controller.

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

Dennis, Gartland & Niergarth

March 21, 2008