

**Alger County Transit Authority  
Financial Statements  
For the Year Ended September 30, 2004**

**AUDITING PROCEDURES REPORT**

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Alger County Transit Authority	County Alger
Audit Date 9/30/04	Opinion Date 12/3/04	Date Accountant Report Submitted to State: 1/31/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

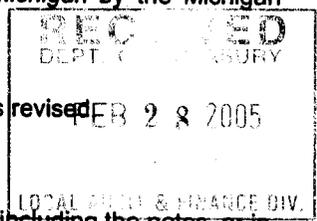
We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised FEB 28 2005
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- yes  no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- yes  no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- yes  no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- yes  no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- yes  no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- yes  no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- yes  no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- yes  no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- yes  no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).



**We have enclosed the following:**

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) Anderson, Tackman & Company, PLC			
Street Address 102 W. Washington St. Suite 109	City Marquette	State MI	ZIP 49855
Accountant Signature <i>[Signature]</i> CPA			

## TABLE OF CONTENTS

Independent Auditors' Report .....	3
Management's Discussion and Analysis .....	5
Balance Sheet/Statements of Net Assets .....	8
Statements of Revenues, Expenses and Changes in Retained Earnings/Statement Of Activities .....	9
Statements of Cash Flows .....	10
Notes to Financial Statements .....	11
Other Financial Information	
Schedule of Operating Revenues .....	17
Schedule of Operating Expenses .....	18
Schedule of Nonoperating Revenues .....	19
Schedule of Expenses by Contract and General Operations .....	20
Schedule of Net Eligible Cost Computations of General Operations .....	21
Schedule of Ineligible Expenses .....	22
Schedule of Federal Financial Assistance – Federal and State .....	23
Mileage Data (Unaudited) .....	24
Compliance Supplements	
Independent Auditors' Report on Compliance and Other Matters and on Internal Control over financial reporting based on an Audit of Financial Statements Performed in accordance with <i>Government Auditing Standards</i> .....	26
Report to Management Letter .....	28



# ANDERSON, TACKMAN & COMPANY, P.L.C.

CERTIFIED PUBLIC ACCOUNTANTS

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## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Alger County Transit Authority  
Munising, Michigan 49862

We have audited the accompanying financial statements of the business-type activities and each major fund of the Alger County Transit Authority, as of and for the year ended September 30, 2004, which collectively comprise the Alger County Transit Authority's basic financial statements. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and each major fund of the Alger County Transit Authority at September 30, 2004, and the changes in its financial position and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 3, 2004 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

As described in Note A, the Alger County Transit Authority has implemented a new financial reporting model as required by the provisions of GASB Statement No. 34, Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments, as of October 1, 2003.

Board of Directors  
Alger County Transit Authority

The management's discussion and analysis on pages 5 through 7 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules listed in the table of contents as other financial information are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic statements taken as a whole.

*Anderson, Jackman & Company, PLLC*  
Certified Public Accountants

December 3, 2004

Alger County Transit Authority

**MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED)**

Our discussion and analysis of the Alger County Transit Authority's financial performance provides an overview of the Authority's financial activities for the year ended September 30, 2004. Please read it in conjunction with the financial statements, which begin on page 8.

FINANCIAL HIGHLIGHTS

- The Authority's net assets were reported for the first time under GASB 34. As such, no comparisons with prior years will be made. In future years, comparative information will be presented in various schedules throughout the MD&A. Net assets for the Authority as a whole were reported at \$799,996. Net assets are comprised of 100% business-type activities.
- During the year, the Authority's total expenses were \$980,474, while revenues from all sources totaled \$1,230,733 resulting in an increase in net assets of \$250,261.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets (on pages 8 and 9) provide information about the activities of the Authority as a whole and present a longer-term view of the Authority finances.

**Reporting the Authority as a Whole**

One of the most important questions asked about the Authority's finances is "Is the Authority as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets report information about the Authority as a whole and about its activities in a way that helps answer this question. These statements include *all* assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. These two statements report the Authority's *net assets* and changes in them. You can think of the Authority's net assets - the difference between assets and liabilities - as one way to measure the Authority's financial health, or *financial position*. Over time, *increases or decreases* in the Authority's net assets are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the Authority's operating base and the condition of the Authority's capital assets, to assess the *overall financial health* of the Authority.

In the Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets, we report all of the Authority's activities as business-type activities because the Authority charges a fee to residents to help it cover the cost of services it provides.

**MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED)** (Continued)  
**The Authority as a Whole** (Continued)

Table I provides a summary of the Authority's net assets as of September 30, 2004.

**Table 1  
Net Assets**

	<u>2004</u>
Current and other assets	\$ 104,145
Capital assets, net	<u>1,005,127</u>
Total Assets	<u>1,109,272</u>
Current liabilities	309,276
Non-current liabilities	<u>-</u>
Total Liabilities	<u>309,276</u>
Net Assets:	
Invested in capital assets	1,005,127
Restricted for transportation	<u>(205,131)</u>
Total Net Assets	<u>\$ 799,996</u>

Net assets of the Authority's business-type activities stood at \$799,996. Unrestricted net assets—the part of net assets that could be used to finance day-to-day activities stood at \$(205,131).

The \$(205,131) in unrestricted net assets represents the accumulated results of all past years' operations. The results of this year's operations for the Authority as a whole are reported in the Statement of Revenues, Expenses and Changes in Net Assets (see Table 2), which shows the changes in net assets for fiscal year 2004. Since this is the first year the Authority has prepared financial statements following GASB Statement No. 34, revenue and expense comparison to fiscal year 2003 is not available.

**Table 2  
Changes in Net Assets**

	<u>2004</u>
Operating revenues:	
Charges for services	\$ 392,149
Other operating revenues	<u>-</u>
Total Operating Revenues	<u>392,149</u>
Operating expenses:	
Operations	831,889
Depreciation	<u>148,585</u>
Total Operating Expenses	<u>980,474</u>
Income (loss) from Operations	<u>(588,325)</u>
Non-operating Revenues (Expenses):	
Local	80,852
State	257,545
Federal	76,532
Capital grants and contributions	<u>423,656</u>
Total Non-operating Revenues (Expenses)	<u>838,585</u>
Increase (decrease) in net assets	250,260
Net assets, beginning	<u>549,736</u>
Net Assets, Ending	<u>\$ 799,996</u>

**MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)**  
**The Authority as a Whole (Continued)**

The Authority's total revenues were \$1,230,734. The total cost of all programs and services was \$980,474, leaving an increase in net assets of \$250,260 as a result of fiscal year 2004 operations.

The increase in net assets was due to an addition to our maintenance facility. Even though this was paid for with capital money and did not affect operations, it increased our total revenues for the year by approximately \$250,000.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**

At the end of fiscal 2004, the Authority had \$1,005,127 invested in a variety of capital assets including land, buildings, and other equipment. (See table 4 below)

**Table 4**  
**Capital Assets at Year-End**

	<u>2004</u>
Buildings	\$929,194
Equipment and furnishings	237,194
Buses	<u>945,057</u>
	2,111,445
Accumulated depreciation	<u>(1,106,318)</u>
Totals	<u>\$1,005,127</u>

**Debt**

The Authority has no outstanding debt at year-end.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS**

Since this is our first year doing the Management Discussion and Analysis, we do not have a track record to compare with. However, we can discuss economic factors regarding operations. We received two bills, one from the state for an \$18,000 payback for a 1999 audit percentage change. This is because the state allowed another agency to be re-audited in March 2004; they did not notify us of this change until August 2004. This negatively affected our retained earnings and cash flow. Also, a retro bill was received in October from the Michigan Transit Pool. We were not prepared for this late billing, which had to be expensed in fiscal year 2004.

**CONTACTING THE AUTHORITY FINANCIAL MANAGEMENT**

This financial report is designated to provide our taxpayers, investors and creditors with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Authority Administrator at Alger County Transit Authority, P.O. Box 69, Munising, Michigan 49862.

ALGER COUNTY TRANSIT AUTHORITY  
Balance Sheet / Statement of Net Assets  
September 30, 2004

	Balance Sheet	Adjustments	Statement of Net Assets
<b>ASSETS</b>			
CURRENT ASSETS:			
Cash and cash equivalents	\$ 2,334	\$ -	\$ 2,334
Due from federal government	9,525	-	9,525
Due from state government	60,528	-	60,528
Due from local agencies	9,397	-	9,397
Fare income receivable	14,647	-	14,647
Prepaid Insurance	7,714	-	7,714
TOTAL CURRENT ASSETS	\$ 104,145	-	104,145
FIXED ASSETS:			
Buses	945,057	-	945,057
Other Vehicles	77,050	-	77,050
Equipment	96,910	-	96,910
Facility	929,194	-	929,194
Fixtures and Furniture	63,234	-	63,234
Construction in Progress	-	-	-
	2,111,445	-	2,111,445
Less accumulated depreciation	(1,106,318)	-	(1,106,318)
NET FIXED ASSETS	1,005,127	-	1,005,127
TOTAL ASSETS	\$ 1,109,272	\$ -	1,109,272
<b>LIABILITIES</b>			
CURRENT LIABILITIES:			
Cash Overdraft	\$ -	\$ -	-
Accounts Payable	174,024	-	174,024
Due to state government	33,230	-	33,230
Due to federal government	-	-	-
Unearned revenue	615	-	615
Accrued Payroll and related liabilities	26,809	-	26,809
Compensated absences	28,598	-	28,598
Line of credit	46,000	-	46,000
TOTAL CURRENT LIABILITIES	309,276	-	309,276
TOTAL LIABILITIES	309,276	-	309,276
<b>FUND BALANCE / NET ASSETS</b>			
Contributed Capital	979,175	(979,175)	-
Retained Earnings	(179,179)	179,179	-
TOTAL FUND EQUITY	799,996	(799,996)	-
TOTAL LIABILITIES AND FUND EQUITY	\$ 1,109,272	-	-
Net Assets			
Invested in Capital Assets - Net of Related Debt		1,005,127	1,005,127
Restricted for Transportation		(205,131)	(205,131)
TOTAL NET ASSETS		\$ -	\$ 799,996

The accompanying notes to the financial statements are an integral part of this statement.

ALGER COUNTY TRANSIT AUTHORITY  
Statement of Revenues, Expenses, and Changes in Retained Earnings/Statement of Activities  
For the year ended September 30, 2004

	Full Accrual Basis	Adjustments	Statement of Activities
Operating Revenues	\$ 392,149	\$ -	\$ 392,149
Operating Expenses:			
Labor	336,233	-	336,233
Fringe Benefits	177,411	-	177,411
Services	10,833	-	10,833
Materials and Supplies	145,859	-	145,859
Utilities	22,785	-	22,785
Casualty and Liability Insurance	76,280	-	76,280
Miscellaneous	18,576	-	18,576
Finance Charges	101	-	101
Leases and Rentals	560	-	560
Depreciation	148,585	-	148,585
Other Ineligibles	43,251	-	43,251
TOTAL EXPENSES	<u>980,474</u>	<u>-</u>	<u>980,474</u>
OPERATING INCOME (LOSS)	<u>(588,325)</u>	<u>-</u>	<u>(588,325)</u>
Nonoperating Revenues:			
Local	80,852	-	80,852
State	257,545	-	257,545
Federal	76,532	-	76,532
NET INCOME (LOSS)	<u>(173,395)</u>	<u>-</u>	<u>(173,395)</u>
Add depreciation on fixed assets acquired by grants, entitlements, and shared revenues restricted for capital acquisitions	144,738	(144,738)	-
Add Gain on sale of capital	15,653	(15,653)	-
Add Capital Grants and Contributions	-	423,656	423,656
INCREASE (DECREASE) IN RETAINED EARNINGS	<u>(13,004)</u>	<u>263,265</u>	<u>250,261</u>
Retained Earnings/Net Assets (deficit) at beginning of year: As previously stated	(166,175)	715,910	549,735
RETAINED EARNINGS/NET ASSETS (DEFICIT) AT END OF YEAR	<u>\$ (179,179)</u>	<u>\$ 979,175</u>	<u>\$ 799,996</u>

The accompanying notes to the financial statements are an integral part of this statement.

ALGER COUNTY TRANSIT AUTHORITY  
Statement of Cash Flows  
For the year ended September 30, 2004

Cash Flows from Operating Activities:		
Collections from customers		\$ 844,177
Payments to employees and related items		(522,803)
Payments to vendors		(281,454)
	<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>39,920</u>
Cash Flows from Capital and Related Financing Activities:		
Purchase of fixed assets		(442,750)
Proceeds of sale of fixed assets		24,472
Increase in contributed capital		423,656
Note payable		-
	<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>	<u>5,378</u>
Cash Flows from Investing Activities:		
Interest income		-
	<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>	<u>-</u>
	<b>NET INCREASE (DECREASE) IN CASH</b>	45,298
Cash, Beginning of Year		(42,964)
	<b>CASH, END OF YEAR</b>	<u>\$ 2,334</u>
RECONCILIATION OF OPERATING GAIN (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Net Income (Loss)		\$ (173,395)
Adjustments to reconcile operating gain (loss) to net cash provided (used) by operating activities:		
Depreciation Expense		148,585
(Increase) decrease in accounts receivable		24,015
(Increase) decrease in prepaid insurance		(1,497)
Increase (decrease) in accounts payable		32,587
Increase (decrease) in accrued payroll liabilities		9,160
Increase (decrease) in deferred revenue		465
	<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>\$ 39,920</u>

The accompanying notes to the financial statements are an integral part of this statement.

ALGER COUNTY TRANSIT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
September 30, 2004

**NOTE A – DESCRIPTION OF THE REPORTING ENTITY:**

The Alger County Transit Authority (ALTRAN), which was organized under State of Michigan, Public Act 196 of 1986, provides public transportation to the general public in Alger County, Michigan. The Authority is governed by a six (6) member Board of Directors appointed by the Alger County Board of Commissioners.

**NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

The accounting policies of the Alger County Transit Authority conform to generally accepted accounting principles as applicable to governments in the United States of America. The following is a summary of the more significant policies:

- (1) **Fund Accounting** - Alger County Transit Authority is a distinct entity and, accordingly, consists of a separate set of self-balancing accounts comprised of the Authority's assets, liabilities, net assets, revenues and expense accounts. The Alger County Transit Authority is defined under generally accepted terminology as a proprietary enterprise fund. Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises with the intent of the governing body being that costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through 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.
- (2) **Basis of Accounting** - Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. All proprietary funds are accounted for using the accrual basis of accounting. Under the accrual basis, revenues are recognized when they are earned and expenses are recognized when incurred.
- (3) **Mission Statement and Nonoperating Revenues and Expenses** - The Authority's primary mission is to provide transportation services through its Authority. Only those activities directly associated with the furtherance of this purpose are considered to be operating activities.

Other activities that result in revenues or expenses unrelated to the Authority's primary mission are considered to be nonoperating. Nonoperating revenues and expenses include property taxes, county appropriations, maintenance of effort, private contributions, rent, proportionate share reimbursement, and other revenue.

Cash and Equivalents

For the purposes of the statement of cash flows, the Authority considers all highly liquid debt instruments with a maturity of three months or less to be cash equivalents.

Investments

Investments are stated at fair market value.

**NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):**

Accounts Receivable

Accounts receivable consists primarily of amounts due from other governmental units that pay their respective bills on a monthly basis. Therefore, no allowance for doubtful accounts has been established.

Inventory

Inventories of operating supplies are stated at the lower of cost or market, determined by the first-in, first-out method of valuation.

**(1) Land, Buildings, and Equipment** - Land, buildings, and equipment (capital assets) relating to the operations of the Authority are recorded at cost and accounted for in the Alger County Transit Authority Fund. Depreciation on such capital assets is charged as an expense against the operations of the Authority using straight-line depreciation. Depreciation rates are designed to amortize the cost of the assets over their estimated useful lives ranging from 3 to 40 years.

**(2) Board-Designated Assets** - Certain investments of the Unrestricted Fund have been internally designated by the Board for the funding of plant replacement, expansion and other specified projects.

**(3) Use of Estimates** - The process of preparing financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

**(4) Accounting Change** – Effective October 1, 2003, the Authority implemented the provisions of Government Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments* (GASB No. 34). Changes to the Authority’s financial statements as a result of GASB No. 34 included the addition of a Management’s Discussion and Analysis section to provide an analysis of the Authority’s overall financial position as well as changing the classification of “retained earnings” to “net assets”.

**NOTE C – DEPOSITS AND INVESTMENTS:**

The composition of cash and equivalents restricted and unrestricted, reported on the balance sheet are as follows:

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
Cash and equivalents	<u>\$2,334</u>	<u>\$ -</u>	<u>\$2,334</u>

At year end, the Authority’s cash and equivalents bank balance was \$1,163, of which 100 percent was insured by the Federal Deposit Insurance Corporation (FDIC). Regulation number 330.8 in summary provides that deposits of a governmental unit are insured for the lesser of the amount of the combined deposit or \$100,000 in every financial institution that is not a branch location that is a member of the FDIC in the following deposit accounts.

**NOTE C – DEPOSITS AND INVESTMENTS (Continued):**

1. All demand non-interest bearing accounts in the name of the authorized or statutory custodian of public funds.
2. All savings deposits which include regular passbook, daily interest savings and time certificates of deposit in the name of the governmental unit's custodian.
3. Each bookholder is insured pro-rata for the lesser of the amount on deposit in the debt retirement account for \$100,000. Each separate debt issue or debt series is similarly insured.
4. The demand accounts and savings accounts as defined in items 1 and 2 above for those bank accounts in the name of the specific fund when all of the following criteria are applicable.
  - a. The fund is created by a specific State statute.
  - b. The functions of the fund are specified by State statute.
  - c. Money is allocated by State statute for the exclusive use of that fund and statutory function.

**NOTE D – FIXED ASSETS:**

A summary of the fixed assets for the Authority is as follows:

	<u>Balance</u> <u>October 1, 2003</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>September 30, 2004</u>
Building	\$ 452,542	\$476,652	\$ -	\$ 929,194
Buses	1,119,128	19,345	193,416	945,057
Vehicles	79,317	-	2,267	77,050
Furniture and Fixtures	68,283	-	5,049	63,234
Equipment	92,443	39,983	35,516	96,910
Construction in Progress	<u>102,050</u>	<u>-</u>	<u>102,050</u>	<u>-</u>
Total	1,913,763	535,980	338,298	2,111,445
Less accumulated depreciation	<u>1,177,853</u>	<u>148,585</u>	<u>220,120</u>	<u>1,106,318</u>
NET FIXED ASSETS	<u>\$ 735,910</u>	<u>\$ 387,395</u>	<u>\$118,178</u>	<u>\$ 1,005,127</u>

**NOTE E – ACCRUED COMPENSATED ABSENCES:**

Vacation leave is earned in varying amounts depending on the number of years of service of an employee and is made available to the employees per pay period, not to exceed a total accumulation of 10 days. Vacation pay is fully vested, and is payable to employees when they terminate employment.

Sick leave is accumulated at the rate of 4 hours per each bi-weekly pay period, not to exceed a total accumulation of 500 hours. Sick pay is payable at 100 percent of the employees normal pay rate at the time of voluntary termination or termination resulting from fiscal restraints.

The Balance of compensate absences is \$28,598

**NOTE F – SCHEDULE OF CONTRIBUTED CAPITAL:**

Changes in contributed capital for the year ended September 30, 2004, consist of the following:

Capital Grants:

Balance, October 1, 2003		\$1,673,168
Add grants recognized:		
2001-0898	\$ 30,997	
2002-006/210	192,645	
2002-006/25	170,425	
2002-006/24	25,225	
2002-006/23	<u>4,638</u>	
	Total grants	423,930
Minus Disposals		<u>(15,653)</u>
	Balance, September 30, 2004	2,081,445

Accumulated amortization:

Balance, October 1, 2003		973,185
Add - current amortization		144,738
Minus Disposals		<u>(15,653)</u>
	Balance, September 30, 2004	<u>1,102,270</u>
	NET CAPITAL GRANTS, SEPTEMBER 30, 2004	<u>\$ 979,175</u>

**NOTE G – SHORT-TERM NOTES PAYABLE:**

Short-term notes payable outstanding as of September 30, 2004 consists of the following:

Short-term note payable to bank:

Original note \$46,000, unsecured, due February 2, 2005, with interest at 7%.	<u>\$46,000</u>
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**NOTE H – RISK MANAGEMENT:**

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The authority is participating with other Transit Authority's in two separate Michigan Transit Insurance pools.

**The Michigan Transit Pool - Liability Trust Fund** provides liability insurance to its members' contributions to the Pool in excess of claim losses, expenses, and other costs may be refunded and the Pool may assess members a supplemental assessment in the event of deficiencies. The Pool limits the maximum net loss that may arise from large risks or risks in concentrated areas of exposure by reinsuring certain levels of risk with other insurers or reinsurers. The Authority's insurance coverage is based on various types of risk and the maximum aggregate reimbursement cannot exceed \$1,000,000 for all claims. The Pool is responsible for paying specific claims up to \$250,000 in Medical claims and \$950,000 in General Liability claims from premiums collected and has purchased aggregate reinsurance in excess of these limits.

**The Michigan Transit Pool - Direct Property Damage Trust Fund** provides direct property damage coverage to its members. Contributions to the Pool in excess of claim losses, expenses, and other costs may be refunded and the Pool may assess members a supplemental assessment in the event of deficiencies. The Fund uses excess insurance to reduce its exposure to individual claims in excess of \$100,000. The insurance policy permits the recovery of losses from the carrier in excess of this limit, but does not discharge the primary liability of the Fund as direct insurer of the risks insured.

The Authority continues to carry commercial insurance for other risks of loss, including general liability, worker's compensation and employee health insurance.

**NOTE I – COST ALLOCATIONS:**

The Authority has cost allocation plans for allocated expenses. All allocation plans are approved by the Michigan Department of Transportation, Bureau of Urban and Public Transportation, Bus Transit Division. The plans have been adhered to in the preparation of the financial statements.

**NOTE J – RETAINED EARNINGS:**

As of September 30, 2004, a deficit of \$179,179 existed in retained earnings. The Authority's financial condition continues to deteriorate with cash overdrafts, negative results of operations, and increasing retained earnings deficits. Management is evaluating its ability to borrow additional funds, reduce daily operating expenditures, and obtain other revenue sources. If such conditions cannot be obtained or received the ability of the Authority to continue operations may be impaired. The Authority is required to and has filed a deficit elimination plan with the Department of Transportation on such matter.

OTHER FINANCIAL INFORMATION

ALGER COUNTY TRANSIT AUTHORITY  
Schedule of Operating Revenues  
Fiscal Year Ended September 30, 2004

OPERATING REVENUES:

Farebox Revenue	\$ 221,896
Senior Rides	24,000
Project Zero	110,852
Bus Advertising	18,035
Specialized Services	17,092
Volunteer Driver	274
	<u>\$ 392,149</u>

ALGER COUNTY TRANSIT AUTHORITY  
Schedule of Operating Expenses  
Fiscal Year Ended September 30, 2004

	<u>Operations</u>	<u>Maintenance</u>	<u>General Administration</u>	<u>Total System</u>
<b>OPERATING EXPENSES:</b>				
Labor:				
Operator's salaries and wages	\$ 208,422	\$ -	\$ -	\$ 208,422
Other salaries and wages	50,969	-	-	50,969
Maintenance salaries and wages	-	23,326	-	23,326
Administration salaries and wages	600	-	52,191	52,791
Board Members wages	-	-	725	725
FICA Employer	17,432	1,928	5,218	24,578
MEDI Employer	4,077	451	1,220	5,748
Fringe Benefits	85,417	19,157	42,511	147,085
Services:				
Auditing Services	-	-	4,890	4,890
Custodial Services	1,840	-	-	1,840
Other Services	3,009	43	1,051	4,103
Materials & Supplies Consumed:				
Fuel and Lubricants	86,666	-	-	86,666
Tires and Tubes	6,005	-	-	6,005
Other materials and supplies	48,015	987	4,186	53,188
Utilities	22,785	-	-	22,785
Casualty and Liability Costs:				
PL and PD Insurance	72,673	-	-	72,673
Other Corp. Insurance	-	-	3,607	3,607
Miscellaneous Expenses:				
Advertising/Promotion	2,815	-	10,651	13,466
Dues and Subscriptions	-	-	933	933
Equipment/Maint. Contract	698	-	-	698
Travel and Meetings	1,543	25	1,399	2,967
Vehicle Registrations	295	-	-	295
Volunteer Driver	217	-	-	217
Finance Charges	-	-	101	101
Leases and Rentals	400	-	160	560
Depreciation	148,585	-	-	148,585
Dues - Ineligible	-	-	55	55
III - B Wages - Ineligible	-	-	21,004	21,004
Interest Expense - Ineligible	-	-	13,899	13,899
Maintenance Wages - Ineligible	-	4,543	-	4,543
Marketing Expense - Ineligible	-	-	426	426
Other - Ineligible	-	-	-	-
RTAP - Ineligible	-	245	3,079	3,324
Total Operating Expenses	<u>\$ 762,463</u>	<u>\$ 50,705</u>	<u>\$ 167,306</u>	<u>\$ 980,474</u>

ALGER COUNTY TRANSIT AUTHORITY  
 Schedule of Nonoperating Revenues  
 Fiscal Year Ended September 30, 2004

Local Operating Grants:	
Maintenance contracts	\$ 4,543
Administrative Revenue	26,499
Local Property Tax Revenue	11,919
Local Operating Assistance	16,940
Miscellaneous Revenues	12,030
SUBTOTAL LOCAL OPERATING GRANTS	71,931
Gain from Capital Sales	8,820
Interest Income	101
TOTAL NONOPERATING REVENUES - LOCAL	\$ 80,852
State of Michigan Operating Grants:	
Local bus operating assistance	\$ 282,380
Prior Year Operating Contr.	(24,835)
TOTAL STATE OF MICHIGAN OPERATING GRANTS	\$ 257,545
Federal Operating Grants:	
U.S. DOT Operating Grant	\$ 73,208
R.T.A.P.	3,324
TOTAL FEDERAL OPERATING GRANTS	\$ 76,532

ALGER COUNTY TRANSIT AUTHORITY  
 Schedule of Expenses by Contract and General Operations  
 Fiscal Year Ended September 30, 2004

	<u>Contract Project Zero</u>	<u>Contract - Specialized Services/ Volunteer Driver</u>	<u>General Operations</u>	<u>Total</u>
Labor	\$ 45,055	\$ 7,733	\$ 283,444	\$ 336,233
Fringe Benefits	23,773	4,080	149,557	177,411
Services	1,452	249	9,132	10,833
Materials and Supplies	19,545	3,355	122,959	145,859
Utilities	3,053	524	19,208	22,785
Casualty and Liability	10,222	1,754	64,304	76,280
Miscellaneous	2,489	427	15,660	18,576
Finance Charges	14	2	85	101
Leases and Rentals	75	13	472	560
Depreciation	-	-	148,585	148,585
Other Ineligibles	-	-	43,251	43,251
TOTALS	<u>\$ 105,677</u>	<u>\$ 18,139</u>	<u>\$ 856,658</u>	<u>\$ 980,474</u>

ALGER COUNTY TRANSIT AUTHORITY  
 Schedule of Net Eligible Cost Computations of General Operations  
 Fiscal Year Ended September 30, 2004

	<u>Federal</u> <u>Section 5311*</u>	<u>State</u> <u>Operating</u> <u>Assistance</u>
Total Expenditures	\$ 980,474	\$ 980,474
Less Ineligible Expenses:		
Depreciation	144,738	144,738
Finance Charges	101	101
Dues	55	55
Administrative Contract	21,004	21,004
Interest Expense	13,899	13,899
Maintenance	4,543	4,543
Marketing	426	426
Less:		
Project Zero	105,677	105,677
Specialized Services Expenses	18,139	18,139
R.T.A.P.	3,324	3,324
TOTAL INELIGIBLE EXPENSES	<u>311,906</u>	<u>311,906</u>
NET ELIGIBLE EXPENSES	<u>\$ 668,568</u>	<u>\$ 668,568</u>
STATE STATUTORY OPERATING ASSISTANCE		
the greatest of its:		
Statutory cap: 60 percent of eligible expenses	<u>\$ 401,141</u>	
Minimum: 1996-97 Formula	<u>\$ 202,105</u>	
STATE STATUTORY OPERATING ASSISTANCE		<u>\$ 282,380</u>
FEDERAL SECTION 5311 10.95 percent	<u>\$ 73,208</u>	

\* Federal Section 5311 expenses are only those expenses incurred in providing services to nonurbanized areas. All of the areas the authority serves are classified as nonurbanized areas.

ALGER COUNTY TRANSIT AUTHORITY  
 Schedule of Ineligible Expenses  
 Fiscal Year Ended September 30, 2004

<u>Program</u>	<u>Federal Section 5311</u>	<u>State Operating Assistance</u>
Urban Mass Transportation Administration Operating Grants:		
1. Depreciation allocable to contributed capital is not an eligible expense.	\$ 144,738	\$ 144,738
2. Expenses under Project Zero Contract are ineligible.	105,677	105,677
3. Expenses reimbursed under Specialized Services Grant are ineligible.	18,139	18,139
4. Finance charges paid for late payments are ineligible.	101	101
5. A portion of MPTA dues are ineligible expenses.	55	55
6. Expenses reimbursed under contract for administrative services are ineligible.	21,004	21,004
7. All interest expense must be deducted as ineligible.	13,899	13,899
8. Expenses reimbursed for maintenance services are ineligible.	4,543	4,543
9. Marketing expenses are ineligible.	426	426
10. Expenses reimbursed under R.T.A.P. Grant are ineligible.	3,324	3,324
	<u>\$ 311,906</u>	<u>\$ 311,906</u>

**ALGER COUNTY TRANSIT AUTHORITY**  
**Schedule of Financial Assistance**  
**Federal and State**  
**Year Ended September 30, 2004**

Federal Grantor/Pass Thru Grantor/Program Title	Federal CFDA Number	State Grantor Number	Program or Award Amount	Due From State @ 9/30/2003	Amount Paid By State In FY 2004	Amount of Actual Revenue/Expenditures FY 2003	Due From State @ 9/30/2003	Amount Remaining
<u>Michigan Department of Transportation</u>								
Capital Grant	N/A	2002-006/Z11	\$ 172,755	\$ -	\$ -	\$ -	\$ -	\$ 172,755
Capital Grant	N/A	2002-006/Z10	225,000.00	-	188,744.94	192,644.94	3,900.00	32,355.06
Capital Grant	N/A	2002-006/Z5	247,507.00	62,552.34	232,977.00	170,424.66	-	-
Capital Grant	N/A	2002-006/Z4	25,225.00	-	1,028.26	25,225.00	24,196.74	-
Capital Grant	N/A	2002-006/Z3	62,500.00	-	4,450.00	4,638.26	188.26	31,243.22
Capital Grant	N/A	2001-0898	151,428.00	(58.27)	30,997.14	30,997.14	(58.27)	44,027.32
<b>Total Capital Assistance</b>			<u>884,415.00</u>	<u>62,494.07</u>	<u>458,197.34</u>	<u>423,930.00</u>	<u>28,226.73</u>	<u>280,380.60</u>
<u>U.S. Department of Transportation</u>								
State and Federal Operating Assistance								
Computations based on Operating Expense								
Passed through MDOT								
Operating Assistance - Section 18	20.509	2002-006?Z14	-	-	62,345.85	72,056.00	9,710.15	-
Operating Assistance - Section 18	20.509	9/30/2003	-	(1,836.10)	-	-	(1,836.10)	-
Operating Assistance - Section 18	20.509	9/30/2002	-	522.00	-	-	522.00	-
Operating Assistance - Section 18	20.509	9/30/2001	-	478.00	478.00	-	-	-
<u>Michigan Department of Transportation</u>								
Operating Assistance - Act 51	N/A	9/30/2004	-	-	278,243.00	277,935.00	(308.00)	-
Operating Assistance - Act 51	N/A	9/30/2003	-	(21,972.00)	-	(5,031.00)	(27,003.00)	-
Operating Assistance - Act 51	N/A	9/30/2002	-	2,262.00	-	-	2,262.00	-
Operating Assistance - Act 51	N/A	9/30/2001	-	3,407.00	-	-	3,407.00	-
Operating Assistance - Act 51	N/A	9/30/2000	-	6,070.00	-	-	6,070.00	-
Operating Assistance - Act 51	N/A	9/30/1999	-	870.00	(12,452.00)	(19,549.00)	(6,227.00)	-
Project Zero	N/A	2002-006/Z13	110,852.00	-	98,673.75	110,852.00	12,178.25	-
Project Zero	N/A	9/30/2003	141,332.00	8,318.22	8,318.22	-	-	-
Specialized Services	N/A	2002-006/Z12	17,366.00	-	13,120.45	17,366.00	4,245.55	-
<b>Total Operating Assistance</b>			<u>269,550.00</u>	<u>(1,880.88)</u>	<u>448,727.27</u>	<u>453,629.00</u>	<u>3,020.85</u>	<u>-</u>
<b>Total Assistance</b>			<u>\$ 1,153,965</u>	<u>\$ 60,613</u>	<u>\$ 906,925</u>	<u>\$ 877,559</u>	<u>\$ 31,248</u>	<u>\$ 280,381</u>
						\$ 339,144	Capital = 80% Federal	
						72,056.00	Federal Operating	
						<u>\$ 411,200</u>	<u>Total Federal Dollars</u>	

ALGER COUNTY TRANSIT AUTHORITY  
Mileage Data (Unaudited)  
Fiscal Year Ended September 30, 2004

	Public Transportation <u>Mileage</u>
Demand Response:	
First Quarter	144,286
Second Quarter	121,337
Third Quarter	117,553
Fourth Quarter	117,750
	<u>117,750</u>
Total Demand Response	<u><u>500,926</u></u>

All of the Authority's mileage is demand response.

Compliance Supplements



**ANDERSON, TACKMAN & COMPANY, P.L.C.**

CERTIFIED PUBLIC ACCOUNTANTS

**PARTNERS**

JOHN W. BLEMBERG, CPA

ROBERT J. DOWNS, CPA, CVA

DANIEL E. BIANCHI, CPA

MICHIGAN  
ESCANABA  
IRON MOUNTAIN  
KINROSS  
MARQUETTE

WISCONSIN  
GREEN BAY  
MILWAUKEE

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

Board of Directors  
Alger County Transit Authority  
Munising, Michigan 49862

We have audited the financial statements of the business-type activities of each major fund of the Alger County Transit Authority, as of and for the year ended September 30, 2004, and have issued our report thereon dated December 3, 2004. 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Alger County Transit Authority'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*.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Alger County Transit Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that material misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Board of Directors  
Alger County Transit Authority

This report is intended solely for the information and use of the Board and management of the Alger County Transit Authority, and other federal and state audit agencies and is not intended to be and should not be used by anyone other than these specified parties.

*Anderson, Jackman & Company, PLLC*  
Certified Public Accountants

December 3, 2004



# ANDERSON, TACKMAN & COMPANY, P.L.C.

CERTIFIED PUBLIC ACCOUNTANTS

## PARTNERS

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MILWAUKEE

***Alger County Transit Authority***  
***Report to Management Letter***  
***For the Year Ended September 30, 2004***

Board of Directors  
Alger County Transit Authority  
Munising, Michigan 49862

In planning and performing our audit of the financial statements of the Alger County Transit Authority for the year ended September 30, 2004, we considered its internal control structure for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure. However, we noted no matters involving the internal control structure and its operation that we consider reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgement, could adversely affect the Alger County Transit Authority's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

The following comments are not reportable conditions as defined by the AIPCA but are management points for which we feel consideration should also be given.

### **Fund Balance Deficit**

Public Act 275 of 1980 requires that all deficits in any fund balances of local units be disclosed. An enumerated upon in Footnotes of the financial statements.

In accordance with the Act, a corrective action plan for the deficit is required to be filed with the State Treasurer within 90 days of the end of the fiscal year. As of this time, the Alger County Transit Authority has not filed such a plan. We recommend the Alger County Transit Authority file a corrective action plan with the State and monitor the fund closer in future years to ensure there are sufficient revenues to cover the expenditures each year.

### **Statement of Position**

The Authority's financial condition continues to decline with the cash and the retained earnings deficits increasing. We suggest management continue to evaluate alternative revenue sources or cost cutting measures to begin to reverse these negative trends.

Board of Directors  
Alger County Transit Authority  
Munising, Michigan 49862

**OTHER COMMENTS AND RECOMMENDATIONS**

Segregation of Duties

Due to the small staff size of the Alger County Transit Authority, the proper segregation of duties in the accounting applications is not always practical. The most critical areas are cash and cash management, where there is a possibility that intentional or unintentional errors could be made and go undetected for a period of time exists. To alleviate this condition, we recommend that the Board review the financial reports at their board meetings and has adopted a policy regarding their involvement in the check issuance process.

This report is intended solely for the information and use of the Alger County Transit Authority's management, and others within the Administration.

We appreciate and would like to thank the Alger County Transit Authority's staff for the cooperation and courtesy extended to us during our audit. We would be please to discuss any comments or answer any questions regarding our audit with you at your convenience.

*Anderson, Jackman & Company, PLLC*  
Certified Public Accountants

December 3, 2004