

# 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 Benzie Transportation Authority		County Benzie	
Fiscal Year End 9/30/07		Opinion Date 11/16/07		Date Audit Report Submitted to State 1/28/08			

We affirm that:

We are certified public accountants licensed to practice in Michigan.

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

- YES NO **Check each applicable box below.** (See instructions for further detail.)
- 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.
  - 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.
  - The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
  - The local unit has adopted a budget for all required funds.
  - A public hearing on the budget was held in accordance with State statute.
  - 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.
  - The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
  - The local unit only holds deposits/investments that comply with statutory requirements.
  - 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).
  - 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.
  - The local unit is free of repeated comments from previous years.
  - The audit opinion is UNQUALIFIED.
  - The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
  - The board or council approves all invoices prior to payment as required by charter or statute.
  - 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"/>			
Certified Public Accountant (Firm Name) James M. Anderson, P.C.			Telephone Number 989-563-2450		
Street Address P.O. Box 255		City Roscommon		State MI	Zip 48653
Authorizing CPA Sigr 		Printed Name James M. Anderson, CPA		License Number 1101017419	

Digitally signed by James M. Anderson, CPA  
DN: cn=James M. Anderson, CPA, o=US, ou=James M. Anderson, P.C., email=jma@m33access.com  
Date: 2008.01.28 12:10:51 -05'00'

**BENZIE TRANSPORTATION AUTHORITY  
AUDIT REPORT  
SEPTEMBER 30, 2007**

**BENZIE TRANSPORTATION AUTHORITY**

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## James M. Anderson, P.C.

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### INDEPENDENT AUDITOR'S REPORT

November 16, 2007

Board of Directors  
Benzie Transportation Authority  
12762 Honor Highway  
Honor, MI 49640

I have audited the accompanying financial statements of the business-type activity and major fund, which collectively comprise the basic financial statements of the Benzie Transportation Authority, as of and for the year ended September 30, 2007, as listed in the table of contents. These statements are the responsibility of the Authority's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my 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 of The United States of America. Those standards require that I 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. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and major fund of the Benzie Transportation Authority, as of September 30, 2007, and the changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

MEMBER MACPA and AICPA

In accordance with Government Auditing Standards, I have also issued a report dated November 16, 2007, on my consideration of the Benzie Transportation Authority internal control over financial reporting and my test of its compliance with certain provision of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of my audit.

The management's discussion and analysis and budgetary comparison information on pages 3-8, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

My audit was made for the purpose of forming an opinion on the financial statements that collectively comprise the Benzie Transportation Authority basic financial statements. The accompanying financial information listed as supplemental information in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Benzie Transportation Authority. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and in my opinion, is fairly stated, in all material respects, in relation to the basic financial statements, taken as a whole.



JAMES M. ANDERSON, P.C.  
CERTIFIED PUBLIC ACCOUNTANT

BENZIE TRANSPORTATION AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
SEPTEMBER 30, 2007

***Using this Annual Report***

Our discussion and analysis of the Benzie Transportation Authority's financial performance provides an overview of the Authority's financial activities for the fiscal year ended September 30, 2007. This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Revenue, Expenses, and Changes in Net Assets provide information about the activities of the Authority and present a longer-term view of the Authority's finances.

***Overview of the Financial Statements***

This annual report consists of three parts: Management's Discussion and Analysis (this section), the basic financial statements, and an additional section that presents supplemental information and schedules. The basic financial statements include two kinds of statements that present different views of the Authority:

- . The first two statements are financial statements that provide both long-term and short-term information about the Authority's overall financial status. These statements report information about the Authority, as a whole, using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the Authority's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid. The two statements report the Authority's net assets and how they have changed. "Net assets" is the difference between the assets and liabilities. This is one way to measure the Authority's financial health or position.
- . The remaining statement is a Statement of Cash Flows to demonstrate the activities of the Authority as it relates to cash flows from operating activities, cash flows from noncapital financing activities, cash flows from capital and related financing, and cash flows from investing activities.

***Reporting the Transit Authority as a Whole***

Government-Wide Statements

The Statement of Net Assets and the Statement of Revenues, Expenses, and change in Net Assets report information about the Authority, as a whole, and about its activities in a way that helps answer the question of whether the Authority, as a whole, is better off or worse off as a result of the year's activities. The Statement of Net Assets includes all of the Authority's assets and liabilities using the accrual basis of accounting, which is similar to the accounting method used by most private-sector companies. All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Net Assets regardless of when cash is received and paid.

BENZIE TRANSPORTATION AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
SEPTEMBER 30, 2007

The two statements, mentioned above, report the Authority's net assets and how they have changed. The reader 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, respectively. To assess the overall health of the Authority you need to consider additional non-financial factors such as changes in the County's property tax base, the condition of the Authority's vehicles, and changes in the laws related to the operating assistance received from the Federal and State government.

***Financial Analysis of the Transit Authority as Whole***

Because this is the first year of operation, the following tables present only current year data. In future years, when prior year information is available, comparative analysis of Authority data will be presented.

Net Assets

The Authority ended the year with net assets of \$684,014 of which \$556,168 was invested in capital assets leaving \$127,846 as undesignated. The Authority received \$555,627 in capital grants during the year which contributed to the surplus in net assets.

The net assets as of the year ended September 30, 2007, are as follows:

Current and Other Assets	\$ 161,632
Capital Assets	<u>556,168</u>
Total Assets	<u>717,800</u>
Current Liabilities	<u>33,786</u>
Total Liabilities	<u>33,786</u>
Net Assets	
Invested in Capital Assets	556,168
Unrestricted	<u>127,846</u>
Total Net Assets	<u>\$ 684,014</u>

BENZIE TRANSPORTATION AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
SEPTEMBER 30, 2007

Changes in Net Assets

Operating Revenue	
Charges for Services	\$ 44,678
Nonoperating Revenue	
Taxes Levied for Authority	470,747
State of Michigan Operating Grants	305,043
Federal Operating Grants	133,147
Capital Grants	555,627
Interest	<u>4,933</u>
Total Revenue	<u>1,514,175</u>
Operating Expense	
Salaries and Wages	449,916
Fringe Benefits	101,493
Depreciation	42,723
Other	<u>236,029</u>
Total Operating Expense	<u>830,161</u>
Income (Loss)	684,014
Beginning Net Assets	<u>-0-</u>
Ending Net Assets	<u><u>\$ 684,014</u></u>

BENZIE TRANSPORTATION AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
SEPTEMBER 30, 2007

*Capital Asset and Debt Administration*

At September 30, 2007, the Authority had \$556,168 invested in capital assets. This amount represents a net increase (including additions and deductions) of \$556,168 or 100% as follows:

Capital Assets Not Being Depreciated	
Land	\$ <u>-0-</u>
Subtotal	<u>-0-</u>
Capital Assets Being Depreciated	
Building	197,500
Vehicles	348,648
Equipment	<u>52,743</u>
Subtotal	<u>598,891</u>
Total Capital Assets	<u>598,891</u>
Total Accumulated Depreciation	<u>42,723</u>
Total Net Capital Assets	<u>\$ 556,168</u>

Please refer to the notes of the financial statements for more detailed information.

BENZIE TRANSPORTATION AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
SEPTEMBER 30, 2007

*First Year of Operations and the Future*

**Overview**

The Benzie Transportation Authority (BTA) became operational on January 2, 2007 after many years of effort and passage of a successful millage in the fall of 2006.

The local Council on Aging was discontinuing their transportation program through the MDOT, so the five (5) buses they were currently using ranging in age from 1994 to 2006 were transferred to our agency via the MDOT. Our initial start up costs included the expense of hiring personnel, purchasing all office equipment (desks, computers, chairs, office supplies, etc), advertisements, service development, training, insurance policies, etc. We are currently leasing administrative office space and have acquired a five bay bus shelter from the MDOT at a location approximately 2 miles west of our administrative offices. We share this building with the Council on Aging and have an approved cost allocation plan through the MDOT. We expanded service to Traverse City on August 1<sup>st</sup> with three trips daily Monday-Friday. We are also doing cooperative transportation with Manistee County Transit and Bay Area Transportation Authority.

Our community is extremely supportive of our service. My staff is complimented and held in high regard. Our passenger counts are increasing monthly, and we hope to expand our services as resources permit. We are in need of additional buses, maintenance facilities and a bus shelter. Eleven of our vehicles are slated for replacement due to the high number of miles we travel. Our fleet is aging, and we anticipate substantial expense for garage supplies and vehicle parts and maintenance this year.

**Staffing**

We originally started with twelve (12) staff members to meet the operational hours of Monday-Friday 6:00 A.M. - 8:00 P.M. Our passenger count increased at such an astounding rate, additional staff and vehicles needed to be added immediately. We currently have a total of 26 staff members, 18 full-time and 8 part-time staff.

**Statistics**

The passenger counts were:

January	1150
February	1707
March	2342
April	2447
May	3155
June	3532
July	4013
August	4562
September	<u>3740</u>
Total	<u>26648</u>

BENZIE TRANSPORTATION AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
SEPTEMBER 30, 2007

**Financial**

Due to the BTA being a new agency, we were unfamiliar with the structure of the MDOT financial reporting system, so we had to learn "on the job." As we were informed of procedures, and we discovered some areas that needed to be addressed, we immediately implemented "internal controls" to fulfill the requirements. We used a local accounting firm to help us set up our accounts who was also unfamiliar with the MDOT Revenue and Expense Manual, so we have been learning together. We continue to learn about the MDOT Contract and Procurement procedures. We have leased the PCTrans Dispatch Software that is also providing us with many reports that are required by the MDOT. It has many programs that assist with our financials and operational reports. Now that we have been operational for 1 year, we have learned, and continue to learn, more about the reporting process. We will continue to be diligent and strive to meet all the compliance regulations put forth.

**Accidents**

The BTA was involved in three (3) accidents. No driver was ticketed, and no fatalities.

**Litigation**

As of September 30, 2007 BTA is not involved in any form of litigation.

The goal of the Benzie Transportation Authority is to provide safe and efficient transportation along with a high standard of hospitality to all of our customers.

Susan M. Miller  
Executive Director  
Benzie Transportation Authority

BENZIE TRANSPORTATION AUTHORITY  
STATEMENT OF NET ASSETS  
SEPTEMBER 30, 2007

ASSETS

Current

Cash and investments	\$ 86,753
Accounts receivable	134
Due from governmental units	70,187
Prepaid expenses	<u>4,558</u>

Total Current Assets 161,632

Property and Equipment, less accumulated depreciation 556,168

Total Assets 717,800

LIABILITIES

Current Liabilities

Accounts payable	18,838
Accrued payroll	<u>14,948</u>

Total Current Liabilities 33,786

NET ASSETS

Invested in Capital Assets, net of related debt	556,168
Unrestricted	<u>127,846</u>

Total Net Assets \$ 684,014

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

BENZIE TRANSPORTATION AUTHORITY  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS  
YEAR ENDED SEPTEMBER 30, 2007

Operating Revenues	
Charges for services	
Fare box and special fares	\$ <u>44,678</u>
Total operating revenues	<u>44,678</u>
Operating Expenses	
Salaries and wages	449,916
Fringe benefits	101,493
Services	15,770
Materials and supplies	165,520
Utilities	16,866
Casualty and liability insurance	13,968
Miscellaneous	23,905
Depreciation	<u>42,723</u>
Total operating expenses	<u>830,161</u>
Operating income (loss)	<u>(785,483)</u>
Non-operating Revenues (expenses)	
Property taxes	470,747
Federal	133,147
State	305,043
State and Federal capital grants	555,627
Interest/investment income	<u>4,933</u>
Total non-operating revenues	<u>1,469,497</u>
Change in Net Assets	684,014
Net Assets - October 1, 2006	<u>-0-</u>
Net Assets - September 30, 2007	<u>\$ <u>684,014</u></u>

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

BENZIE TRANSPORTATION AUTHORITY  
STATEMENT OF CASH FLOWS  
FOR YEAR ENDED SEPTEMBER 30, 2007

Cash flows from operating activities	
Cash receipts from operations	\$ 44,544
Cash payments for supplies and services	(221,749)
Cash payments for employee services and fringes	<u>(536,461)</u>
Net cash provided (used) by operating activities	<u>(713,666)</u>
Cash flows from noncapital financing activities	
Property taxes	470,747
Federal operating grants	90,243
State operating grants	<u>282,479</u>
Net cash provided (used) by noncapital financing activities	<u>843,469</u>
Cash flows from capital and related financing activities	
Federal/State capital grants	550,908
Purchase of fixed assets	<u>(598,891)</u>
Net cash provided (used) by capital and related financing activities	<u>(47,983)</u>
Cash flows from investing activities	
Investment income	<u>4,933</u>
Net cash provided (used) by investing activities	<u>4,933</u>
Net increase (decrease) in cash and cash equivalents	86,753
Cash and Cash Equivalents - October 1, 2006	<u>-0-</u>
Cash and Cash Equivalents - September 30, 2007	<u><u>\$ 86,753</u></u>

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

BENZIE TRANSPORTATION AUTHORITY  
STATEMENT OF CASH FLOWS  
FOR YEAR ENDED SEPTEMBER 30, 2007

Reconciliation of operating income to net  
cash provided by operating activities:

Operating income (loss)	<u>\$ (785,483)</u>
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	42,723
Decrease (increase) in accounts receivable	(134)
Decrease (increase) in prepaid expenses	(4,558)
Increase (decrease) in accounts payable	18,838
Increase (decrease) in accrued liabilities	<u>14,948</u>
Total adjustments	<u>71,817</u>
Net cash provided (used) by operating activities	<u><u>\$ (713,666)</u></u>

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

BENZIE TRANSPORTATION AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2007

NOTE A - DESCRIPTION OF THE REPORTING ENTITY

The Authority was organized in 2006 under Public Act 196 of 1986. The Authority is a separate legal and administrative unit of government. The purpose of the Authority is to provide public transit services to the general public within Benzie County.

NOTE B - DESCRIPTION OF FUNDS

Enterprise Fund

The Authority Operations Fund is classified as an Enterprise Fund to conform to management requirements and State regulations. An Enterprise Fund is used to report operations that provide services which are financed by user charges, of activities where periodic measurement of net income is appropriate for capital maintenance, public policy, management control or other purposes. Enterprise Funds use the accrual basis of accounting.

NOTE C - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Benzie Transportation Authority conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the significant policies.

Basis of Accounting - The accrual basis of accounting is followed by the Authority. The accrual basis provides that revenues are recorded when earned and expenditures are recorded when the related liability is incurred.

Inventories - Inventories of replacement parts are not maintained and fuel is expensed when purchased. Office supplies are not included in inventories.

Capital Assets - Capital assets are stated at cost or fair market value at date of gift. Costs relating to maintenance and repairs are charged to expense, whereas those for renewals and betterments, when significant in amount, are capitalized. Provisions for depreciation of equipment are computed on the straight-line method. Depreciation rates are designed to amortize the cost of the assets over their estimated useful lives. The Authority's policy is to capitalize qualified purchases in excess of \$1,000 unless they are part of a capital grant where as there is no minimum threshold.

BENZIE TRANSPORTATION AUTHORITY  
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 SEPTEMBER 30, 2007

NOTE C - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property Taxes - Current property taxes are levied as of December 1 each year and attach an enforceable lien on the property. Current property taxes levied are collected by other local units of government until the subsequent year when revenue is recognized for the current budget year. Current property taxes from the December 1 levy, which are received prior to December 31, are normally held in the Benzie County's Trust and Agency Fund. The Authority subsequently receives its portion of the levy from this fund.

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE D - PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	Balance 10/01/06	Additions	Deductions	Balance 9/30/07
Building and Improvements	\$ -0-	\$ 197,500	\$ -0-	\$ 197,500
Vehicles	-0-	348,648	-0-	348,648
Shop Equipment	-0-	26,142	-0-	26,142
Office Equipment	-0-	26,601	-0-	26,601
	<u>\$ -0-</u>	<u>\$ 598,891</u>	<u>\$ -0-</u>	598,891
Totals	<u>\$ -0-</u>	<u>\$ 598,891</u>	<u>\$ -0-</u>	598,891
Accumulated Depreciation	<u>\$ -0-</u>	<u>\$ 42,723</u>	<u>\$ -0-</u>	42,723
Net Property and Equipment				<u>\$ 556,168</u>

The total depreciation expense for fiscal year ending September 30, 2007 was \$42,723. The eligible depreciation of \$2,421 (\$42,723 total depreciation less ineligible depreciation \$40,302) includes only the depreciation of assets purchased with local funds and where the useful life of the asset purchased has been approved by the Bureau of Passenger Transportation.

Useful lives of depreciable assets are as follows:

Buses & rehabilitations	3-10 years
Operations equipment	5-10 years
Garage equipment	5-12 years
Office equipment	5-12 years
Computer equipment	5 years
Building	20-40 years

BENZIE TRANSPORTATION AUTHORITY  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
SEPTEMBER 30, 2007

NOTE E - CASH AND INVESTMENTS

The balance sheet accounts and types of cash items are presented below:

	<u>Carrying Amount</u>	<u>Bank Balance</u>
Insured (FDIC)	<u>\$ 86,753</u>	<u>\$ 103,968</u>

Deposits - At year end, the carrying amount of the Authority's deposits was \$86,753 and the bank balance was \$103,968. According to Section 330.8 of the Federal Deposit Insurance Corporation Rules and Regulations, approximately 100% of the total bank balance was covered by federal depository insurance.

Investments - Act 217, PA 1982, authorizes the Authority to deposit and invest in the following:

- (a) bonds and other direct obligations of the United States or its agencies
- (b) certificates of deposit, savings accounts, deposit accounts, or depository receipts of federally insured banks, insured savings and loan associations or credit unions insured by the national credit union administration that are eligible to be depository of surplus money belonging to the State under section 5 or 6 of Act 105, PA 1855, as amended (MCL 21.145 and 21.146)
- (c) commercial paper rated at time of purchase within the three highest classifications established by not less than two standard rating services. Maturity cannot be more than 270 days after purchase and not more than 50 percent of any fund may be invested in commercial paper at any time
- (d) United States government or Federal agency obligation repurchase agreements
- (e) bankers' acceptance of United States banks
- (f) mutual funds composed of investments which are legal for direct investments by local units of government in Michigan

BENZIE TRANSPORTATION AUTHORITY  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
SEPTEMBER 30, 2007

NOTE E - CASH AND INVESTMENTS (CONTINUED)

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. Michigan law and investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to local government's indirect investment in securities through the use of mutual funds or government investment pools.

Interest Rate Risk

The Authority has not adopted a policy that indicates how the Authority will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by limiting the weighted average maturity of its investment portfolio to less than a given period of time.

Concentration of Credit Risk

The Authority has not adopted a policy that indicates how the Authority will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the Authority's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

NOTE F - CAPITAL GRANTS

The Transit Authority has contracted with federal and state agencies for grant funds to purchase facilities and equipment. All of the monies that the Authority is now eligible to receive have not yet been disbursed to them, as the projects have not yet been completed. As of September 30, 2007, \$257,572 is still available to the Authority under those grants.

BENZIE TRANSPORTATION AUTHORITY  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
SEPTEMBER 30, 2007

NOTE G - RISK MANAGEMENT

The Transit Authority is exposed to risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Authority manages its risk exposures and provides certain employee benefits through a combination of self-insurance programs, risk management pools and commercial insurance and excess coverage policies. Following is a summary of these self-insurance programs and risk management pool participation.

The Transit Authority participates in the Michigan Municipal Risk Management Authority (MMRMA) for general and automobile liability, motor vehicle physical damage and property damage coverages. The MMRMA was established in January 1980, pursuant to laws of the State of Michigan which authorize local units of government to jointly exercise any power, privilege or authority which each might exercise separately. The purpose of MMRMA is to provide cooperative and comprehensive risk financing and risk control services. The MMRMA provides risk management, underwriting, reinsurance and claim review and processing services for all member governments pursuant to its charter.

The Transit Authority makes annual contributions to MMRMA based on actuarial studies using historical data and insurance industry statistics. Such contributions as received by MMRMA are allocated between its general and member retention funds. Economic resources in the MMRMA's general fund are expended for reinsurance coverage, claim payments and certain general and administrative costs. The Transit Authority is a state pool member and has deductibles which differ for each type of coverage.

NOTE H - OPERATING LEASE

The Transit Authority entered into a lease agreement commencing on July 1, 2007 with R & B Leasing Properties, LLC for the use of the building and property located at 12762 Honor Highway, Honor Michigan. The Lease requires monthly payments of \$1275 totaling \$15,300 for the year ending June 30, 2008. The lease provides for an automatic renewal each June 30<sup>th</sup> until June 30, 2011 with a built in annual increase of 5%.

BENZIE TRANSPORTATION AUTHORITY  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
SEPTEMBER 30, 2007

NOTE I - EXPLANATION OF INELIGIBLE EXPENSES PER THE BPT R&E MANUAL

Ineligible expenses are classified appropriately according to the definition in the Local Public Transit Revenue and Expense Manual (R&E Manual). Audit costs are the only costs in which eligibility differs from the State R&E Manual and the Federal OMB Circular A-87.

NOTE J - NONFINANCIAL DATA

The methodology used for compiling mileage on Schedule 9 - Mileage Data is an adequate and reliable method for recording vehicle mileage.

NOTE K - CONTINGENCIES

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

**SUPPLEMENTAL INFORMATION**

BENZIE TRANSPORTATION AUTHORITY  
OPERATING REVENUES  
YEAR ENDED SEPTEMBER 30, 2007

Operating Revenues	
Demand-response (farebox)	<u>\$ 44,678</u>
Total Operating Revenues	<u><u>\$ 44,678</u></u>

BENZIE TRANSPORTATION AUTHORITY  
OPERATING EXPENSES  
YEAR ENDED SEPTEMBER 30, 2007

	<u>Operations</u>	<u>Maintenance</u>	<u>General Administration</u>	<u>Total System</u>
Labor				
Operator's salaries and wages	\$ 224,900	\$ -0-	\$ -0-	\$ 224,900
Other salaries and wages	103,733	21,936	99,347	225,016
Fringe Benefits	74,134	4,948	22,411	101,493
Services	2,446	-0-	13,324	15,770
Materials and Supplies Consumed				
Fuel and lubricants	96,978	-0-	-0-	96,978
Tires	-0-	4,657	-0-	4,657
Other materials and supplies	3,677	39,869	20,339	63,885
Utilities	-0-	-0-	16,866	16,866
Casualty and Liability Costs				
Premiums for public liability and property damage insurance	13,968	-0-	-0-	13,968
Miscellaneous Expenses				
Travel and meetings	-0-	-0-	5,073	5,073
Advertising/promotion media	5,704	-0-	-0-	5,704
Leases & rentals	9,925	-0-	722	10,647
Other	1,649	-0-	832	2,481
Depreciation	<u>34,694</u>	<u>2,581</u>	<u>5,448</u>	<u>42,723</u>
Total Expenses	<u>\$ 571,808</u>	<u>\$ 73,991</u>	<u>\$ 184,362</u>	<u>\$ 830,161</u>

BENZIE TRANSPORTATION AUTHORITY  
NONOPERATING REVENUES  
YEAR ENDED SEPTEMBER 30, 2007

Local Operating Grants	
Tax Levy	<u>\$ 470,747</u>
Subtotal Local Operating Grants	<u>470,747</u>
State of Michigan Operating Grants	
Formula Operating Assistance (Act 51)	<u>305,043</u>
Subtotal State of Michigan Operating Grants	<u>305,043</u>
Federal Operating Grants	
U.S. DOT Operating Grant - Section 5311	<u>133,147</u>
State Capital Grants	<u>555,627</u>
Interest Income	<u>4,933</u>
Total Nonoperating Revenues	<u><u>\$ 1,469,497</u></u>

BENZIE TRANSPORTATION AUTHORITY  
 SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE GRANTS  
 FOR THE YEAR ENDED SEPTEMBER 30, 2007

Federal and State Grantor/Pass-Through	Federal CFDA Number	Grant Number	Program Award Amount	Current Year Expenditures			Prior Year Expend- itures	Award Amount Remaining
				Total	Federal	State		
Passed Through Michigan Department of Transportation								
Operating Assistance - Section 5311	20.509	07-0175/Z1	\$ 133,147	\$ 133,147	\$ 133,147	\$ -0-	\$ -0-	\$ -0-
Federal Transit Capital Grants	20.500							
Capital Grant (Novated)		01-0871	140,000	140,000	112,000	28,000	-0-	-0-
Capital Grant (Novated)		02-0070	42,834	42,834	34,267	8,567	-0-	-0-
Capital Grant (Novated)		03-0532	57,500	57,500	46,000	11,500	-0-	-0-
Capital Grant (Novated)		05-0417	100,770	100,770	80,616	20,154	-0-	-0-
Capital Grant		06-0554	237,080	209,804	167,843	41,961	-0-	27,276
Capital Grant		07-0175/Z2	235,015	4,719	4,719	-0-	-0-	230,296
Total Capital Grants			813,199	555,627	445,445	110,182	-0-	257,572
Michigan Department of Transportation								
Non Urban Operating Assistance - Act 51 Current Year	N/A	N/A	305,043	305,043	-0-	305,043	-0-	-0-
Total Federal and State Grants			\$1,251,389	\$ 993,817	\$ 578,592	\$ 415,225	\$ -0-	\$ 257,572

BENZIE TRANSPORTATION AUTHORITY  
 EXPENSES BY CONTRACT AND GENERAL OPERATIONS  
 YEAR ENDED SEPTEMBER 30, 2007

	<u>Section 5311</u>	<u>Total</u>
Labor	\$ 449,916	\$ 449,916
Fringe benefits	101,493	101,493
Services	15,770	15,770
Materials and supplies consumed	165,520	165,520
Utilities	16,866	16,866
Casualty and liability costs	13,968	13,968
Miscellaneous	23,905	23,905
Depreciation	<u>42,723</u>	<u>42,723</u>
Total	830,161	830,161
Less		
Ineligible Expenses	<u>40,321</u>	<u>40,321</u>
Total Eligible Expenses	<u>\$ 789,840</u>	<u>\$ 789,840</u>

BENZIE TRANSPORTATION AUTHORITY  
NET ELIGIBLE COSTS COMPUTATIONS OF GENERAL OPERATIONS  
YEAR ENDED SEPTEMBER 30, 2007

	2007-0175/Z1 Federal Section 5311	State Operating Assistance
Expenses		
Labor	\$ 449,916	\$ 449,916
Fringe benefits	101,493	101,493
Services	15,770	15,770
Materials & supplies	165,520	165,520
Utilities	16,866	16,866
Casualty & liability costs	13,968	13,968
Miscellaneous	23,905	23,905
Depreciation	<u>42,723</u>	<u>42,723</u>
Total Expense	830,161	830,161
Less Ineligible Expenses		
Depreciation	40,302	40,302
MPTA Dues	<u>19</u>	<u>19</u>
Net Eligible Expenses	<u>\$ 789,840</u>	<u>\$ 789,840</u>
Maximum Section 5311 Reimbursement (17.0%) not to exceed \$133,147	<u>\$ 133,147</u>	
State Operating Assistance		<u>\$ 305,043</u>

Federal Section 5311 expenses are only those expenses incurred in providing service to nonurbanized areas. The State Operating Assistance is computed at 38.6208% of the current eligible expenses for the year ended September 30, 2007.

BENZIE TRANSPORTATION AUTHORITY  
DETAIL OF INELIGIBLE EXPENSES  
YEAR ENDED SEPTEMBER 30, 2007

Depreciation

Depreciation accrued from assets funded by capital grants is considered ineligible in accordance with the Bureau of Passenger Transportation's Revenue and Expense Manual.

MPTA Dues

7.05% of MPTA dues are considered ineligible for reimbursement under State Operating Assistance and Section 5311 Operating Assistance Programs for the year ended September 30, 2007.

Capital Grants

Capital grant funds used to pay operating expenses are required to be treated as ineligible for calculating state and federal operating assistance. During the current year, the Transit did not have any of these type of expenses.

BENZIE TRANSPORTATION AUTHORITY  
MILEAGE DATA - UNAUDITED  
YEAR ENDED SEPTEMBER 30, 2007

<u>DEMAND RESPONSE</u>	<u>Public Transportation Mileage</u>
1st Quarter	-0-
2nd Quarter	72,854
3rd Quarter	87,463
4th Quarter	<u>147,582</u>
TOTAL OPERATIONS	<u><u>307,899</u></u>

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



## James M. Anderson, P.C.

CERTIFIED PUBLIC ACCOUNTANT

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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**

November 16, 2007

Benzie Transportation Authority  
12762 Honor Highway  
Honor, MI 49640

#### Compliance

I have audited the compliance of the Benzie Transportation Authority 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 its major federal program for the year ended September 30, 2007. Benzie Transportation Authority's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of Benzie Transit Authority's management. My responsibility is to express an opinion on the Benzie Transportation Authority's compliance based on my audit.

I conducted my 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 I 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 Benzie Transportation Authority's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination of Benzie Transportation Authority's compliance with those requirements.

In my opinion, Benzie Transportation Authority complied in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended September 30, 2007.

MEMBER MACPA and AICPA

### Internal Control Over Compliance

The management of Benzie Transportation Authority 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 my audit, I considered Benzie Transportation Authority's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, I do not express an opinion on the effectiveness of the Authority's internal control over compliance.

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

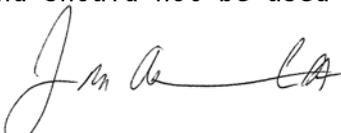
A *material weakness* is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood that a material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

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

### Schedule of Expenditures of Federal Awards

I have audited the financial statements of Benzie Transportation Authority as of and for the year ended September 30, 2007, and have issued my report thereon dated November 16, 2007. My audit was performed for the purpose of forming opinions on the financial statements that collectively comprise Benzie Transportation Authority's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Directors, management, and 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.



JAMES M. ANDERSON, P.C.  
CERTIFIED PUBLIC ACCOUNTANT

BENZIE TRANSPORTATION AUTHORITY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2007

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>State Grantor Number</u>	<u>Program or Award Amount</u>	<u>Accrued (Deferred) Revenue October 1, 2006</u>	<u>Current Year Cash Receipts Net of Repayment</u>	<u>Current Year Expenditures</u>	<u>Accrued (Deferred) Revenue September 30, 2007</u>
<u>U.S. Department of Transportation</u>							
Non Urbanized Area Formula Program							
Passed through Michigan Department of Transportation							
Operating Assistance - Section 5311	20.509	07-0175/Z1	\$ 133,147	\$ -0-	\$ 90,243	\$ 133,147	\$ 42,904
Total Operating Assistance			<u>133,147</u>	<u>-0-</u>	<u>90,243</u>	<u>133,147</u>	<u>42,904</u>
Federal Transit - Capital Investment Grants							
Passed through Michigan Department of Transportation							
Capital Assistance	20.500	01-0871	112,000	-0-	112,000	112,000	-0-
Capital Assistance	20.500	02-0070	34,267	-0-	34,267	34,267	-0-
Capital Assistance	20.500	03-0532	46,000	-0-	46,000	46,000	-0-
Capital Assistance	20.500	05-0417	80,616	-0-	80,616	80,616	-0-
Capital Assistance	20.500	06-0554	189,664	-0-	167,843	167,843	-0-
Capital Assistance	20.500	07-0175/Z2	192,484	-0-	-0-	4,719	4,719
Total Capital Assistance				<u>-0-</u>	<u>440,726</u>	<u>445,445</u>	<u>4,719</u>
TOTAL FEDERAL FINANCIAL ASSISTANCE				<u>\$ -0-</u>	<u>\$ 530,969</u>	<u>\$ 578,592</u>	<u>\$ 47,623</u>

BENZIE TRANSPORTATION AUTHORITY  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2007

NOTE A - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Benzie Transportation Authority and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.



## James M. Anderson, P.C.

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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**

November 16, 2007

Board of Directors  
Benzie Transportation Authority  
12762 Honor Highway  
Honor, MI 49640

Dear Board:

I have audited the accompanying financial statements of the business-type activity and major fund which collectively comprise the basic financial statements of the Benzie Transportation Authority for the year ended September 30, 2007, and issued my report thereon dated November 16, 2007. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

#### Internal Control Over Financial Reporting

In planning and performing my audit, I considered the Benzie Transportation Authority's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of Benzie Transportation Authority's internal control over financial reporting.

My 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, I identified certain deficiencies in internal control over financial reporting that I consider to be significant deficiencies.

MEMBER MACPA and AICPA

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 Benzie Transportation Authority's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Authority's financial statements that is more than inconsequential will not be prevented or detected by the Authority's internal control. I consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting.

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

My consideration of 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, I believe that none of the significant deficiencies described above is a material weakness.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Benzie Transportation Authority's financial statements are free of material misstatement, I 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 my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

The Authority's response to the findings identified in my audit are described in the accompanying schedule of findings and questioned costs. I did not audit Benzie Transportation Authority's response and, accordingly, I express no opinions on it.

I noted certain other matters that I reported to management of the Benzie Transportation Authority in a separate letter dated November 16, 2007.

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

A handwritten signature in cursive script, appearing to read "James M. Anderson, P.C.", written in black ink.

JAMES M. ANDERSON, P.C.  
CERTIFIED PUBLIC ACCOUNTANT

BENZIE TRANSPORTATION AUTHORITY  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED SEPTEMBER 30, 2007

The Benzie Transportation Authority was not required to have a Single Audit for the year ended September 30, 2006. Therefore there were no prior audit findings.

BENZIE TRANSPORTATION AUTHORITY  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 FOR THE YEAR ENDED SEPTEMBER 30, 2007

**A. Summary of Auditor's Results**

***Financial Statements***

Type of auditor's report issued:	Unqualified	
Material weakness(es) identified:	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Significant Deficiencies identified that are not considered to be material weaknesses?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
Noncompliance material to financial statements noted?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No

***Federal Awards***

Internal control over major programs:		
Material weakness(es) identified:	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Significant Deficiencies identified that are not considered to be material weaknesses?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No

Type of auditor's report issued on compliance for major programs:	Unqualified	
Any audit findings disclosed that are required to be reported with Section 510(a) of Circular A-133?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No

Identification of major programs:	
<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
20.500	Federal Transit Capital Investment Grants

Dollar threshold used to distinguish between Type A and Type B Programs:	\$300,000
Auditee qualified as low-risk auditee?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No

BENZIE TRANSPORTATION AUTHORITY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2007

**B. Financial Statement Findings**

1) Lack of Adequate Internal Controls

Management is responsible for establishing and maintaining internal controls for the Authority.

At many small governmental units, proper segregation of duties within the accounting department is a challenge for management. The Authority currently does not have effective segregation of duties within the accounting department.

This condition was caused by limited personnel involved in the accounting functions.

The Authority is aware of this limitation, and is in the process of evaluating and implementing new controls to correct or mitigate this situation in the future.

2) Lack of Adequate Controls to Produce Full Disclosure GAAP Basis Financial Statements

All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principals (GAAP). This is a responsibility of the governments's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting).

As is the case with many smaller and medium-sized entities, the government has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the government's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its *external* auditors, who cannot by definition be considered a part of the government's *internal* controls.

This condition was caused by the government's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the government to perform this task internally.

As a result of this condition, the government lacks internal control over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.

BENZIE TRANSPORTATION AUTHORITY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2007

The government has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of government to outsource this task to its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

**B. Federal Award Findings and Questioned Costs**

None



## James M. Anderson, P.C.

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November 16, 2007

Board of Directors  
Benzie Transportation Authority  
12762 Honor Highway  
Honor, MI 49640

I have audited the financial statements of the business-type activity and major fund of the Benzie Transportation Authority for the year ended September 30, 2007, and have issued my report thereon dated November 16, 2007. Professional standards require that I provide you with the following information related to my audit.

### My Responsibility Under U.S. Generally Accepted Auditing Standards and *Government Auditing Standards*

As stated in my engagement letter dated November 13, 2007, my responsibility, as described by professional standards, is to plan and perform my audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting standards. Because an audit is designed to provide reasonable, but not absolute assurance and because I did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by me.

As part of my audit, I considered the internal control of the Benzie Transportation Authority. Such considerations were solely for the purpose of determining my audit procedures and not to provide any assurance concerning such internal control.

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

### Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of my engagement letter, I will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Benzie Transportation Authority 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 the year. I noted no transactions entered into by the Benzie Transportation Authority during the year that were both significant and unusual, and of which, under professional standards, I am required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

MEMBER MACPA and AICPA

#### 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.

#### Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in my judgment, may not have been detected except through my auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on Benzie Transportation Authority's financial reporting process (that is, cause future financial statements to be materially misstated). In my judgment, none of the adjustments I proposed, whether recorded or unrecorded by the Benzie Transportation Authority, either individually or in the aggregate, indicate matters that could have a significant effect on Benzie Transportation Authority's financial reporting process.

#### Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to my satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. I am pleased to report that no such disagreements arose during the course of my 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 applications 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, my professional standards require the consulting accountant to check with me to determine that the consultant has all the relevant facts. To my knowledge, there were no such consultations with other accountants.

#### Issues Discussed Prior to Retention of Independent Auditors

I generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Benzie Transportation Authority's auditor. However, these discussions occurred in the normal course of my professional relationship and my responses were not a condition to my retention.

Difficulties Encountered in Performing the Audit

I encountered no significant difficulties in dealing with management in performing my audit.

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

A handwritten signature in cursive script, appearing to read "James M. Anderson, P.C.", written in black ink.

James M. Anderson, P.C.  
Certified Public Accountant

**BENZIE TRANSPORTATION AUTHORITY**

**REPORT TO MANAGEMENT**

**SEPTEMBER 30, 2007**



## James M. Anderson, P.C.

CERTIFIED PUBLIC ACCOUNTANT

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November 16, 2007

Board of Directors  
Benzie Transportation Authority  
12762 Honor Highway  
Honor, MI 49640

In planning and performing my audit of the financial statements of the Benzie Transportation Authority, as of and for the year ended September 30, 2007, I considered the Authority's accounting, operational, and internal control procedures to determine the nature and extent of my audit testing for the purpose of expressing an opinion on the financial statements of the Authority and not to provide assurance on the procedures themselves.

I did however, during the course of my audit, become aware of certain matters that are opportunities for enhancing those procedures or controls. The memorandum that accompanies this letter summarizes my comments and suggestions regarding those matters. This letter does not affect my report dated November 16, 2007, on the financial statements of the Benzie Transportation Authority.

I have already discussed these comments and suggestions with the Authority's personnel, and I will be pleased to discuss them in further detail at your convenience, and/or to perform any additional studies of these matters, should you so desire.

Sincerely,

A handwritten signature in blue ink, appearing to read 'J M Anderson', written over a light blue rectangular background.

JAMES M. ANDERSON, P.C.  
CERTIFIED PUBLIC ACCOUNTANT

**BENZIE TRANSPORTATION AUTHORITY  
COMMENTS AND RECOMMENDATIONS**

**Debit Card**

Debit cards are necessary for some on line and phone purchases and should be limited to those circumstances. The Authority had purchases during the year that could have been paid by check but were paid with a debit card. I recommend that the debit card usage be limited to vendors that will not allow orders without advance payment. This enhances the internal controls and allows a better audit trail.

**Disbursements**

The Transit Director has authority to make purchases of up to \$15,000 without board approval. I recommend that the board be presented a list of purchases or register for purchases made without prior approval of the board and formally approve them as part of each month's board meeting. This will ensure that all expenditures are ultimately approved by the board and enhance internal controls.

In addition, each invoice should include the Director's approval, the account number, and check number on it. During my testwork, I found this was not being done consistently.

**Payroll**

Each employee is required to use a time card for tracking their daily hours. However, it is not required that the employee sign the card. I recommend that the employee sign their card prior to processing the pay checks. This enhances the internal control and requires the employee to take responsibility for the reported time. It is my understanding that the Transit Authority has already implemented this procedure.