

MANISTEE COUNTY TRANSPORTATION, INC.

MANISTEE COUNTY, MICHIGAN

AUDITED FINANCIAL STATEMENTS

SEPTEMBER 30, 2007

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 Manistee County Transportation, Inc.	County Manistee
Fiscal Year End September 30, 2007	Opinion Date March 7, 2008	Date Audit Report Submitted to State March 14, 2008	

We affirm that:

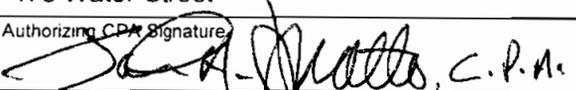
We are certified public accountants licensed to practice in Michigan.

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

- YES NO **Check each applicable box below.** (See instructions for further detail.)
- 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) Kalcher, Vanderwal & Torrey, P.C.		Telephone Number (231) 723-6275	
Street Address 475 Water Street		City Manistee	State MI
Zip 49660		License Number 16245	
Authorizing CPA Signature 		Printed Name John A. Spratto, C.P.A.	

MANISTEE COUNTY TRANSPORTATION, INC.
MANISTEE, MICHIGAN
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**KALCHER
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TRAVERSE CITY
MANISTEE

CERTIFIED PUBLIC ACCOUNTANTS

Of Counsel:
LEONARD R. KALCHER, C.P.A.

INDEPENDENT AUDITOR'S REPORT

March 7, 2008

Board of Directors
Manistee County Transportation, Inc.
180 Memorial Drive
Manistee, Michigan 49660

We have audited the accompanying financial statements of Manistee County Transportation, Inc. (a non-profit Michigan Corporation) as of and for the year ended September 30, 2007, as listed in the Table of Contents. These financial statements are the responsibility of the company'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, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the Michigan Department of Treasury "Audit Guide for Transportation Authorities and Agencies in Michigan." Those standards, and audit guide, 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 Manistee County Transportation, Inc., at September 30, 2007, and the results of its operations and the changes in financial position 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 our report dated March 7, 2008 on our consideration of Manistee County Transportation, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

FOUR SEVENTY-FIVE WATER STREET • P.O. BOX TEN • MANISTEE, MI 49660
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Members:

American Institute of Certified Public Accountants • Michigan Association of Certified Public Accountants

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Manistee County Transportation, Inc.'s basic financial statements. The accompanying supplemental material presented in Schedules 1 through 6 has been subjected to the audit procedures applied in connection with our audit of those financial statements. This information, while not considered necessary for the fair presentation of the financial statements, results of operations and changes in financial position of the corporation, is, in our opinion, fairly stated in all material respects when considered in relation to the financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of Manistee County Transportation, Inc. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Kalcher, Vandewerdt & Toney, P.C.

Certified Public Accountants

MANISTEE COUNTY TRANSPORTATION, INC.
MANAGEMENT DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED SEPTEMBER 30, 2007

Our discussion and analysis of the Manistee County Transportation, Inc. (MCTI) financial statements presents management's overview of our financial performance for the fiscal year ended September 30, 2007. This section should be read in conjunction with the financial statements which follow this section.

Financial Highlights

Total Assets at September 30, 2007 were \$3,399,859, an increase of \$1,255,087 from September 30, 2006.

Operating revenue increased by 11.9% over the previous year.

Total Change in Net Assets for the year ended September 30, 2007 was \$579,128.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to our basic financial statements. The notes to the financial statements also contain more detail on some of the information presented in the financial statements. The financial statements report information using accounting methods similar to those used by private sector companies. These statements offer short-term and long-term financial information about our activities. The Statement of Net Assets presents information on all of our assets and liabilities, with the difference between the two reported as net assets. Over time, increases and decreases in net assets may serve as a useful indicator of whether the financial position of MCTI is improving or deteriorating. The Statement of Revenues, Expenses and Changes in Net Assets presents information showing how our net assets changed during the fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are recorded in this statement for some items that will only result in cash flows in future fiscal periods.

Financial Analysis

For the year ended September 30, 2007, assets exceeded liabilities by \$2,106,881. The following is a summary of MCTI's net assets.

MANISTEE COUNTY TRANSPORTATION, INC.
MANAGEMENT DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED SEPTEMBER 30, 2007

Summary Statement of Net Assets

	2007	2006
Assets:		
Current Assets	\$ 1,596,414	\$ 826,126
Capital Assets (Net)	1,283,015	885,546
Other Assets	520,430	433,100
Total Assets	\$ 3,399,859	\$ 2,144,772
 Liabilities:		
Current Liabilities	\$ 719,346	\$ 131,984
Long-term Liabilities	573,632	483,329
Total Liabilities	\$ 1,292,978	\$ 615,313
 Net Assets:		
Invested in Capital Assets	\$ 1,283,015	\$ 885,546
Unrestricted	823,866	643,913
Total Net Assets	\$ 2,106,881	\$ 1,529,459
 Total Liabilities and Net Assets	\$ 3,399,859	\$ 2,144,772

Total Net Assets for MCTI increased by \$579,128 during fiscal year 2007. The following is a summary Statement of Revenues, Expenses and Changes in Net Assets.

MANISTEE COUNTY TRANSPORTATION, INC.
MANAGEMENT DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED SEPTEMBER 30, 2007

Summary Statement of Revenues, Expenses and Changes in Net Assets

	2007	2006
Operating Revenue	\$ 344,250	\$ 307,523
Operating Expenses	1,580,131	1,458,928
Operating Loss	\$ (1,235,881)	\$ (1,151,405)
Taxes	\$ 334,151	\$ 295,474
Other Nonoperating Revenue	746,924	711,102
Total Nonoperating Revenue	\$ 1,081,075	\$ 1,006,576
Net (Loss)	\$ (154,806)	\$ (144,829)
Capital Grants	733,934	18,079
Change in Net Assets	\$ 579,128	\$ (126,750)

Operating revenue increased 11.9% over fiscal year 2006. This result was due mainly to increases in farebox revenue and local assistance.

MANISTEE COUNTY TRANSPORTATION, INC.
MANAGEMENT DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED SEPTEMBER 30, 2007

Operating Revenues

The following table shows 2007 revenue compared to 2006:

<u>REVENUES</u>	2007 AMOUNT	2007 PERCENT OF TOTAL	2006 AMOUNT	2006 PERCENT OF TOTAL
Operating Revenue	\$ 344,250	24.15%	\$ 307,523	23.40%
Interest Income	25,337	1.78%	17,165	1.31%
Revenue Sharing - Manistee County	15,013	1.05%	13,414	1.02%
Other Grant - Manistee County	5,575	0.40%	5,945	0.45%
Property Tax	334,151	23.44%	295,474	22.48%
Federal Assistance	212,750	14.93%	193,683	14.74%
State Assistance	483,641	33.93%	479,644	36.50%
Gain on Sale of Assets	4,608	0.32%	1,251	0.10%
Total Revenue	\$ 1,425,325	100.00%	\$ 1,314,099	100.00%
 <u>CAPITAL CONTRIBUTIONS</u>				
Federal	\$ 592,149	80.68%	\$ 14,464	80.00%
State	141,785	19.32%	3,616	20.00%
	\$ 733,934	100.00%	\$ 18,080	100.00%

The federal reimbursement rate was 17% for eligible expenditures in 2007, the same as in 2006. The State reimbursement rate was 38.6208% for fiscal year 2007. In 2006 MCTI received the state mandated floor amount of \$479,644.

Operating Expenses

MCTI's expenses may be reviewed in two formats:

Operating Expense by Department - The department describes the major function areas, and includes:

Operations - Responsible for all on-street services, including operators and dispatchers.

Maintenance - Responsible for providing vehicles (including fuel, parts and cleaning) and facilities.

Administration - All other functions including management, planning, marketing, information systems, purchasing and finance.

MANISTEE COUNTY TRANSPORTATION, INC.
MANAGEMENT DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED SEPTEMBER 30, 2007

The following table shows the expenses for 2007 compared to 2006 by department:

<u>DEPARTMENT</u>	2007		2006	
	<u>2007</u> <u>AMOUNT</u>	<u>PERCENT</u> <u>OF</u> <u>TOTAL</u>	<u>2006</u> <u>AMOUNT</u>	<u>PERCENT</u> <u>OF</u> <u>TOTAL</u>
Operations	\$ 1,084,411	68.63%	\$ 982,136	67.32%
Maintenance	189,911	12.02%	179,405	12.30%
Administration	305,809	19.35%	297,387	20.38%
Total Expenses	\$ 1,580,131	100.00%	\$ 1,458,928	100.00%

Operating Expense by Object - The object is the classification of expenses by type of item. The following table shows expenses for 2007 compared to 2006 by object:

<u>OBJECT</u>	2007		2006	
	<u>2007</u> <u>AMOUNT</u>	<u>PERCENT</u> <u>OF</u> <u>TOTAL</u>	<u>2006</u> <u>AMOUNT</u>	<u>PERCENT</u> <u>OF</u> <u>TOTAL</u>
Wages and Benefits	\$ 990,306	62.67%	\$ 897,200	61.50%
Services	19,755	1.25%	16,501	1.13%
Supplies and Materials	133,833	8.47%	113,370	7.77%
Utilities	23,911	1.51%	26,234	1.80%
Casualty and Liability	72,600	4.60%	77,162	5.28%
Miscellaneous	9,476	0.60%	8,295	0.57%
Taxes and Fees	154	0.01%	85	0.01%
Depreciation	330,096	20.89%	320,081	21.94%
	\$ 1,580,131	100.00%	\$ 1,458,928	100.00%

MANISTEE COUNTY TRANSPORTATION, INC.
MANAGEMENT DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED SEPTEMBER 30, 2007

Capital Assets

MCTI's investment in capital assets as of September 30, 2007, amounted to \$1,283,015 net of accumulated depreciation. Capital assets consist of buses, land, buildings, other vehicles and equipment.

Additional information on MCTI's capital assets can be found in the notes to the financial statements.

Economic Factors and Future Outlook

At the time these financial statements were prepared and audited, MCTI was aware of the following items that could significantly affect its financial health in the future:

With the current economic condition in the country, and especially in the State of Michigan, uncertainty surrounds the level at which federal and state operating assistance grants will be funded.

As with other employers, MCTI continues to face a rapid increase in rates paid for employee benefits, particularly for health insurance.

MCTI has a contract with the vehicle operators, represented by the United Steelworkers, which runs through January 10, 2010.

Projected increases in the price of fuel will provide MCTI with both operational challenges and ridership opportunities.

Request for Information

This financial report is designed to provide a general overview of MCTI's finances for all those who have an interest in our finances. Questions concerning any of the information presented in this report or requests for additional financial information should be addressed to Manistee County Transportation, Inc., 180 Memorial Drive, Manistee, Michigan 49660.

MANISTEE COUNTY TRANSPORTATION, INC.
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2007

ASSETS

Current Assets

Cash and Cash Equivalents	\$ 560,266
Accounts Receivable	28,196
Property Taxes Receivable	257,144
Due From Other Governments	733,977
Inventories	3,255
Prepaid Expenses	13,576
Total Current Assets	<u>\$ 1,596,414</u>

Property, Plant & Equipment

Land	\$ 55,038
Vehicles	3,066,963
Equipment	200,871
Leasehold Improvements	98,539
	<u>\$ 3,421,411</u>
Less: Accumulated Depreciation	<u>(2,138,396)</u>
Net Property, Plant & Equipment	<u>\$ 1,283,015</u>

Other Assets

Deferred Compensation Plan Assets	<u>\$ 520,430</u>
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TOTAL ASSETS	<u><u>\$ 3,399,859</u></u>
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LIABILITIES AND NET ASSETS

Current Liabilities

Accounts Payable	\$ 676,748
Due to Other Governments	12,260
Accrued Salaries and Wages	29,497
Various Payroll Withholdings	841
Total Current Liabilities	<u>\$ 719,346</u>

Long-term Liabilities

Compensated Absences	\$ 53,202
Deferred Compensation	520,430
Total Long-term Liabilities	<u>\$ 573,632</u>

Total Liabilities	<u>\$ 1,292,978</u>
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Net Assets

Invested in Capital Assets	1,283,015
Unrestricted	<u>\$ 823,866</u>
Total Net Assets	<u>\$ 2,106,881</u>

TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 3,399,859</u></u>
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The notes to the financial statements are an integral part of these statements.

MANISTEE COUNTY TRANSPORTATION, INC.
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED SEPTEMBER 30, 2007

<u>Operating Revenues: (Schedule 1)</u>		\$ 344,250
<u>Operating Expenses: (Schedule 2)</u>		<u>1,580,131</u>
<u>Operating Loss</u>		\$ (1,235,881)
<u>Non-Operating Revenues (Schedule 3)</u>		<u>1,081,075</u>
Loss before Capital Contributions		<u>(154,806)</u>
<u>Capital Contributions</u>		
Federal Financial Assistance		\$ 592,149
State of Michigan		<u>141,785</u>
Total Capital Contributions		<u>\$ 733,934</u>
<u>Increase in Net Assets</u>		\$ 579,128
<u>Net Assets - October 1, 2006</u>	\$ 1,529,459	
Prior Period Adjustments	<u>(1,706)</u>	
<u>Adjusted Net Assets - October 1, 2006</u>		<u>1,527,753</u>
<u>Net Assets - September 30, 2007</u>		<u><u>\$ 2,106,881</u></u>

The notes to the financial statements are an integral part of these statements.

MANISTEE COUNTY TRANSPORTATION, INC.
 STATEMENTS OF CASH FLOWS
 FOR THE YEAR ENDED SEPTEMBER 30, 2007

	2007
<u>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</u>	
Cash Flows from Operating Activities:	
Cash Received from Customers	\$ 341,341
Cash Payments to Suppliers for Goods and Services	(596,690)
Cash Payments to Employees for Services	(651,600)
	(906,949)
Net Cash Used by Operating Activities	\$ (906,949)
Cash Flows from Non-Capital Financing Activities:	
Tax Levy Proceeds	\$ 323,812
State Operating Grants Received	418,661
Federal Operating Grants Received	209,807
	952,280
Net Cash Provided by Non-Capital Financing Activities	\$ 952,280
Cash Flows from Capital and Related Financing Activities:	
Acquisition of Capital Assets	\$ (84,385)
Capital Grants Received	47,725
Proceeds from the Sale of Assets	4,608
	(32,052)
Net Cash Used for Capital and Related Financing Activities	\$ (32,052)
Cash Flows from Investing Activities:	
Interest Received	\$ 25,337
Net Cash Provided by Investing Activities	\$ 25,337
Net Increase in Cash and Cash Equivalents	\$ 38,616
<u>CASH AND CASH EQUIVALENTS - Beginning of Year</u>	\$ 521,650
<u>CASH AND CASH EQUIVALENTS - End of Year</u>	\$ 560,266

The notes to the financial statements are an integral part of these statements.

MANISTEE COUNTY TRANSPORTATION, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED SEPTEMBER 30, 2007

	<u>2007</u>
<u>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</u>	
Operating Loss	<u>\$ (1,235,881)</u>
Adjustments to Reconcile Operating Income To Net Cash Provided by Operating Activities	
Depreciation	\$ 330,096
Prior Period Adjustment	(1,706)
(Increase) Decrease in Current Assets	
Accounts Receivable	(1,242)
Inventories	3,225
Prepaid Expense	(13,576)
Increase (Decrease) in Current Liabilities	
Accounts Payable	5,344
Accrued Liabilities	3,818
Compensated Absences	<u>2,973</u>
Total Adjustments	<u>\$ 328,932</u>
NET CASH USED BY OPERATING ACTIVITIES	<u><u>\$ (906,949)</u></u>

On the Statement of Net Assets, a total of \$686,209 for Capital Asset Reimbursement is included in Due From Other Governments which is not included in the capital financing section of the Statement of Cash Flows. There is also \$643,180 for buses included in Net Property, Plant and Equipment as well as Accounts Payable on the Statement of Net Assets, which is not included on the Statement of Cash Flows.

These transactions did not result in cash receipts or payments in the period.

The notes to the financial statements are an integral part of these statements.

MANISTEE COUNTY TRANSPORTATION, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007

Note 1 - Description of Operations

Manistee County Transportation, Inc., was established March 3, 1975, as a Michigan non-profit corporation. The Company contracts with the County of Manistee, Michigan, to provide public transportation services to the residents of the County of Manistee, Michigan, under the joint auspices of the Urban Mass Transportation Division of the Federal Department of Transportation and the Michigan Department of Transportation. The entity is governed by a seven (7) member board which in turn appoints the executive director.

Note 2 - Summary of Significant Accounting Policies

The basic financial statements of Manistee County Transportation, Inc. have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Authority's accounting policies are described below:

In June 1999, the GASB issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. Some of the significant changes in the Statement include the following:

- A Management Discussion and Analysis (MD&A) section providing an analysis of the Authority's overall financial position and results of operations.
- Financial Statements prepared using full accrual accounting for all of the Authority's activities.
- A change in the fund financial statements to focus on the major funds.

These and other changes are reflected in the accompanying financial statements (including notes to financial statements).

The following is a summary of the significant accounting policies of Manistee County Transportation, Inc.

Basis of Accounting

The government-wide financial statements of Manistee County Transportation, Inc. are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The Authority utilizes one enterprise fund to account for its business-type activities.

MANISTEE COUNTY TRANSPORTATION, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007

Note 2 - Summary of Significant Accounting Policies - continued

Basis of Accounting - continued

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

Enterprise funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a enterprise fund's principal ongoing operations. The principal operating revenues of the Authority enterprise fund are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Enterprise funds are used to account for those operations that are financed and operated in a manner similar to private business or where the board has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability.

When both restricted and unrestricted resources are available for use, it is the Authority's policy to use the restricted resources first, then unrestricted resources as they are needed.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of Manistee County Transportation, Inc. The government-wide financial statements categorize primary activities as either governmental or business type. Manistee County Transportation, Inc.'s activities are classified as business-type activities.

In the government-wide statement of net assets, the business-type activity is reported on a full accrual, economic resource basis, which recognizes as long-term assets and receivables as well as long-term debt and obligations. Manistee County Transportation, Inc.'s net assets are reported in two parts – invested in capital assets and unrestricted net assets. Manistee County Transportation, Inc. does not have any outstanding debt obligations.

This government-wide focus is more on the sustainability of the Manistee County Transportation, Inc. as an entity and the change in its net assets resulting from the current year's activities.

Inventories

Inventories of replacement parts are valued at the lower of cost or market using the first-in, first-out method. Office supplies are expensed when purchased and therefore are not included in inventories.

MANISTEE COUNTY TRANSPORTATION, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007

Note 2 - Summary of Significant Accounting Policies - continued

Capital Assets and Depreciation

Capital Assets are defined by the transit authority as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Costs relating to maintenance and repairs are charged to expense, whereas those for renewal, and betterments, when significant in amount, are capitalized.

Land is shown at cost.

All vehicles are shown at cost. Depreciation is computed on the straight-line method with useful lives of four (4) years for the service vehicles and five (5) to twelve (12) years for the buses.

Leasehold improvements and equipment are shown at cost. Depreciation is computed on the straight-line method with useful lives of from five (5) to twelve (12) years for equipment and ten (10) years for leasehold improvements in accordance with the Michigan Department of Transportation "Replacement Schedule for transit agencies."

The eligible depreciation of \$4,521 (\$330,096 total depreciation less ineligible depreciation of \$325,575) 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.

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.

Cash Equivalents

For purposes of the statement of cash flows, the corporation considers all highly liquid investments with an original maturity of six months or less to be cash equivalents.

Advertising

The Corporation uses advertising to promote its operations. The cost of advertising is expensed as incurred. During the year ended September 30, 2007, advertising cost totaled \$4,809.

Note 3 - Concentration of Credit Risk

The carrying amounts of the corporation's deposits as reflected in the accounts of the banks (without recognition of checks written but not yet cleared or of deposits in transit) were \$582,686 at September 30, 2007, of which \$100,000 was covered by federal depository insurance and \$482,686 was uninsured and uncollateralized.

MANISTEE COUNTY TRANSPORTATION, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007

Note 3 - Concentration of Credit Risk - continued

State statutes permit surplus public funds to be invested as follows:

- a. In bonds and other direct obligations of the United States or an Agency or instrumentality of the United States.
- b. In certificates of deposits, savings accounts, or depository receipts of a bank, but only if the financial institution complies with certain requirements included within the act.
- c. In commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase.
- d. Obligations of the State of Michigan or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service.
- e. Mutual funds registered under the Investment Company Act of 1940, Title I Chapter 686.54 Stat.739, 15 U.S.C. 80a-1 and 80a-3 and 80a-4 with authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- f. Obligations described in subdivision 9(a) through (g) if purchased through an inter-local agreement under the Urban Cooperation Act of 1967, 1967 PA 7, MCL 124.501 to 124.512.
- g. Investment pools organized under the Surplus Funds Investment Pool Act, 1982 PA 367, MCL 129.11 to 129.118.
- h. Investment pools organized under the Local Government Investment Pool Act, 1985 PA 121, MCL 129.141 to 129.150.

Note 4 - Due To/From Other Governmental Units

At year end the corporation had grants receivable from Federal and State agencies as follows:

MDOT No. 2002-0063/25/R1 - Capital Grant	\$ 30,290
MDOT No. 2003-0543/A1 - Capital Grant	656,537
MDOT No. 2002-0063-Z6 - Capital Grant	2,880
Federal Operating Assistance - Fiscal Year 2002	13,154
Federal Operating Assistance - Fiscal Year 2006	10,015
Federal Operating Assistance - Fiscal Year 2007	21,101
	<u>\$ 733,977</u>

MANISTEE COUNTY TRANSPORTATION, INC.
 NOTES TO FINANCIAL STATEMENTS
 SEPTEMBER 30, 2007

Note 4 - Due To/From Other Governmental Units - continued

At year end the corporation had grants payable to Federal and State agencies as follows:

State Operating Assistance - Fiscal Year 2007	\$ 1,050
Federal Operating Assistance - Fiscal Year 2003	7,656
Federal Operating Assistance - Fiscal Year 2004	695
Federal Operating Assistance - Fiscal Year 2005	2,859
	\$ 12,260

Note 5 - Changes in Capital Assets

Capital Asset Activity for the year ended September 30, 2007 is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Business-Type Activities</u>				
Capital Assets Not Being Depreciated:				
Land	\$ 55,038	\$ -	\$ -	\$ 55,038
Capital Assets Being Depreciated:				
Leasehold Improvements	\$ 98,539	\$ -	\$ -	\$ 98,539
Buses and Vehicles	2,439,454	702,553	75,044	3,066,963
Equipment	178,840	25,012	2,981	200,871
Total Capital Assets Being Depreciated	\$ 2,716,833	\$ 727,565	\$ 78,025	\$ 3,366,373
Less: Accumulated Depreciation For:				
Leasehold Improvements	\$ 36,823	\$ 7,042	\$ -	\$ 43,865
Buses and Vehicles	1,673,595	315,582	75,044	1,914,133
Equipment	175,907	7,472	2,981	180,398
Total Accumulated Depreciation	\$ 1,886,325	\$ 330,096	\$ 78,025	\$ 2,138,396
Net Capital Assets Being Depreciated	830,508	397,469	-	1,227,977
Net Capital Assets of Business Type Activities	\$ 885,546	\$ 397,469	\$ -	\$ 1,283,015

MANISTEE COUNTY TRANSPORTATION, INC.
 NOTES TO FINANCIAL STATEMENTS
 SEPTEMBER 30, 2007

Note 5 - Changes in Capital Assets - continued

Major classes of property and equipment consist of the following:

	Purchased With Local Authority Funds	Purchased With Capital Grants	Total
Land	\$ -	\$ 55,038	\$ 55,038
Leasehold Improvements	25,110	73,429	98,539
Buses and Vehicles	15,026	3,051,937	3,066,963
Equipment	10,232	190,639	200,871
	<u>\$ 50,368</u>	<u>\$ 3,371,043</u>	<u>\$ 3,421,411</u>
Less: Accumulated Depreciation	<u>(40,853)</u>	<u>(2,097,543)</u>	<u>(2,138,396)</u>
Net Property and Equipment	<u>\$ 9,515</u>	<u>\$ 1,273,500</u>	<u>\$ 1,283,015</u>

Disposition of assets acquired with Federal and State money require prior approval from the Michigan Department of Transportation.

Note 6 - Deferred Compensation Plan

Manistee County Transportation, Inc. offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all permanent employees and to those independent contractors who are performing services for the corporation, permits them to defer a portion of their salary until future years. The deferred compensation is not available to the plan participants until termination, retirement, death or unforeseeable emergency.

All assets and income of the plan are held in trust for the exclusive benefit of the participants and their beneficiaries.

The plan assets are displayed in the financial statements. Further, the plan is administered by Manistee County Transportation, Inc.

A summary of the plan for the year ended September 30, 2007 is as follows:

Balance - September 30, 2006	\$ 433,100
Employee Contributions	473
Employer Contributions	41,045
Net Investment Gain	71,812
Payments to Eligible Participants	<u>(26,000)</u>
Balance - September 30, 2007	<u>\$ 520,430</u>

MANISTEE COUNTY TRANSPORTATION, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007

Note 6 - Deferred Compensation Plan - continued

Investments in the plan are reported at market. Market value of the investment portfolio at September 30, 2007 and 2006 was \$520,430 and \$433,100 respectively.

Manistee County Transportation, Inc. does not use derivative instruments or products in their deferred compensation plan investment portfolio.

Note 7 - Commitments

The physical premises occupied by Manistee County Transportation, Inc. are owned by the County of Manistee. The deed states that the building is to be used exclusively by Manistee County Transportation, Inc. There is currently no lease cost incurred for the use of the building however, Manistee County Transportation, Inc., is responsible for the operation and maintenance of the building.

The property was originally purchased in 1979 by the County of Manistee with a grant from the Michigan Department of Transportation (MDOT). Under the terms of the grant the property is to be used exclusively for public transportation with MDOT retaining its proportionate interest in the property in the event the property is sold or ceased to be used for public transportation.

Note 8 - County Tax Levy

Manistee County voters approved a five year millage request in 1996 which provides a tax levy of .33 mills based on the County equalized valuation to be used for the operations of Manistee County Transportation, Inc.

In August 2006 this millage was renewed by the Manistee County voters for a seven year period covering the years 2006 through 2013.

Note 9 - Contingent Liability

In 1996, TES Filer City Station (Tondu) a Manistee County taxpayer, filed a petition with the Michigan Tax Tribunal contesting the 1993, 1994, 1995 and 1996 assessed value, State equalized value and taxable value of its industrial location in Filer Township, Manistee County, Michigan. Tondu has since contested the years 1997 - 2001. If this appeal would have been successful, all of the taxing jurisdictions which benefit from tax dollars generated by Tondu would have been required to pay back these funds and incur a loss of future revenue.

It has been estimated by the County's Equalization director that the potential revenue payback, would have resulted in Manistee County Transportation, Inc., returning \$74,543 for the years 1993 through 2001.

In January of 2004, the Michigan Tax Tribunal ruled against Tondu. During the current fiscal year, the original petition filed for the years 1993 - 1996 was settled. This resulted in Manistee County Transportation, Inc. recording a receivable for taxes and interest of \$8,140 as of September 30, 2007 for their share of the settlement.

MANISTEE COUNTY TRANSPORTATION, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007

Note 10 - Vacation and Sick Leave

Vacation and Sick Leave accumulated during the year is recorded as current fringe benefit expense. As of September 30, 2007, the accumulated sick leave benefits computed for the employees of Manistee County Transportation, Inc., was \$53,202. Accumulated vacation pay included in accrued wages is \$16,331.

Full-time employees and part-time employees receive credit for six discretionary days on January first of each year. Beginning January 1, 1999, these days may not be carried over from one year to the next. Any accumulated discretionary days as of January 1, 1999 may be used, or kept, the same as in the past. However, beginning January 1, 1999 all days must be used in the year they are earned. An employee with an existing accumulation of discretionary days will have the option once each year, to convert any employer specified number of discretionary days to cash at 85% of current value. Employees receive one hundred (100%) percent of sick leave upon retirement or death.

All employees are entitled to vacation time off, with pay, during each year of employment. Holidays, discretionary days, and vacation days shall be deemed as days worked for vacation purposes. Vacation time allowed is based on years of service as follows:

<u>Years of Service</u>	<u>Vacation</u>
1 year but less than 3	1 week
3 years or more but less than 5	2 weeks
5 years but less than 8	3 weeks
8 or more years	4 weeks

Employees shall take vacation if the transportation schedule permits. If the schedule cannot accommodate the requested time off for the employees vacation, the employee shall receive vacation pay for all vacation time earned by December 31. Management may, at its discretion based on scheduling needs, grant employees who have less than one year of service, vacation time-off.

Note 11 - Risk Management

Manistee County Transportation, Inc., is exposed to various risk of loss related to torts; theft of; damage to; and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Corporation is insured through the Michigan Municipal Risk Management Authority which is a public risk pool currently operating as a common risk management and insurance program for Michigan Municipalities. The Corporation pays an annual premium to the Michigan Municipal Risk Management Authority for its insurance coverage.

Note 12 - Informational Summary of Projected Revenues, Expenditures and Method of Financing Capital Projects

Manistee County Transportation, Inc. has prepared and made available for inspection, the informational summary of projected revenues, expenditures and capital projects costs recommended in section 15, subsection 1 (h), PA 1978, as amended, (MCIA 141 435) MSA 5.3228 (35) and as required in Act 51, 10e (1) (d) (vii).

MANISTEE COUNTY TRANSPORTATION, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007

Note 13 - Prior Period Adjustments

During the year ended September 30, 2007 the following adjustments were made to retained earnings as a result of settlements received on prior year contracts as follows:

State Operating Assistance -	
Fiscal Year 2004 Reconciliation	\$ (1,998)
Fiscal Year 2006 Reconciliation	292
Net Prior Period Adjustments	<u>\$ (1,706)</u>

SUPPLEMENTAL
SCHEDULES

MANISTEE COUNTY TRANSPORTATION, INC.
OPERATING REVENUES
FOR THE YEAR ENDED SEPTEMBER 30, 2007

SCHEDULE 1

Operating Revenues:

Demand-Response (Farebox)	\$ 343,036
Auxiliary Transportation Revenue	<u>1,214</u>
	<u>\$ 344,250</u>

MANISTEE COUNTY TRANSPORTATION, INC.
OPERATING EXPENSES
FOR THE YEAR ENDED SEPTEMBER 30, 2007

SCHEDULE 2

	<u>Operations</u>	<u>Maintenance</u>	<u>General Administration</u>	<u>Total System</u>
<u>Labor</u>				
Operator's Salaries and Wages	\$ 357,643	\$ -	\$ -	\$ 357,643
Other Salaries and Wages	59,667	113,113	127,673	300,453
<u>Fringe Benefits</u>	212,280	67,545	52,385	332,210
<u>Services</u>	-	4,233	15,522	19,755
<u>Material and Supplies Consumed</u>				
Fuel and Lubricants	103,117	-	-	103,117
Tires and Tubes	4,089	-	-	4,089
Other Materials and Supplies	17,519	5,020	4,088	26,627
<u>Utilities</u>	-	-	23,911	23,911
<u>Casualty and Liability Costs</u>				
Premiums for Public Liability and Property Damage Insurance	-	-	72,600	72,600
<u>Taxes and Fees</u>	-	-	154	154
<u>Miscellaneous Expense</u>				
Travel and Meetings	-	-	4,820	4,820
Association Dues and Subscriptions	-	-	1,730	1,730
Other Miscellaneous	-	-	2,926	2,926
<u>Depreciation and Amortization</u>	330,096	-	-	330,096
Total Expenses	\$ 1,084,411	\$ 189,911	\$ 305,809	\$ 1,580,131

MANISTEE COUNTY TRANSPORTATION, INC.
SCHEDULE OF NON-OPERATING REVENUES
FOR THE YEAR ENDED SEPTEMBER 30, 2007

SCHEDULE 3

Local Sources

Local Operating Grants

Taxes - Manistee County	\$ 334,151
Revenue Sharing - Manistee County	15,013
Other Grant - Manistee County	<u>5,575</u>
Total Local Services	<u>\$ 354,739</u>

State and Federal Sources

State Operating Grants

Operating Assistance	<u>\$ 483,641</u>
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Federal Operating Grants

R-TAP	\$ 916
D.O.T. Operating Grant - MDOT No. 2007-0250Z1/R1	<u>211,834</u>
Total Federal Operating Grants	<u>\$ 212,750</u>

Total State and Federal Sources	<u>\$ 696,391</u>
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Other Sources

Gain on Sale of Assets	\$ 4,608
Interest Income	<u>25,337</u>
Total Other Sources	<u>\$ 29,945</u>

Total Non-Operating Revenues	<u><u>\$ 1,081,075</u></u>
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MANISTEE COUNTY TRANSPORTATION, INC.
EXPENDITURES OF FEDERAL AND STATE AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2007

SCHEDULE 4

Federal and State Grantor/Pass-Through	Federal CFDA Number	Grant Number	Program Award Amount	Current Year's Expenditures		Prior Years' Expenditures	Award Amount Remaining
				Total	Federal		
Passed Through Michigan Department of Transportation							
Operating Assistance - Section 5311	20.509	2007-0250/Z1/R1	\$ 211,834	\$ 211,834	\$ -	\$ -	\$ -
Rural Transit Assistance Program (RTAP)	20.509	N/A	916	916	-	-	-
Federal Transit Capital Grants:							
Capital Grant -- Section 5309 (80/20)	20.500	2002-0063/Z5/R1 - Budg. Adj. #1	36,408	30,290	24,232	6,058	6,118
Capital Grant -- Section 5311 (80/20)	20.509	2002-0063/Z3	60,000	22,713	18,170	4,543	7,287
Capital Grant -- Section 5311 (80/20)	20.509	2002-0063/Z6	47,500	6,875	5,500	1,375	6,241
Capital Grant -- Section 5311 (100/0)	20.509	2002-0063/Z9	43,200	26,357	26,357	-	16,843
Capital Grant -- Section 5311 (80/20)	20.509	2007-0250/Z3	35,540	-	-	-	35,540
Capital Grant -- Section 5310 (80/20)	20.513	2003-0543/A2	661,260	655,919	524,735	131,184	4,723
Michigan Department of Transportation							
Non - Urban Operating Assistance	N/A	N/A	483,641	483,641	-	483,641	-
			<u>\$ 1,580,299</u>	<u>\$ 1,438,545</u>	<u>\$ 811,744</u>	<u>\$ 626,801</u>	<u>\$ 76,752</u>

MANISTEE COUNTY TRANSPORTATION, INC.
 SCHEDULE OF EXPENSES BY CONTRACT AND GENERAL OPERATIONS
 FOR THE YEAR ENDED SEPTEMBER 30, 2007

SCHEDULE 5

	<u>R-Tap</u>	<u>Operations</u>	<u>Total</u>
Labor	\$ -	\$ 658,096	\$ 658,096
Fringe Benefits	-	332,210	332,210
Services	-	19,755	19,755
Material and Supplies	-	133,833	133,833
Utilities	-	23,911	23,911
Casualty and Liability Costs	-	72,600	72,600
Taxes and Fees	-	154	154
Miscellaneous	916	8,560	9,476
Depreciation	-	330,096	330,096
	<u>\$ 916</u>	<u>\$ 1,579,215</u>	<u>\$ 1,580,131</u>

MANISTEE COUNTY TRANSPORTATION, INC.
NET ELIGIBLE COSTS COMPUTATIONS OF GENERAL OPERATIONS
FOR THE YEAR ENDED SEPTEMBER 30, 2007

SCHEDULE 6

	Federal Section 5311	State Operating Assistance
<u>Expenses</u>		
Labor	\$ 658,096	\$ 658,096
Fringe Benefits	332,210	332,210
Services	19,755	19,755
Materials and Supplies	133,833	133,833
Utilities	23,911	23,911
Casualty and Liability Costs	72,600	72,600
Taxes and Fees	154	154
Miscellaneous	9,476	9,476
Depreciation	330,096	330,096
Total Expenses	\$ 1,580,131	\$ 1,580,131
<u>Less: Ineligible Expenses</u>		
Bad Debt	\$ 663	\$ 663
Depreciation	325,575	325,575
R-Tap Reimbursements	916	916
Allocated Cost - Meeting Room	135	135
Audit Fees	6,200	-
Entertainment	468	468
Interest	1	1
Lobbying Expenses	92	92
Total Ineligible Expenses	\$ 334,050	\$ 327,850
<u>Net Eligible Expenses</u>	\$ 1,246,081	\$ 1,252,281
Maximum Section 5311 Reimbursement (17.0%)	\$ 211,834	
Maximum State Operating Assistance (38.6208%)		\$ 483,641

**KALCHER
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TORREY, P.C.**

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DAVID L. RICHARDS, C.P.A., A.B.V.

TRAVERSE CITY
MANISTEE

CERTIFIED PUBLIC ACCOUNTANTS

Of Counsel:
LEONARD R. KALCHER, C.P.A.

March 7, 2008

Board of Directors
Manistee County Transportation, Inc.
180 Memorial Drive
Manistee, Michigan 49660

As required by the Michigan Department of Transportation, schedules of mileage, vehicle hours and number of passengers transported for the year ended September 30, 2007, are included in this report. The accompanying supplemental information contained in schedules seven (7) and eight (8), for the year ended September 30, 2007, is presented for analytical purposes only and has been compiled by us from information that is the representation of management, without audit or review, and we accordingly do not express an opinion or any other form of assurance on such information.

Kalcher, Vanderwal & Torrey, P.C.
Certified Public Accountants

MANISTEE COUNTY TRANSPORTATION, INC.
MILEAGE DATA
FOR THE YEAR ENDED SEPTEMBER 30, 2007

SCHEDULE 7

	Public Transportation Mileage	Charter/School Bus Mileage	Demonstration Project Mileage
<u>Demand/Response</u>			
1st Quarter	130,019	-	-
2nd Quarter	107,486	-	-
3rd Quarter	88,998	-	-
4th Quarter	93,735	-	-
Total Operations	<u>420,238</u>	<u>-</u>	<u>-</u>

Note: Manistee County Transportation, Inc., operates all of its buses on a demand response basis.
There are no buses run on a strict line-haul basis.

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

See Accountant's Compilation Report.

MANISTEE COUNTY TRANSPORTATION, INC.
 PASSENGERS AND VEHICLE HOURS
 FOR THE YEAR ENDED SEPTEMBER 30, 2007

SCHEDULE 8

	<u>1st</u> <u>Quarter</u>	<u>2nd</u> <u>Quarter</u>	<u>3rd</u> <u>Quarter</u>	<u>4th</u> <u>Quarter</u>	<u>Total</u> <u>Operations</u>
<u>Demand - Response</u>					
Regular	11,281	12,980	11,438	11,431	47,130
Senior	1,966	2,305	2,754	4,058	11,083
Handicapped	7,973	8,049	7,240	5,808	29,070
Handicapped Senior	672	537	601	929	2,739
Total	21,892	23,871	22,033	22,226	90,022
 <u>Vehicle Hours</u>	 <u>5,807</u>	 <u>6,114</u>	 <u>5,369</u>	 <u>5,258</u>	 <u>22,548</u>

See Accountant's Compilation Report.

SINGLE AUDIT REPORTS

**KALCHER
VANDERWAL
TORREY, P.C.**

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TRAVERSE CITY
MANISTEE

CERTIFIED PUBLIC ACCOUNTANTS

Of Counsel:
LEONARD R. KALCHER, C.P.A.

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

March 7, 2008

Board of Directors
Manistee County Transportation, Inc.
180 Memorial Drive
Manistee, Michigan 49660

Compliance

We have audited the compliance of Manistee County Transportation, Inc. 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. Manistee County Transportation, Inc.'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 Manistee County Transportation, Inc.'s management. Our responsibility is to express an opinion on Manistee County Transportation, Inc.'s compliance based on our audit.

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

In our opinion, Manistee County Transportation, Inc. 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.

Internal Control Over Compliance

The management of Manistee County Transportation, Inc. is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Manistee County Transportation, Inc.'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 our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Manistee County Transportation, Inc.'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, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

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

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

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


Certified Public Accountants

MANISTEE COUNTY TRANSPORTATION, INC.
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2007

FEDERAL GRANTOR/PASS-THROUGH GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	STATE GRANTOR NUMBER	FEDERAL AWARD AMOUNT
<u>U.S. Department of Transportation</u>			
Non Urbanized Area Formula Program Passed Through Michigan			
Department of Transportation:			
Operating Assistance - Section 5311 (RTAP)	20.509	RTAP	\$ 916
Operating Assistance - Section 5311	20.509	2007-0250/Z1/R1	211,834
Total Operating Assistance			<u>\$ 212,750</u>
Federal Transit Capital Investment Grants Passed Through Michigan			
Department of Transportation:			
Capital Grant - Section 5309	20.500	2002-0063/Z5/R1- Budg. Adj. #1	\$ 24,232
Federal Transit Formula Grants for Other Than Urbanized Areas			
Passed Through Michigan Department of Transportation:			
Capital Grant - Section 5311	20.509	2002-0063/Z3	18,170
Capital Grant - Section 5311	20.509	2002-0063/Z6	5,500
Capital Grant - Section 5311	20.509	2002-0063/Z9	26,357
Federal Transit Capital Assistance Program for Elderly Persons and Persons With Disabilities Passed Through Michigan Department of Transportation:			
Capital Grant - Section 5310	20.513	2003-0543/A2	<u>524,735</u>
Total Capital Assistance			<u>\$ 598,994</u>
TOTAL FEDERAL FINANCIAL ASSISTANCE			<u>\$ 811,744</u>

See accompanying Notes to Schedule of Expenditures of Federal Awards.

MANISTEE COUNTY TRANSPORTATION, INC.
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 Manistee County Transportation, Inc. 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*.

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TRAVERSE CITY
MANISTEE

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Of Counsel:
LEONARD R. KALCHER, C.P.A.

**REPORT ON COMPLIANCE AND 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**

March 7, 2008

Board of Directors
Manistee County Transportation, Inc.
180 Memorial Drive
Manistee, Michigan 49660

We have audited the financial statements of Manistee County Transportation, Inc. as of and for the year ended September 30, 2007 and have issued our report thereon dated March 7, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Manistee County Transportation, Inc.'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Manistee County Transportation, Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Manistee County Transportation, Inc.'s internal control over financial reporting.

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 Manistee County Transportation, Inc.'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 Manistee County Transportation, Inc.'s financial statements that is more than inconsequential will not be prevented or detected by Manistee County Transportation, Inc.'s internal control. We consider the deficiencies referenced as 2007-1 and 2007-2 and described in the Financial Statement Findings section of the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies in internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph in this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, of the significant deficiencies referenced above, we consider Finding 2007-2 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Manistee County Transportation, Inc.'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 or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Manistee County Transportation, Inc. in a separate letter dated March 7, 2008.

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



Certified Public Accountants

MANISTEE COUNTY TRANSPORTATION, INC.
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2007

Summary of Auditor's Results

Financial Statements

Type of auditors' report issued: Unqualified

Material weakness(es) identified? X Yes No

Significant Deficiencies identified that are not
 Considered to be material weaknesses? X Yes No

Noncompliance material to financial statements noted? Yes X No

Federal Awards

Internal control over major programs:

Material weakness(es) identified? Yes X No

Significant Deficiencies identified that are not
 Considered to be material weaknesses? Yes X No

Type of auditors' 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? Yes X No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
20.513	Federal Transit Capital Assistance Program For Elderly Persons with Disabilities

Dollar threshold used to distinguish between
 Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? Yes X No

MANISTEE COUNTY TRANSPORTATION, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2007

Financial Statement Findings

Finding 2007-1: Lack of Adequate Internal Controls

Criteria: Management is responsible for establishing and maintaining internal controls for the Authority. Segregation of duties is a basic, key internal control. The underlying concept for segregation of duties is that no single individual should have control over a phase of a transaction or procedure.

At many small authorities, proper segregation of duties within the accounting department is a challenge for management.

Condition: Most of Manistee County Transportation, Inc.'s accounting functions are currently being performed by only one individual.

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

Effect: The Authority currently does not have effective segregation of duties within the accounting department.

Management Response: The Authority is aware of this limitation, and to compensate for this limitation, management takes an active role in reviewing the ongoing accounting information.

Finding 2007-2: Lack of Adequate Controls to Produce Full Disclosure GAAP Basis Financial Statements

Criteria: All Michigan authorities are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is a responsibility of the government'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).

MANISTEE COUNTY TRANSPORTATION, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2007

Condition: As is the case with many smaller and medium-sized entities, the Authority 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 Authority'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*.

Cause: 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.

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

Management Response: The Authority 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 the Authority 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.

Federal Award Findings and Questioned Costs

None.

**KALCHER
VANDERWAL
TORREY, P.C.**

DALE L. VANDERWAL, C.P.A.
LEE W. TORREY, C.P.A.
JOHN A. SPRATTO, C.P.A.
DAVID L. RICHARDS, C.P.A., A.B.V.

TRAVERSE CITY
MANISTEE

CERTIFIED PUBLIC ACCOUNTANTS

Of Counsel:
LEONARD R. KALCHER, C.P.A.

March 7, 2008

To the Board of Directors
Manistee County Transportation, Inc.
180 Memorial Drive
Manistee, MI 49660

In planning and performing our audit of the financial statements of Manistee County Transportation, Inc. for the year ended September 30, 2007, we considered the corporation's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of several matters that are an opportunity for strengthening internal controls and operating efficiency. Our comments and recommendations regarding these matters are as follows:

Employee Check Cashing

It came to our attention during the course of our audit of farebox revenues that an employee was allowed to cash a personal check in return for vault cash. It was also noted that the employee writing the check did not directly access the vault cash. When we inquired of management as to the existence of a check cashing policy we were informed that no such policy existed.

In order to better facilitate the controls over farebox revenues, we recommend that a policy be adopted prohibiting the cashing of personal checks out of vault cash.

Daily Vehicle Checklist

During the testing of the bus mileage records we noted instances when the Daily Vehicle Checklists showing the starting and ending mileage were not initialed by the mechanic recording the mileage.

This is a comment from the previous year.

In order to ensure that the methodology for computing vehicle miles is adequate, we recommend that all of the Daily Vehicle Checklists be initialed by the mechanic recording the mileage. Management should review these checklists and follow up on any omissions.

Check Dating

During our testing of accounts payable it came to our attention that several insurance checks were written and mailed in September with the original date on the checks being October 1, 2007. When these checks then cleared the bank in September their dates were changed back to September 30, 2007. These transactions resulted in negative amounts showing on the accounts payable subsidiary ledger.

We recommend that checks be dated the day they are written and subsequently mailed as soon as possible.

Year End Adjustments

As is the case with many smaller and medium – sized entities, Manistee County Transportation, Inc. has historically relied on its independent *external* auditors to assist in preparing the year end adjustments to the various asset and liability accounts. Accordingly, the Authority's ability to prepare financial statements in accordance with Generally Accepted Accounting Principles is based, in part, on its reliance on its *external* auditors, who cannot by definition be considered a part of the Authority's internal controls.

We recommend that the accounting staff make every attempt to adjust all accounts to the correct balances prior to the auditors commencing their engagement.

Bus Grant Funds

During the course of our audit of the new buses we became aware of an instance where the monies paid for a bus were \$120 less than the state grant funds received. It was determined that the bus vendor inadvertently neglected to bill the Authority for title fees.

In order to ensure that state and federal bus grant funds are spent in accordance with grant provisions, we recommend that a procedure be put in place to verify that all monies received for buses are actually paid out for the buses.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and recommendations with various personnel, and we will be please to discuss them in further detail at your convenience, to perform any additional study of this matter, or to assist you in implementing the recommendations.

Sincerely,



Certified Public Accountants