

### 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 Schoolcraft County Public Transit	County Schoolcraft
Fiscal Year End September 30, 2007	Opinion Date December 21, 2007	Date Audit Report Submitted to State January 31, 2008		

We affirm that:

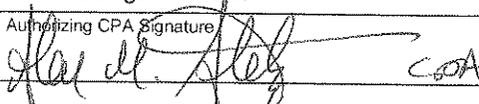
We are certified public accountants licensed to practice in Michigan.

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 | <b>Check each applicable box below.</b> (See instructions for further detail.) |
|-----|----|--|
1.   All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
  2.   There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
  3.   The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
  4.   The local unit has adopted a budget for all required funds.
  5.   A public hearing on the budget was held in accordance with State statute.
  6.   The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
  7.   The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
  8.   The local unit only holds deposits/investments that comply with statutory requirements.
  9.   The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
  10.   There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
  11.   The local unit is free of repeated comments from previous years.
  12.   The audit opinion is UNQUALIFIED.
  13.   The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
  14.   The board or council approves all invoices prior to payment as required by charter or statute.
  15.   To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name) Anderson, Tackman & Company, PLC		Telephone Number 906-786-3111		
Street Address 901 Ludington Street		City Escanaba	State MI	Zip 49829
Authorizing CPA Signature 	Printed Name Alan M. Stotz, CPA	License Number 1996839		

SCHOOLCRAFT COUNTY PUBLIC TRANSIT SYSTEM

COMPONENT UNIT FINANCIAL REPORT

Year Ended September 30, 2007

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**ANDERSON, TACKMAN & COMPANY, PLC**  
CERTIFIED PUBLIC ACCOUNTANTS

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of the  
Schoolcraft County Public Transit System

We have audited the accompanying statement of net assets of the Schoolcraft County Public Transit System (a component unit of Schoolcraft County), as of and for the year ended September 30, 2007, and the related statement of revenues, expenses and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Transit's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As discussed in Note A, the financial statements present only the Schoolcraft County Public Transit System and do not purport to, and do not, present fairly the financial position of the County of Schoolcraft, Michigan, as of September 30, 2007, and the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with the accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Schoolcraft County Public Transit System, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 2007, on our consideration of the Schoolcraft County Public Transit System's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations,

Board of Directors  
Schoolcraft County Public Transit System

contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages three through five 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. We 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, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Supplementary Information and the Financial Assistance - Federal and State, as listed on the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

*Anderson, Tackman & Company P.C.*

Certified Public Accountants

December 21, 2007

## SCHOOLCRAFT COUNTY PUBLIC TRANSIT SYSTEM

### Management's Discussion and Analysis

This section of the Schoolcraft County Public Transit System's annual financial report presents our discussion and analysis of the Transit's financial performance during the year ended September 30, 2007. Please read it in conjunction with the Transit's financial statements.

The following table summarizes the net assets as of September 30, 2007 and 2006:

	2007	2006
<b>Assets:</b>		
Current Assets:		
Cash and equivalents	\$ 142,313	\$ 153,127
Federal operating assistance receivable	6,467	4,475
State grants receivable	68,471	33,383
Accounts & taxes receivable	15,465	16,769
Interest receivable	463	42
Prepaid expenses	5,112	5,317
Total Current Assets	238,291	213,113
Property and equipment, net of accumulated depreciation	485,087	556,662
Total Assets	\$ 723,378	\$ 769,775
<b>Liabilities:</b>		
Current Liabilities:		
Accounts payable	\$ 6,523	\$ 6,508
Due to State	-	1,285
Accrued payroll and fringes	13,603	12,870
Total Current Liabilities	20,126	20,663
Noncurrent Liabilities:		
Accrued fringe benefits	30,788	24,679
Total Liabilities	\$ 50,914	\$ 45,342
<b>Net Assets:</b>		
Invested in capital assets, net of related debt	\$ 485,087	\$ 556,662
Unrestricted	187,377	167,771
Total Net Assets	\$ 672,464	\$ 724,433

The Transit provides transportation services to Schoolcraft County. During the year we provided service to 30,768 passengers. This reflected a 12.5% decrease over fiscal year 2006's ridership totals.

The following table provides comparative revenue and expense information for the fiscal years ended September 30, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Operating revenues	\$ 110,628	\$ 110,719
Operating expenses	<u>(612,479)</u>	<u>(576,310)</u>
Operating Loss	(501,851)	(465,591)
Nonoperating revenues	<u>449,882</u>	<u>649,934</u>
Increase (Decrease) in Net Assets	(51,969)	184,343
Net Assets, beginning of year	<u>724,433</u>	<u>540,090</u>
Net Assets, end of year	<u>\$ 672,464</u>	<u>\$ 724,433</u>

The Transit had a \$178,945 increase in net property and equipment during the 2006 fiscal year. This was due to the completion of the Transit building project. The building project houses all of the administrative and operating activities of the Transit. The total cost of this project amounted to approximately \$421,454. This was financed through the sale of the old Transit building and through state and federal capital assistance grants. During 2007 there were no capital additions and one bus was sold.

The operating expenses increased during fiscal year 2007 by \$36,169. This was due primarily to an increase in fuel costs due to the sharp rise in fuel prices and an increase in depreciation expense due to the new building addition. The depreciation expense increase is of no real effect to the Transit operations, as most of the depreciation expense is related to state and federal contributed capital.

The operating revenues stayed flat when compared to 2006's operating revenues. This was a combination of increased fares with a drop in ridership. Nonoperating revenues decreased \$200,061 when compared to 2006's nonoperating revenues, due primarily to having no capital revenue for the building construction in 2007.

When taken all together there was a decrease in net assets of \$51,969 for the fiscal year 2007. Again, this is due primarily to not having any capital revenue during the year. We will continue to monitor state and federal operating assistance grants to determine appropriate expense levels. We are insulated from cuts to a certain degree due to the operating tax millage that helps support the Transit operations. For the 2007 fiscal year the property tax collected for Transit use was \$136,244.

This financial report is designed to provide our taxpayers and citizens with a general overview of the Transit's finances and to demonstrate the Transit's accountability for the money it receives. If you have any questions about this report or need additional information, please contact the Transit office directly at P.O. Box 182, Manistique, Michigan, 49854.

SCHOOLCRAFT COUNTY PUBLIC TRANSIT SYSTEM

STATEMENT OF NET ASSETS

September 30, 2007

ASSETS

CURRENT ASSETS:

Cash and equivalents	\$142,313
State and Federal grants receivable	74,938
Accounts receivable	8,560
Taxes receivable	6,905
Interest receivable	463
Prepaid expenses	<u>5,112</u>

TOTAL CURRENT ASSETS            238,291

PROPERTY AND EQUIPMENT, less accumulated  
depreciation of \$340,857

485,087

\$723,378

LIABILITIES AND FUND EQUITY

CURRENT LIABILITIES:

Accounts payable	\$ 6,523
Accrued payroll and fringes	<u>13,603</u>

TOTAL CURRENT LIABILITIES        20,126

NONCURRENT LIABILITIES:

Accrued fringe benefits:	
Vacation leave	11,406
Sick leave	18,217
Personal leave	<u>1,165</u>

TOTAL NONCURRENT LIABILITIES    30,788

NET ASSETS:

Invested in capital assets, net of related debt:	
State and federal	435,716
Local	49,371
Net assets, unrestricted	<u>187,377</u>

TOTAL NET ASSETS                672,464

\$723,378

See accompanying notes to financial statements.

SCHOOLCRAFT COUNTY PUBLIC TRANSIT SYSTEM

STATEMENT OF REVENUES, EXPENSES,  
AND CHANGES IN NET ASSETS

For the year ended September 30, 2007

Operating revenues		\$110,628
Operating expenses		<u>(612,479)</u>
	OPERATING LOSS	(501,851)
Nonoperating revenues		<u>449,882</u>
	DECREASE IN NET ASSETS	(51,969)
Net assets, beginning of year		<u>724,433</u>
	NET ASSETS, END OF YEAR	<u>\$672,464</u>

See accompanying notes to financial statements.

SCHOOLCRAFT COUNTY PUBLIC TRANSIT SYSTEM

STATEMENT OF CASH FLOWS

For the year ended September 30, 2007

CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from customers	\$118,837
Cash payments to employees for services	(422,896)
Cash payments to suppliers for goods and services	<u>(110,944)</u>
NET CASH USED BY OPERATING ACTIVITIES	<u>(415,003)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:	
Operating grants received	271,405
Tax levy received	<u>129,339</u>
NET CASH PROVIDED BY NON-CAPITAL FINANCING ACTIVITIES	<u>400,744</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest received on investments	<u>3,445</u>
NET DECREASE IN CASH AND EQUIVALENTS	(10,814)
CASH AND EQUIVALENTS, beginning of year	<u>153,127</u>
CASH AND EQUIVALENTS, END OF YEAR	<u>\$142,313</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:	
Operating loss	(\$501,851)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation	71,576
Changes in assets and liabilities:	
(Increase) decrease in receivables	8,209
(Increase) decrease in prepaid expenses	205
Increase (decrease) in payables	15
Increase (decrease) in accruals	<u>6,843</u>
NET CASH USED BY OPERATING ACTIVITIES	<u>(\$415,003)</u>

See accompanying notes to financial statements.

SCHOOLCRAFT COUNTY PUBLIC TRANSIT SYSTEM

NOTES TO FINANCIAL STATEMENTS

September 30, 2007

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Schoolcraft County Public Transit System conform to generally accepted accounting principles as applicable to governmental units. Significant policies are as follows:

(1) Enterprise Fund - The Schoolcraft County Public Transit System, a component unit enterprise fund of the County of Schoolcraft, accounts for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses including depreciation) of providing goods or services to the general public on a continuing basis are financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The Transit applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or after November 30, 1989, unless those pronouncements conflict or contradict GASB pronouncements.

(2) Basis of Accounting - Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. The Transit maintains its accounting records on the accrual basis of accounting. Revenues are recognized when they are earned and expenses are recognized when incurred.

(3) Accounts Receivable - The Transit follows the direct write-off method in recognizing uncollectible accounts. An allowance for bad debts has not been established because the amount is considered to be immaterial. Receivables are written off on a policy based on how recently payments have been received.

(4) Inventories - Office and garage supplies are expensed when purchased. Items on hand at year-end were considered to have a dollar value not significant enough in amount to materially affect the financial statements, therefore, inventory was not recorded.

(5) Fixed Assets and Depreciation - Fixed assets are stated at cost when purchased or fair market value at date of gift. Costs relating to maintenance and repairs are charged to expenses, 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.

(6) 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

SCHOOLCRAFT COUNTY PUBLIC TRANSIT SYSTEM

NOTES TO FINANCIAL STATEMENTS

September 30, 2007

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

prior to December 31, are normally held in the Schoolcraft County's Trust and Agency Fund. The Transit subsequently receives its portion of the levy from this fund. For the 2006 calendar year the Transit levied .4733 mills.

(7) Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

(8) Advertising - Advertising costs are expensed as incurred. Total advertising expense for the fiscal year was \$2,215. None of these advertising expenses have been subtracted out as ineligible as all were incurred for transportation related purposes.

**NOTE B - CASH AND EQUIVALENTS**

The composition of cash and equivalents as reported on the Statement of Net Assets are presented below:

Demand deposits	\$ 32,973
Certificate of deposits	<u>109,340</u>
	<u>\$142,313</u>

All cash and equivalents are on deposit with the Schoolcraft County Treasurer with the Treasurer listed as the signatory. The insurability of this money is therefore not determinable. Cash and cash equivalents as reported in the Statement of Net Assets and the Statement of Cash Flows are considered to be cash on hand, demand deposits and short-term investments with maturities of three months or less.

**NOTE C - STATE AND FEDERAL GRANTS RECEIVABLE**

The following is a summary of the state and federal grants receivable as of September 30, 2007:

Federal Section 5311 Operating Assistance - FY07	\$ 6,467
State Act 51 Operating Assistance - FY06	33,383
- FY07	<u>35,088</u>
TOTAL	<u>\$ 74,938</u>

SCHOOLCRAFT COUNTY PUBLIC TRANSIT SYSTEM

NOTES TO FINANCIAL STATEMENTS

September 30, 2007

**NOTE D - PROPERTY AND EQUIPMENT**

Major classes of property and equipment consist of the following:

	9/30/06 <u>Balance</u>	<u>Additions</u>	<u>Deletions</u>	9/30/07 <u>Balance</u>
Purchased with Capital Grants:				
Land, not being depreciated	\$ 10,000	\$ -	\$ -	\$ 10,000
Buildings and improvements	359,525	-	-	359,525
Vehicles	388,551	-	40,475	348,076
Equipment	57,489	-	995	56,494
Accumulated depreciation	<u>(310,991)</u>	<u>(68,859)</u>	<u>(41,471)</u>	<u>(338,379)</u>
Subtotal	<u>504,574</u>	<u>(68,859)</u>	<u>(1)</u>	<u>435,716</u>
Purchased with Transit Funds:				
Building and improvements	51,928	-	-	51,928
Vehicles	888	-	888	-
Equipment	922	-	-	922
Accumulated depreciation	<u>(1,650)</u>	<u>(2,717)</u>	<u>(888)</u>	<u>(3,479)</u>
Subtotal	<u>52,088</u>	<u>(2,717)</u>	<u>-</u>	<u>49,371</u>
<b>TOTAL</b>	<u>\$ 556,662</u>	<u>\$ (71,576)</u>	<u>\$ (1)</u>	<u>\$ 485,087</u>

Useful lives of fixed assets are as follows:

Building and improvements	20 years
Vehicles	5-7 years
Equipment	5-10 years

Depreciation expense was \$71,576 for the fiscal year.

**NOTE E - RETIREMENT PLAN**

Employees are covered by the Michigan Municipal Employees Retirement System. Retirement funding is based on a percentage of payroll and covers all eligible employees. Since the Schoolcraft County Public Transit System utilizes the Schoolcraft County payroll system and Transit employees are considered to be County employees, all retirement funding and reporting is done by County personnel with the applicable disclosures reported within the County financial statements. The Public Transit System reimburses the County for actual costs and classifies those as fringe benefits.

**NOTE F - ACCUMULATED UNPAID VACATION AND SICK LEAVE**

Vacation is earned on a variable basis, depending upon length of employment. Upon retirement or termination, employees are paid for all outstanding days accumulated at their current rate of pay. The amount of accrued vacation time at September 30, 2007 is \$11,406.

SCHOOLCRAFT COUNTY PUBLIC TRANSIT SYSTEM

NOTES TO FINANCIAL STATEMENTS

September 30, 2007

**NOTE F - ACCUMULATED UNPAID VACATION AND SICK LEAVE (continued)**

Sick leave is earned at the rate of one day per month, not exceeding twelve days per year. Upon retirement or disability, employees are eligible to receive one-half of such sick leave accumulated, up to a maximum of one hundred days, at their current rate of pay. The amount of accumulated sick leave recorded in this financial statement at one-half of the total accumulated sick leave is \$18,217. Actual sick leave available to be used upon illness is \$36,434.

Changes in accumulated compensated absences is as follows:

	9/30/06 <u>Balance</u>	Additions	Deletions	9/30/07 <u>Balance</u>
Vacation	\$ 6,671	\$ 4,735	\$ -	\$ 11,406
Sick	17,890	327	-	18,217
Personal	<u>118</u>	<u>1,047</u>	-	<u>1,165</u>
<b>TOTAL</b>	<u>\$ 24,679</u>	<u>\$ 6,109</u>	<u>\$ -</u>	<u>\$ 30,788</u>

**NOTE G - MAINTENANCE AGREEMENT**

An agreement exists between the Public Transit System and El-Com Services for servicing of radio equipment at an annual fee of \$1,236, payable quarterly.

**NOTE H - CONTRACT FOR SERVICES**

A contract for transportation services is in effect with Hiawatha Behavioral Health for transporting clients. The total amount received under this contract for the year ended September 30, 2007 was \$75,969.

The Public Transit System also has other minor contracts with various local establishments.

**NOTE I - GRANT CONTINGENCIES**

Under the terms of federal and state grants, periodic audits are required and certain costs may be questioned as not being appropriate expenses under the terms of the grants. Such audits could lead to reimbursements to the grantor agencies. As of September 30, 2007, no such contingencies for questioned costs were known to exist.

**NOTE J - RISK MANAGEMENT**

The Transit is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Transit is covered with purchased commercial insurance for these risks through the County of Schoolcraft. Settled claims relating to commercial insurance have not exceeded the amount of coverage in any of the past three fiscal years.

SCHOOLCRAFT COUNTY PUBLIC TRANSIT SYSTEM

NOTES TO FINANCIAL STATEMENTS

September 30, 2007

NOTE K - NON-FINANCIAL DATA

- 1) The methodology used for compiling mileage has been reviewed and found to be an adequate and reliable method for recording vehicle mileage.
- 2) During the fiscal year no cost allocation plans were used.
- 3) No operating expenses were paid using capital contract revenue.

SUPPLEMENTARY INFORMATION

SCHOOLCRAFT COUNTY PUBLIC TRANSIT SYSTEM

OAR SCHEDULE 4R

For the year ended September 30, 2007

OPERATING REVENUES:

Demand response (farebox)	\$ 16,791
Special contract fares	<u>93,837</u>
TOTAL OPERATING REVENUES	<u>\$110,628</u>

NONOPERATING REVENUES:

State formula operating assistance (Act 51)	208,881
State FY03, 04 & 05 adjustments	11,232
U.S. Department of Transportation Grant Section 5311	76,500
FY05 & 06 Section 5311 adjustments	13,157
Property tax millage	136,244
Interest income	<u>3,868</u>
TOTAL NONOPERATING REVENUES	<u>449,882</u>
TOTAL REVENUES	<u>560,510</u>

See accompanying notes to financial statements.

SCHOOLCRAFT COUNTY PUBLIC TRANSIT SYSTEM

OAR SCHEDULE 4E

For the year ended September 30, 2007

	<u>Opera-</u> <u>tions</u>	<u>Mainten-</u> <u>ance</u>	<u>General</u> <u>Adminis-</u> <u>tration</u>	<u>Total</u> <u>System</u>
Labor:				
Operators' wages	\$247,828	\$ -	\$ -	\$ 247,828
Other salaries and wages	-	-	37,061	37,061
Fringe benefits	84,209	-	12,592	96,801
Retirement	41,798	-	6,251	48,049
Services:				
Advertising fees	-	-	2,215	2,215
Audit cost	-	-	2,150	2,150
Other services	17,810	-	-	17,810
Materials and supplies:				
Fuel and lubricants	50,597	-	-	50,597
Other materials & supplies	-	20,996	-	20,996
Utilities	7,067	-	-	7,067
Insurance costs	10,173	-	-	10,173
Miscellaneous:				
Travel and meetings	156	-	-	156
Depreciation	<u>71,576</u>	<u>-</u>	<u>-</u>	<u>71,576</u>
<b>TOTAL OPERATING EXPENSES</b>	<u>\$531,214</u>	<u>\$ 20,996</u>	<u>\$ 60,269</u>	<u>612,479</u>
LESS INELIGIBLE EXPENSES:				
Depreciation				71,576
MPTA dues				<u>51</u>
<b>TOTAL STATE INELIGIBLE EXPENSES</b>				<u>71,627</u>
<b>NET STATE ELIGIBLE EXPENSES</b>				<u>\$ 540,852</u>
STATE OPERATING ASSISTANCE REIMBURSEMENT 38.6208%				<u>\$ 208,881</u>
<b>NET STATE ELIGIBLE EXPENSES</b>				\$ 540,852
Less audit cost				<u>2,150</u>
<b>NET FEDERAL ELIGIBLE EXPENSES</b>				<u>\$ 538,702</u>
SECTION 5311 CONTRACT PERCENTAGE 17.0%				<u>\$ 91,579</u>
<b>MAXIMUM SECTION 5311 REIMBURSEMENT</b>				<u>\$ 76,500</u>

See accompanying notes to financial statements.

SCHOOLCRAFT COUNTY PUBLIC TRANSIT SYSTEM

SCHEDULE OF STATE AND FEDERAL CAPITAL ASSETS CONTRIBUTED

For the year ended September 30, 2007

Balance, beginning of year	\$504,574
Deduct: Depreciation of assets purchased from contributed equity	<u>(68,858)</u>
BALANCE, END OF YEAR	<u>\$435,716</u>

See accompanying notes to financial statements.

SCHOOLCRAFT COUNTY PUBLIC TRANSIT SYSTEM

SCHEDULE OF CAPITAL CONTRACTS

For the year ended September 30, 2007

GRANTOR: Michigan Department of Transportation

<u>Contract Number</u>	<u>Grant Amount</u>	<u>Previously Earned</u>	<u>Currently Earned</u>	<u>Amount Remaining</u>
02-0085Z2 FY07 Section 5311 Capital	\$ 24,000	\$ -	\$ -	\$ 24,000
02-0085Z8 FY04 Section 5309 Earmarks	48,500	-	-	48,500
02-0085Z13 FY06 Section 5311 Capital	62,500	-	-	62,500
02-0085Z14 FY06 Section 5309 Earmarks	<u>121,745</u>	<u>-</u>	<u>-</u>	<u>121,745</u>
	<u>\$ 256,745</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 256,745</u>

See accompanying notes to financial statements.

SCHOOLCRAFT COUNTY PUBLIC TRANSIT SYSTEM

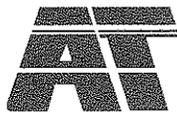
SCHEDULE OF MILEAGE DATA, VEHICLE HOURS, AND PASSENGERS

For the year ended September 30, 2007

	Public Transportation Mileage	Vehicle Hours	Passengers			Elderly Persons With Dis- abilities
			Regular	Elderly	Disabled	
DEMAND RESPONSE:						
First Quarter	42,549	1,685	2,132	1,303	2,920	533
Second Quarter	43,843	1,754	3,520	1,015	2,970	254
Third Quarter	41,410	1,657	4,096	1,370	2,280	362
Fourth Quarter	<u>41,831</u>	<u>1,675</u>	<u>2,995</u>	<u>1,319</u>	<u>3,324</u>	<u>375</u>
	<u>169,633</u>	<u>6,771</u>	<u>12,743</u>	<u>5,007</u>	<u>11,494</u>	<u>1,524</u>

See accompanying notes to financial statements.

FINANCIAL ASSISTANCE - FEDERAL AND STATE



**ANDERSON, TACKMAN & COMPANY, PLC**  
CERTIFIED PUBLIC ACCOUNTANTS

OFFICES IN MICHIGAN AND WISCONSIN

Kristine P. Berhow, CPA, Principal  
Alan M. Stotz, CPA, Principal  
Raymond B. LaMarche, CPA, Principal  
Erkki M. Peippo, CPA, PC, Principal

Kevin C. Pascoe, CPA  
Laura L. Schwalbach, CPA

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

Board of Directors of the  
Schoolcraft County Public Transit System  
Manistique, Michigan 49854

We have audited the financial statements of the Schoolcraft County Public Transit System, as of and for the year ended September 30, 2007, and have issued our report thereon dated December 21, 2007. 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 the Transit's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Transit's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the organization'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 organization's financial statements that is more than inconsequential will not be prevented or detected by the organization's internal control. We consider the deficiency

described below to be a significant deficiency in internal control over financial reporting.

The Transit does not internally produce financial statements in accordance with generally accepted accounting principles.

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 organization's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Transit'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 the Transit in a separate letter dated December 21, 2007.

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.

*Anderson, Tackman & Company P.C.*

Certified Public Accountants

December 21, 2007

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SCHOOLCRAFT COUNTY PUBLIC TRANSIT SYSTEM

SCHEDULE OF AWARDS - FEDERAL AND STATE

For the year ended September 30, 2007

<u>Federal Grantor/Program Title</u>	<u>State Grantor Number</u>	<u>CFDA Number</u>	<u>Award Amount</u>
<b>U.S. DEPARTMENT OF TREASURY:</b>			
Passed through MDOT			
Section 5311			
Operating assistance - FY07	2007-0288Z1	20.509	\$ 76,500
Operating assistance - FY05 & 06	-	20.509	13,157
 <b>MICHIGAN DEPARTMENT OF TRANSPORTATION:</b>			
Operating assistance - Act 51 - FY07	-	-	208,881
Operating assistance - Act 51 - FY03, 04 & 05	-	-	<u>11,232</u>
TOTAL CAPITAL AND OPERATING ASSISTANCE			<u>\$ 309,770</u>

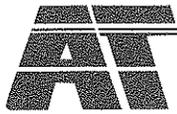
<u>Unexpended Balance 09/30/06</u>	<u>Federal Revenue</u>	<u>State Revenue</u>	<u>Other Revenue</u>	<u>Expendi- tures</u>	<u>Unexpended Balance 09/30/07</u>
\$ -	\$ 76,500	\$ -	\$ -	\$ 76,500	\$ -
-	13,157	-	-	13,157	-
-	-	208,881	-	208,881	-
-	-	<u>11,232</u>	-	<u>11,232</u>	-
<u>\$ -</u>	<u>\$ 89,657</u>	<u>\$ 220,113</u>	<u>\$ -</u>	<u>\$ 309,770</u>	<u>\$ -</u>

SCHOOLCRAFT COUNTY PUBLIC TRANSIT SYSTEM

SCHEDULE OF INELIGIBLE COSTS

For the year ended September 30, 2007

<u>Ineligible Costs</u>	<u>Section 5311</u>	<u>Act 51</u>
1. <u>Depreciation</u> - Depreciation accrued by public operators on state-funded equipment is ineligible according to state guidelines.	\$ 71,576	\$ 71,576
2. <u>MPTA Dues</u> - A percentage of the MPTA dues are ineligible expenses per the State Expense Manual. This years ineligible percentage was 7.05 percent.	51	51
3. <u>Audit Cost</u> - Because the Transit did not need a single audit in compliance with OMB Circular A-133 the audit cost is an ineligible expense for the Section 5311 reimbursement.	2,150	-



**ANDERSON, TACKMAN & COMPANY, PLC**  
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### REPORT TO MANAGEMENT

Board of Directors  
Schoolcraft County Public Transit System  
Manistique, Michigan 49854

We have audited the financial statements of the Schoolcraft County Public Transit System for the year ended September 30, 2007, and have issued our reports thereon dated December 21, 2007. Our professional standards require that we make several communications to you, the purpose of which is to assist you with additional information regarding the scope and results of the audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible.

#### Our Responsibility under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

As stated in our engagement letter dated December 4, 2007, our responsibility, as described by professional standards, is to plan and perform our 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 principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of the Transit. Such considerations were solely for the purpose of determining our 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, we performed tests of the Transit's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

#### Significant Accounting Policies

Management has the responsibility for selection of appropriate accounting policies. In accordance with the terms of our engagement, we will advise management of the appropriateness of the accounting policies and their application. The significant accounting policies used by the Schoolcraft County Public Transit System are described in Note A of the financial statements.

Significant Accounting Policies (continued)

The application of existing policies were not changed during the fiscal year. We noted no transactions entered into by the Schoolcraft County Public Transit System during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Management Judgments and Accounting Estimates

Some accounting estimates are utilized in 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. Our conclusions regarding the reasonableness of the estimates are based on reviewing and testing the historical data provided by management and using this data to compute the estimates.

Useful lives of fixed assets are estimates. These estimates have been made using the guidance provided by the Michigan Department of Transportation on depreciable lives of assets.

Significant Audit Adjustments

For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. Our audit adjustments, individually and in the aggregate, do have a significant effect on the financial reporting process.

The audit adjustments that had a significant effect on the Transit's financial reporting process related primarily to the recording of receivables and payables with respect to state operating assistance.

Disagreement with Management

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

Consultation with Other Independent Accountants

In some cases, management may decide to consult with other accountants about accounting and auditing matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Schoolcraft County Public Transit System or a determination

of the type of auditor's opinion to be expressed on those statements, our professional standards require the consulting accountant to advise us as to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in the performance of our audit.

Issues Discussed Prior to Retention of Independent Auditors

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

In planning and performing our audit of the financial statements of the Schoolcraft County Public Transit System, for the year ended September 30, 2007, we considered the Transit'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 opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. This letter does not affect our report dated December 21, 2007, on the financial statements of the Schoolcraft County Public Transit System

We have already discussed many of these comments and suggestions with various Transit personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

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

*Anderson, Tackman & Company P.C.*  
Certified Public Accountants

December 21, 2007

SCHOOLCRAFT COUNTY PUBLIC TRANSIT SYSTEM

COMMENTS AND RECOMMENDATIONS

September 30, 2007

FAREBOX COLLECTIONS

1. We noted during our audit that lockboxes are not used on the buses and that drivers maintain their own log sheets. This creates a risk of unrecorded fares. We recommend that the drivers begin using the lockboxes to further enhance the internal controls over farebox collections.
2. We also noted that farebox receipts are not always deposited with the County on a timely basis. Frequently there are substantial amounts of farebox receipts kept at the Transit office prior to deposit. We recommend that deposits be made on a more timely basis and that cash held at the Transit office be kept to a minimum.

CONTRACT BILLINGS

We noted during our audit that the billings to Hiawatha Behavioral Health were not always timely. We recommend that these billings be done on a timely basis each month.



**ANDERSON, TACKMAN & COMPANY, PLC**  
CERTIFIED PUBLIC ACCOUNTANTS

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Laura L. Schwalbach, CPA

December 21, 2007

Board of Directors  
Schoolcraft County Public Transit System  
Manistique, Michigan 49854

In planning and performing our audit of the financial statements of the Schoolcraft County Public Transit System (the Transit) as of and for the year ended September 30, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the Transit's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Transit's internal control. Accordingly, we do not express an opinion on the effectiveness of the Transit's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls.

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 a combination of control deficiencies, that adversely affects the Transit'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 Transit's financial statements that is more than inconsequential will not be prevented or detected by the Transit's internal control. We believe that the following deficiency constitutes a significant deficiency:

The Transit does not internally produce financial statements in accordance with generally accepted accounting principles.

A material weakness is a significant deficiency, or a 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 entity's internal control. However, we believe that none of the significant deficiencies described above constitute a material weakness.

In addition, we noted other matters involving the internal control and its operation that we have reported to management of the Transit in a separate letter dated December 21, 2007.

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

Board of Directors  
Schoolcraft County Public Transit System  
Page Two

*Anderson, Jackson & Company P.C.*  
Certified Public Accountants

December 21, 2007