



*CHATHAM AREA TRANSIT
AUTHORITY*

FINANCIAL REPORT

Years Ended June 30, 2014 and 2013

CHATHAM AREA TRANSIT AUTHORITY
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CHATHAM AREA TRANSIT

FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Chatham Area Transit Authority
Savannah, Georgia

Report on the Financial Statements

We have audited the accompanying financial statements of Chatham Area Transit Authority (the "Authority"), a component unit of Chatham County, Georgia as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Chatham Area Transit Authority, as of June 30, 2014 and 2013, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 11 and the schedule of funding progress on page 23, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The 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.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 9, 2015 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Daniel & Duncan LLC

Savannah, Georgia
January 9, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Chatham Area Transit Authority (the "Authority"), we offer readers of the Authority's financial statements this narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2014 (FY 2014). This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities and to identify any significant changes in financial position. The information discussed here should be considered in conjunction with the basic financial statements as a whole.

FINANCIAL HIGHLIGHTS

- The Authority's total assets exceeded total liabilities by \$43.2 million at the close of the current fiscal year.
- The Authority's total net position decreased by approximately \$.7 million during the current fiscal year.
- Total net capital assets were \$47.9 million at June 30, 2014 an increase of 4.5% over the balance at June 30, 2013 of \$45.8 million.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Authority operates as an enterprise fund under the proprietary fund accounting framework. The accounting and financial reporting practices of enterprise funds are similar to those used for business enterprises and focus on capital maintenance and the flow of economic resources. That is, revenues are matched with expenses and changes in net position are determined using accrual accounting methods.

Enterprise funds account for operations that provide goods or services to the general public on a continuing basis. Transit districts commonly are reported in enterprise funds, even though their primary source of financing comes from subsidies rather than fare box revenues. Enterprise funds are considered useful in such cases because they focus attention on the cost of providing services, and they serve to highlight the portion of that cost being borne by taxpayers.

The basic financial statements of the Authority are comprised of the following:

- 1) Statement of Net Position
- 2) Statement of Revenue, Expenses and Changes in Net position
- 3) Statement of Cash Flows, and
- 4) Notes to Financial Statements

MANAGEMENT'S DISCUSSION AND ANALYSIS

Statement of Net Position

The statement of net position presents information on all of the Authority's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating. Net position increases when revenues exceed expenses. An increase to assets without a corresponding increase to liabilities results in increased net position which indicates an improved financial position.

Statement of Revenues, Expenses and Changes in Net position

The statement of revenues, expenses and changes in net position presents information showing how the Authority's net position changed during the fiscal year. All changes in net position 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 reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. receivables and earned but unused vacation leave).

Statement of Cash Flows

The statement of cash flows provides relevant information about the Authority's cash receipts and cash payments during the fiscal year. This in turn provides users of the financial statements access to the Authority's ability to generate future net cash flows, its ability to meet its obligations as they come due, and its need for external financing. To do this, the statement of cash flows reports the cash effects during the reported period of the Authority's operations, non-capital financing transactions, capital and related financing transactions, and investing transactions.

Notes to Financial Statements

The notes to the financial statements communicate information essential for fair presentation of the basic financial statements that is not displayed on the face of the financial statements. As such, the notes form an integral part of the basic financial statements.

The basic financial statements and accompanying notes can be found on pages 12 through 22 of this report.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL ANALYSIS

Condensed Balance Sheets			
(in thousands)			
	Years Ended June 30,		
	2014	2013	2012
Current Assets	\$ 5,637	\$ 12,556	\$ 9,240
Capital Assets	47,883	45,828	33,534
Total Assets	\$ 53,520	\$ 58,384	\$ 42,774
Current Liabilities	\$ 9,895	\$ 14,147	\$ 6,989
Long-term Liabilities	430	311	135
Total Liabilities	10,325	14,458	7,124
Net Position			
Investment in Capital Assets	47,273	42,683	31,947
Unrestricted	(4,078)	1,243	3,703
Total Net Position	43,195	43,926	35,650
Total Liabilities and Net Position	\$ 53,520	\$ 58,384	\$ 42,774

The changes in total net position over time serve as a useful indicator of the Authority's financial position. As the above table indicated, assets exceeded liabilities by \$43.2 million at June 30, 2014 which reflects a decrease of \$.7 million compared to \$43.9 million at June 30, 2013. This decrease is primarily due to operating cost exceeding revenue and capital contributions.

Comparatively, net position increased by \$8.3 million during FY 2013. This increase was primarily due to capital investment grant contributions from U.S. Department of Transportation.

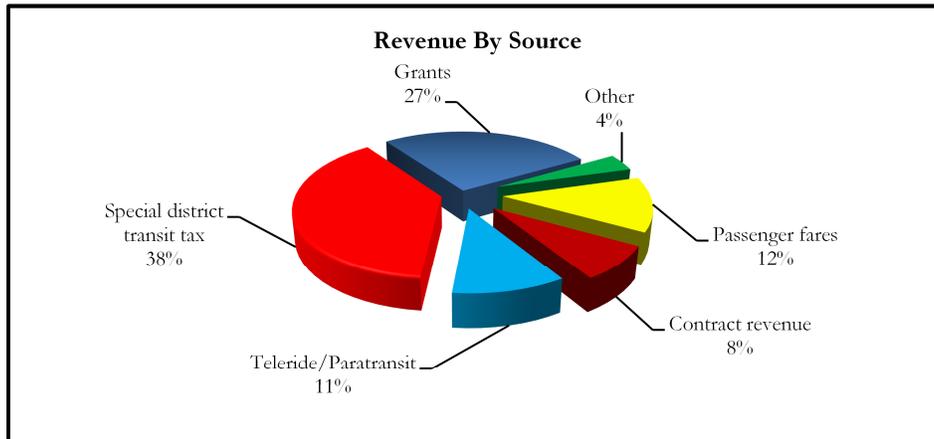
The following table reflects a condensed summary of revenues, expenses, and changes in net position for the years ended June 30, 2014, 2013 and 2012:

Condensed Statements of Revenues, Expenses and Changes in Net Position			
(in thousands)			
	Years Ended June 30,		
	2014	2013	2012
Revenue			
Operating Revenue	\$ 5,089	\$ 5,202	\$ 5,264
Nonoperating Revenue	13,874	13,673	16,060
Total Revenue	18,963	18,875	21,324
Operating Expenses	24,008	22,775	21,472
Loss before Contributions	(5,045)	(3,900)	(148)
Capital Contributions	4,314	12,176	10,881
Change in Net Position	(731)	8,276	10,733
Net Position - Beginning	43,926	35,650	24,917
Net Position - End	\$ 43,195	\$ 43,926	\$ 35,650

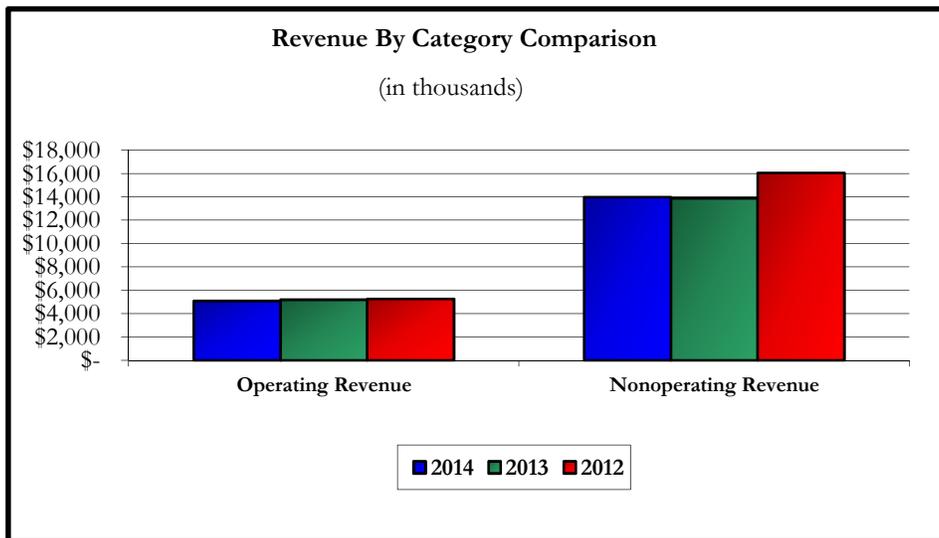
MANAGEMENT'S DISCUSSION AND ANALYSIS

Revenue

The following graph provides a visual presentation of the Authority's revenue by source for FY2014:



The following bar graph shows the distribution of revenue by category:



Operating Revenue

Operating revenue is composed of passenger fares, contract revenue, vehicle advertising and other miscellaneous revenue.

Operating revenue for FY 2014 decreased by \$113 thousand compared to FY 2013. Revenue from the following sources attributed to this decrease:

- ◆ Passenger fares decreased by \$105 thousand due to a decrease in general fare ridership caused by a continued shift to contract revenue utilizing system wide passes.

MANAGEMENT'S DISCUSSION AND ANALYSIS

- ◆ Contract revenue increased by \$6 thousand. This increase is the result of an increase in university pass program revenue combined with a net decrease in city shuttle revenue which resulted from a reduction in total shuttle service due to redundancies.
- ◆ Other revenue decreased by \$15 thousand. This decrease is a result of a decrease in advertising revenue and special services revenue offset by an increase in lease revenue.

Operating revenue for FY 2013 decreased by \$62 thousand compared to FY 2012. Revenue from the following sources attributed to this decrease:

- ◆ Passenger fares decreased by \$272 thousand due to a decrease general fare ridership caused by a shift to contract revenue utilizing system wide passes.
- ◆ Contract revenue increased by \$128 thousand. This increase is the result of increases in water fare services and university pass program revenue.
- ◆ Other revenue increased by \$82 thousand. This increase is a result of an increase in advertising revenue.

Nonoperating Revenue

Nonoperating revenue is substantially comprised of tax revenue, teleride/paratransit revenue, and revenue from federal and state grants.

Nonoperating revenue for FY 2014, net of nonoperating expenses, increased by \$201 thousand from FY 2013. This increase is primarily the result of:

- ◆ Federal grant revenue decreased \$68 thousand.
- ◆ Special district tax increased \$1.9 million.
- ◆ Special purpose local option sales tax decreased by \$1.86 million.
- ◆ Teleride/Paratransit revenue increased \$98 thousand.
- ◆ Increase in loan interest cost of \$81 thousand.
- ◆ Prior year loss on disposal of capital assets of \$191 thousand.

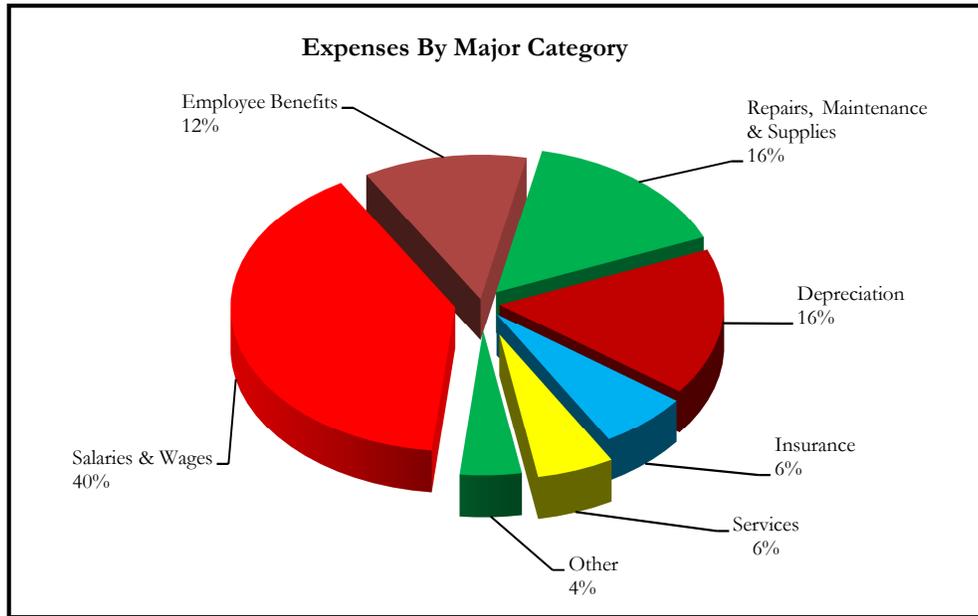
Nonoperating revenue for FY 2013, net of nonoperating expenses, decreased by \$2.4 million from FY 2012. This decrease is primarily the result of:

- ◆ Federal grant revenue decreased \$366 thousand.
- ◆ Special district tax decreased \$166 thousand.
- ◆ Special purpose local option sales tax decreased by \$466 thousand.
- ◆ Teleride/Paratransit revenue increased \$300 thousand.
- ◆ Gain (loss) on disposal of capital assets decreased \$1.69 million.

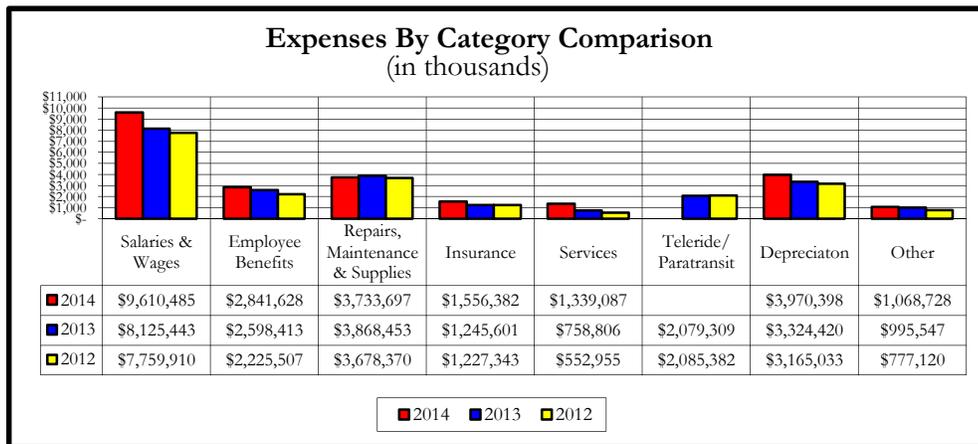
MANAGEMENT’S DISCUSSION AND ANALYSIS

Operating Expenses

The following pie chart provides a visual presentation of the Authority’s expenses by major category for FY14:



The bar graph that follows shows the Authority’s operating expenses by category for FY 2014, FY 2013, and FY 2012:



Total operating expenses for FY 2014 increased by \$1.2 million or a 5.4% increase from FY 2013. Total operating expenses for FY 2013 increased \$1.3 million or 6.1% increase from FY 2012. These changes were primarily the result of the following:

- 1) Salaries and wages for FY 2014 compared to FY 2013 increased \$1.49 million or 18.3% due primarily to operator wage increases and the hiring of employees for positions left vacant by former outside management company.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Salaries and wages for FY 2013 compared to FY 2012 increased \$366 thousand or 4.7% due primarily to operator wage increases and the hiring of employees formerly paid by an outside management company.

- 2) Employee benefits for FY 2014 compared to FY 2013 increased \$243 thousand or 9.4% due primarily to cost increase associated with health insurance and retirement benefits.

Employee benefits for FY 2013 compared to FY 2012 increased \$373 thousand or 16.8% due primarily to cost increase associated with health insurance.

- 3) The combined materials, supplies and maintenance expenses for FY 2014 compared to FY 2013 decreased \$135 thousand or 3.5%. This net decrease was primarily due to decreases in vehicle fuel and maintenance costs.

The combined materials, supplies and maintenance expenses for FY 2013 compared to FY 2012 increased \$190 thousand or 5.2%. This net increase was primarily due to increases in fuel and vehicle maintenance costs.

- 4) Services increased \$580 thousand or 76.5% in FY 2014 compared to FY 2013. This increase is primarily due the purchase of services previously provided by a management company. These services included information technology (IT) support, insurance brokerage and staffing expenses.

Services increased \$206 thousand or 37.2% in FY 2013 compared to FY 2012. This increase is primarily due to the transition from a delegated management contract. Management fees previously reported in a separate account were replaced with start-up cost associated with returning to self-management including information technology (IT) support, insurance brokerage and staffing expenses.

- 5) Insurance expense for FY 2014 compared to FY 2013 increased by \$311 thousand or 25.0%. This increase is the result of the increase in workman's compensation and accident liability costs.

Insurance expense for FY 2013 compared to FY 2012 increased by \$18 thousand or 1.5%. This slight increase is the result of the increase in workman's compensation and an increase in accident liability costs.

- 6) Teleride/Paratransit expense for FY 2014 compared to FY 2013 decreased \$2.08 million. Teleride/Paratransit cost previously presented in this category as contract cost is now combined with all other service cost.

Teleride/Paratransit expense remained flat for FY 2013 compared to FY 2012.

- 7) Depreciation expense for FY 2014 compared to FY 2013 increased by \$646 thousand or 19.4% due to the addition of the transit center, operations and maintenance facility rehabilitation and the continued depreciation of newer vehicles purchased in recent fiscal years.

Depreciation expense for FY 2013 compared to FY 2012 increased by \$159 thousand or 5.0% due to the addition of 4 new fixed route vehicles, a new ferry boat and the continued depreciation of newer vehicles purchased in recent fiscal years.

MANAGEMENT'S DISCUSSION AND ANALYSIS

CAPITAL ASSETS

As the following chart indicates, the Authority's investment in capital assets before depreciation at the end of FY 2014 is \$72.8 million. This was an increase compared to FY 2013 of \$5.4 million. During FY14, the Authority purchased 2 transit vehicles at a cost of \$196 thousand. The Authority also completed construction of a new transit center with a total cost of \$11.5 million, rehabilitation of the operations and maintenance facility with a total cost of \$8.8 million and incurred \$1.1 million in construction cost associated with the construction of an intermodal transit center, a ferry dock and the installation of an intelligent transit system.

Capital Assets by Major Category			
	2014	2013	2012
Land	\$ 6,175,878	\$ 5,712,619	\$ 5,712,619
Buildings & Improvements	27,336,228	7,001,321	8,279,130
Vehicles	35,287,099	35,073,238	32,255,877
Furniture & Equipment	1,915,789	1,358,546	1,114,778
Construction in Progress	2,083,089	18,242,443	5,545,790
	<u>72,798,083</u>	<u>67,388,167</u>	<u>52,908,194</u>
Accumulated Depreciation	<u>(24,915,319)</u>	<u>(21,559,834)</u>	<u>(19,374,574)</u>
	<u>\$ 47,882,764</u>	<u>\$ 45,828,333</u>	<u>\$ 33,533,620</u>

At June 30, 2014, the Authority had outstanding contract commitments totaling approximately \$1.9 million related to construction of an intermodal transit facility and the intelligent transit system. These capital asset projects are to be funded through matching federal grants.

Renovation of the operation center located at 900 East Gwinnett Street, which began in April, 2012 was completed in the spring of 2014. The project was completed for \$8.8 million and included new mechanical components, including fueling station, bus wash, and compressors. Additionally, it provided office space, a training room, and a library to house the Authority's archives.

Construction of the Joe Murray Rivers Intermodal Transit Center, which began in February, 2012 was also completed in spring of 2014. The project qualified for the FTA Joint Development Program for inter/intra city transportation and as a result, the facility will house both Authority and Greyhound operations. The location supports fourteen Authority buses, four Greyhound buses, one stop for a trolley and the hub for the Authority's new bike share program. The facility has LEED Gold certification and cost of \$11.5 million.

Additional information regarding capital assets may be found in note 4 to the financial statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS

AUTHORITY DEBT ISSUE

The Authority has a \$7,700,000 line of credit agreement with a bank for working capital needs. The bank made advances on the line of credit in order to provide the Authority with operating funds throughout the year. At the end of FY 2014 the outstanding balance on the line of credit was \$7,000,000. Interest is payable monthly at LIBOR market index rate plus 1.35%.

Subsequent to year end, the Authority refinanced its line of credit. New loans consisted of a \$1,500,000 line of credit maturing on December 31, 2015 with interest payable monthly at LIBOR market index rate plus 1.50% and a \$5,000,000 term loan with annual principal payments of \$1,000,000 each January through 2019 and interest payable monthly at a fixed rate of 1.95%.

ECONOMIC FACTORS

The Authority's board of directors and management considered many factors when setting the fiscal year 2014 budget. These factors include the expected increase in ridership, contract services, and costs related to fuel, labor and employee benefits. Also considered were the anticipated capital grant funding needed for new buses, our passenger amenities program, the completion of two major construction projects and the continuation of two additional capital projects. The Authority's new transit center and the administration and maintenance renovation were completed during the year and the intelligent transit system implementation and Hutchinson Island Intermodal Facility construction will be completed in early FY 2015. All four capital projects are being funded with assistance from federal and state grants with matching funds provided by local option sales tax.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of Chatham Area Transit Authority's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to: Chief Financial Officer, Chatham Area Transit Authority, 900 East Gwinnett Street, Savannah, GA 31401.

CHATHAM AREA TRANSIT AUTHORITY

STATEMENTS OF NET POSITION

June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,098,719	\$ 929,152
Investments	4,098	4,093
Receivables	3,951,287	11,211,350
Inventory	270,452	142,629
Prepaid expenses	312,573	268,123
Total current assets	<u>5,637,129</u>	<u>12,555,347</u>
CAPITAL ASSETS, net	<u>47,882,764</u>	<u>45,828,333</u>
Total assets	<u>\$ 53,519,893</u>	<u>\$ 58,383,680</u>
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES		
Accounts payable	\$ 1,100,486	\$ 3,683,439
Note payable - bank	7,000,000	6,000,000
Accrued salaries and withheld taxes	605,263	578,261
Other accrued expenses	1,032,810	703,011
Other liabilities	156,717	3,181,886
Total current liabilities	<u>9,895,276</u>	<u>14,146,597</u>
LONG-TERM LIABILITIES		
Accrued compensated absences	223,186	171,256
Other postemployment benefits obligation	207,263	140,134
	<u>430,449</u>	<u>311,390</u>
NET POSITION		
Investment in capital assets, net of related debt	47,272,763	42,683,180
Unrestricted	<u>(4,078,595)</u>	<u>1,242,513</u>
Total net position	<u>43,194,168</u>	<u>43,925,693</u>
Total liabilities and net position	<u>\$ 53,519,893</u>	<u>\$ 58,383,680</u>

CHATHAM AREA TRANSIT AUTHORITY
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
Years Ended June 30, 2014 and 2013

	2014	2013
OPERATING REVENUES		
Passenger fares	\$ 2,933,808	\$ 3,038,407
Contract revenue	1,865,443	1,859,340
Other	289,568	304,273
Total operating revenues	<u>5,088,819</u>	<u>5,202,020</u>
OPERATING EXPENSES		
Salaries and wages	9,610,485	8,125,443
Employee benefits	2,841,628	2,598,413
Materials and supplies	3,361,816	3,087,225
Depreciation	3,970,398	3,324,420
Purchased transportation - Teleride/Paratransit		2,079,309
Insurance	1,556,382	1,245,601
Management fee		247,225
Services	1,339,087	758,806
Repair and maintenance	371,881	781,228
Utilities	354,882	150,310
Miscellaneous	601,979	376,559
Total operating expenses	<u>24,008,538</u>	<u>22,774,539</u>
Operating loss	<u>(18,919,719)</u>	<u>(17,572,519)</u>
NONOPERATING REVENUES (EXPENSES)		
Special district transit tax	8,979,841	7,059,897
Federal grants	2,537,192	2,605,747
Special purpose local option sales tax		1,858,071
Teleride/Paratransit	2,468,588	2,370,251
Loss on disposal of capital assets		(191,026)
Interest income	10	113
Interest expense	(111,867)	(30,427)
Total nonoperating revenues (expenses)	<u>13,873,764</u>	<u>13,672,626</u>
Loss before capital contributions	<u>(5,045,955)</u>	<u>(3,899,893)</u>
CAPITAL CONTRIBUTIONS		
Federal grants	3,689,137	11,631,243
State grants	6,767	544,626
Local	618,526	
Total capital contributions	<u>4,314,430</u>	<u>12,175,869</u>
Change in net assets	(731,525)	8,275,976
Net position - beginning of year	<u>43,925,693</u>	<u>35,649,717</u>
Net position - end of year	<u>\$ 43,194,168</u>	<u>\$ 43,925,693</u>

See notes to financial statements.

CHATHAM AREA TRANSIT AUTHORITY

STATEMENTS OF CASH FLOWS

Years Ended June 30, 2014 and 2013

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Fares and other service revenues	\$ 4,752,204	\$ 5,329,700
Cash payments for goods and services	<u>(22,813,522)</u>	<u>(18,492,930)</u>
Net cash provided (used) in operating activities	<u>(18,061,318)</u>	<u>(13,163,230)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Federal and state grants	3,629,028	2,188,336
Special district transit tax	9,062,843	7,083,969
Teleride/Paratransit	2,507,519	2,132,190
Net borrowings under line of credit	1,000,000	4,500,000
Interest paid	<u>(105,867)</u>	<u>(24,427)</u>
Net cash provided (used) by non-capital financing activities	<u>16,093,523</u>	<u>15,880,068</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Federal and state grants	8,183,813	9,293,522
Special purpose local option sales tax	1,895,000	1,381,264
Contributed capital	155,267	
Payments for acquisition and construction of capital assets	<u>(8,096,723)</u>	<u>(14,251,997)</u>
Net cash provided (used) in capital and related financing activities	<u>2,137,357</u>	<u>(3,577,211)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	<u>5</u>	<u>107</u>
Net cash provided (used) in investing activities	<u>5</u>	<u>107</u>
Increase (decrease) in cash and cash equivalents	<u>169,567</u>	<u>(860,266)</u>
Cash and cash equivalents - Beginning of year	<u>929,152</u>	<u>1,789,418</u>
Cash and cash equivalents - End of year	<u>\$ 1,098,719</u>	<u>\$ 929,152</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES		
Operating loss	\$ (18,919,719)	\$ (17,572,519)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	3,970,398	3,324,420
Changes in:		
Receivables	(336,615)	127,680
Inventory	(127,823)	(50,917)
Prepaid expenses	(44,450)	(261,861)
Accounts payable	(47,800)	421,069
Accrued salaries and withheld taxes	27,002	578,261
Other accrued expenses	375,729	456,270
Other postemployment benefits obligation	67,129	5,121
Other liabilities	<u>(3,025,169)</u>	<u>(190,754)</u>
Net cash used in operating activities	<u>\$ (18,061,318)</u>	<u>\$ (13,163,230)</u>
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital asset contribution	<u>\$ 463,259</u>	
Capital assets financed through accounts payable	<u>\$ 610,000</u>	<u>\$ 3,145,153</u>

CHATHAM AREA TRANSIT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2014 and 2013

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The reporting entity – Chatham Area Transit Authority (the “Authority”) was created as a corporate body of the State of Georgia in 1986. Through June 30, 2012, the Authority was governed by a board of directors which included nine members of the Board of Commissioners of Chatham County and four citizen appointees. Effective July 1, 2012, the Chatham Area Transit Authority Act creating the Authority was amended to reduce the board of directors to a total of nine members of which seven are appointed by the Chatham County Board of Commissioners and consist of three members of the Board of Commissioners of Chatham County and four residents of Chatham County with one having a disability. The remaining two are appointed by the Board of Aldermen and the mayor of the City of Savannah and consists of one member of the Board of Aldermen of the City of Savannah and one resident of the City of Savannah.

In accordance with Section 2100 of the Codification of Governmental Accounting and Financial Reporting Standards, the Authority is a component unit of Chatham County, Georgia (the “County”) and its financial statements are incorporated into the comprehensive annual financial report of the County.

Basis of accounting - The Authority accounts for its operations on the flow of economic resources measurement focus and the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP). Under this method, revenues are recognized when earned, and expenses are recognized when incurred.

In December 2010, the Governmental Accounting Standards Board (GASB) issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 Financial Accounting Standards Board ("FASB") and AICPA Pronouncements*. This statement incorporates into GASB literature certain accounting and financial reporting guidance issued on or before November 30, 1989 that is included in FASB Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the AICPA Committee on Accounting Procedure. The Authority implemented the provisions of this statement effective for fiscal year ended June 30, 2012.

In June 2011, the Government Accounting Standards Board issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*. This statement incorporates deferred outflows of resources and deferred inflows of resources, as defined by GASB Concepts Statement No. 4, into the definitions of the required components of the residual measure of net position, formerly net assets. This statement also provides a new statement of net position format to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. The Authority implemented the provisions of this statement effective for fiscal year ended June 30, 2013.

In March 2012, the Governmental Accounting Standards Board issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The Authority implemented the provisions of this statement effective for fiscal year ended June 30, 2013.

CHATHAM AREA TRANSIT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2014 and 2013

Revenue/Expense Recognition - Operating revenues consist primarily of passenger fares. The Authority also recognizes operating revenue for contracted service revenue and transit advertising revenue. Operating expenses include the costs of operating the Authority, including depreciation on capital assets. Capital contributions include grant revenue and other contributions related to capital asset acquisitions or construction. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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

Cash and Cash Equivalents - For purposes of the statement of cash flows, the Authority considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Inventory - Inventory consists of fuel and spare parts and is stated at the lower of cost (first-in, first-out) or market.

Capital Assets - Capital assets are stated at cost, less accumulated depreciation. Major expenditures for asset acquisitions and those expenditures, which substantially increase useful lives, are capitalized. Expenditures for maintenance, repairs, and minor replacements are expensed as incurred. Depreciation has been provided on a straight-line basis over the estimated useful life of the respective assets as follows:

<u>Asset Type</u>	<u>Estimated Useful Life</u>
Buildings and improvements	10 - 50 years
Transit vehicles	5 - 20 years
Service vehicles	5 years
Shop equipment	3 - 5 years
Furniture and office equipment	3 - 10 years

The Authority has acquired certain capital assets with funding provided from federal transit capital investment grants. The Authority holds title to these assets. However, the federal government retains an interest in the assets should they no longer be used for public mass transit purposes.

Compensated Absences - Employees of the Authority who are not covered under union contract are allowed to accumulate a maximum of 30 days vacation leave. All accumulated vacation leave vests with these employees and is payable upon termination or retirement.

Union employees are allowed to accumulate a maximum of 50 personal leave days. Accumulated personal leave vests with these employees based on their years of service. Upon termination of service, employees with at least 10 years of service are paid 50% of their accumulated personal leave, whereas employees with less than 10 years are paid 25% of their accumulated personal leave.

Reclassifications - Certain reclassifications have been made to the prior year financial statements in order for them to be in conformity with the current year presentation.

CHATHAM AREA TRANSIT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2014 and 2013

NOTE 2. DEPOSITS AND INVESTMENTS

Custodial Credit Risk for Deposits – For deposits, custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. The Authority does not have a deposit policy for custodial credit risk. As of June 30, 2014 and 2013, the Authority's cash deposits in excess of insured amounts were collateralized by securities held by the Authority's agent in the Authority's name and therefore not exposed to custodial credit risk.

The Authority had the following investments at June 30, 2014 and 2013:

Investment Type	June 30,			
	2014		2013	
	Fair Value	Weighted Avg. Maturity Days	Fair Value	Weighted Avg. Maturity Days
Georgia Fund I	4,098	62	4,093	43

Credit Risk – The Authority's investment policy is to apply the prudent-person rule. Investments shall be made with judgment and care, under circumstances prevailing, which persons of prudence, discretion and intelligence exercise, considering the probable safety of their capital as well as probable income to be derived. The policy limits investments to obligations of the U.S. Government, obligations of state and local governments and public authorities, local government investment pools established by the state, commercial paper rated in the highest tier by a nationally recognized rating agency and repurchase agreements. The Georgia Fund I is a money market fund administered by the State of Georgia, Office of Treasury and Fiscal Services. Georgia Fund I is rated AA Af by Standard & Poor's.

NOTE 3. RECEIVABLES

Receivables consist of the following:

	June 30,	
	2014	2013
Taxes receivable, net	\$ 1,163,331	\$ 1,246,333
Grants receivable	1,645,116	7,224,861
Accounts receivable, net	704,657	368,042
Intergovernmental receivable	438,183	2,372,114
	\$ 3,951,287	\$ 11,211,350

Accounts receivable and the special district transit tax receivables are shown net of an allowance for uncollectibles. At June 30, 2014 and 2013, the allowance for uncollectibles totaled \$55,500 and \$61,500, respectively.

CHATHAM AREA TRANSIT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2014 and 2013

NOTE 4. CAPITAL ASSETS

Capital assets are summarized as follows:

	June 30, 2013	Increases	Decreases	June 30, 2014
Capital assets, not being depreciated				
Land	\$ 5,712,619	\$ 463,259	\$	\$ 6,175,878
Construction in progress	18,242,443	4,191,132	(20,350,486)	2,083,089
Total capital assets, not being depreciated	23,955,062	4,654,391	(20,350,486)	8,258,967
Capital assets, being depreciated				
Buildings and improvements	7,001,321	20,386,602	(51,695)	27,336,228
Transit vehicles	34,810,662	196,516		35,007,178
Service vehicles	262,576	17,345		279,921
Shop equipment	444,052	36,433		480,485
Furniture and office equipment	914,494	1,084,028	(563,219)	1,435,304
Total capital assets, being depreciated	43,433,105	21,720,924	(614,914)	64,539,115
Less accumulated depreciation				
Buildings and improvements	4,226,398	695,227	(51,695)	4,869,930
Transit vehicles	16,106,273	2,970,362		19,076,635
Service vehicles	164,499	30,272		194,771
Shop equipment	435,465	8,195		443,660
Furniture and office equipment	627,199	266,343	(563,219)	330,323
Total accumulated depreciation	21,559,834	3,970,398	(614,914)	24,915,318
Capital assets, net	\$ 45,828,333	\$ 22,404,917	\$ (20,350,486)	\$ 47,882,764
	June 30, 2012	Increases	Decreases	June 30, 2013
Capital assets, not being depreciated				
Land	\$ 5,712,619	\$	\$	\$ 5,712,619
Construction in progress	5,545,790	12,696,653		18,242,443
Total capital assets, not being depreciated	11,258,409	12,696,653		23,955,062
Capital assets, being depreciated				
Buildings and improvements	8,279,130	52,350	(1,330,159)	7,001,321
Transit vehicles	32,072,102	2,738,560		34,810,662
Service vehicles	183,775	78,801		262,576
Shop equipment	438,752	5,300		444,052
Furniture and office equipment	676,026	238,468		914,494
Total capital assets, being depreciated	41,649,785	3,113,479	(1,330,159)	43,433,105
Less accumulated depreciation				
Buildings and improvements	5,013,432	352,099	(1,139,133)	4,226,398
Transit vehicles	13,189,383	2,916,890		16,106,273
Service vehicles	146,709	17,790		164,499
Shop equipment	427,068	8,397		435,465
Furniture and office equipment	597,955	29,244		627,199
Total accumulated depreciation	19,374,547	3,324,420	(1,139,133)	21,559,834
Capital assets, net	\$ 33,533,647	\$ 12,485,712	\$ (191,026)	\$ 45,828,333

CHATHAM AREA TRANSIT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2014 and 2013

NOTE 5. NOTE PAYABLE

The Authority has a \$7,700,000 line of credit agreement with a bank for working capital. The bank made advances on the line of credit in order to provide the Authority with operating funds throughout the year. Interest is payable monthly at LIBOR market index rate plus 1.35%.

Activity under line of credit for the year ended June 30, 2014 was as follows:

Beginning Balance	Advances	Repayments	Ending Balance
\$ 6,000,000	\$ 2,500,000	\$ (1,500,000)	\$ 7,000,000

Subsequent to year end, the Authority refinanced its line of credit. The refinancing consisted of the following new loans:

- \$1,500,000 line of credit maturing on December 31, 2015 with interest payable monthly at a rate of 1.50% above LIBOR.
- \$5,000,000 term loan payable in annual principal installment of \$1,000,000 beginning January 31, 2015 with the final principal installment due January 31, 2019. Interest payable monthly at a fixed rate of 1.95%.

NOTE 6. RETIREMENT PLANS

Union Employees' Retirement Plan

Effective June 2013, the Authority reinstated a 401(a) money purchase plan that had been suspended during the period the Authority was operating under a delegated management agreement with Veolia Transportation. The original plan which provided benefits to all full-time employees meeting certain eligibility requirements was amended after reinstatement to exclude all non-union employees. The plan as restated covers all union employees who have met certain age and service requirements as set forth in the agreement between the Authority and Local 1324 Amalgamated Transit Union. The plan provides for a fixed employer matching contribution equal to two dollars for every one dollar of elective employee deferral up to a maximum annual employer contribution of \$1,500. Employee and employer contributions are remitted to the plan on a monthly basis. The Authority's matching contribution to the plan for the years ended June 30, 2014 and 2013 totaled \$168,435 and \$10,568, respectively.

Non-union Employees Retirement Plan

Effective June, 2013, The Authority implemented a 401(a) money purchase plan for all non-union employees who have met certain age and service requirements. The plan provides for a 50 cent employer match for every dollar of elective employee deferral up to a maximum of 6% of compensation. Employee and employer contributions are remitted to the plan on a monthly basis. The Authority's matching contribution to the plan for the years ended June 30, 2014 and 2013 totaled \$30,285 and \$2,688, respectively.

CHATHAM AREA TRANSIT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2014 and 2013

Executive Retirement Plan

Effective June, 2013, The Authority implemented a 401(a) money purchase plan for the Executive Director. The plan requires annual employer and employee contributions equal to 15% of employee’s base salary. Employee and employer contributions are remitted to the plan on a monthly basis. The Authority’s contribution to the plan for the years ended June 30, 2014 and 2013 totaled \$30,474 and \$1,985, respectively.

NOTE 7. LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2014 was as follows:

	Beginning			Ending	Due Within
	<u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u>	<u>One Year</u>
Compensated absences	\$ 279,719	\$ 83,442	\$	\$ 363,161	\$ 139,975
Other post-employment benefits	140,134	105,836	(38,707)	207,263	
	<u>\$ 419,853</u>	<u>\$ 189,278</u>	<u>\$ (38,707)</u>	<u>\$ 570,424</u>	<u>\$ 139,975</u>

Long-term liability activity for the year ended June 30, 2013 was as follows:

	Beginning			Ending	Due Within
	<u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u>	<u>One Year</u>
Compensated absences	\$ 79,055	\$ 200,664	\$	\$ 279,719	\$ 108,463
Other post-employment benefits	135,013	16,059	(10,938)	140,134	
	<u>\$ 214,068</u>	<u>\$ 216,723</u>	<u>\$ (10,938)</u>	<u>\$ 419,853</u>	<u>\$ 108,463</u>

NOTE 8. POSTEMPLOYMENT LIFE INSURANCE AND MEDICAL PLAN

Plan Description - The Post Retirement Life Insurance Plan and Post Retirement Medical Plan (collectively, the “Plan”) is a single-employer defined benefit postemployment life and healthcare plan that provides health and life insurance benefits to retired employees of the Authority. The Plan does not issue a stand-alone financial report.

Funding Policy – Plan benefit provisions and contribution requirements are established and may be amended by the Authority, subject to negotiation between the Authority and the Amalgamated Transit Union. Contributions to the Plan are based on a pay-as- you-go basis. Retirees and their dependents receiving healthcare benefits contributed 100 percent toward their monthly healthcare premiums. The Plan provides retirees with \$10,000 of life insurance coverage funded 100 percent by the Authority.

Annual OPEB Cost and Net OPEB Obligation – The Authority’s annual other postemployment benefit (OPEB) cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The ARC also includes interest

CHATHAM AREA TRANSIT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2014 and 2013

on the unfunded ARC and adjustment to the ARC to prevent double accrual of principal payments on the unfunded actuarial accrued liability.

The following table shows the components of the Authority’s annual OPEB cost, the amount actually contributed to the plan, and changes in the Authority’s net OPEB obligation for the years ending June 30, 2014 and 2013.

	June 30,	
	2014	2013
Annual required contribution	\$ 106,477	\$ 16,658
Interest on unfunded ARC	3,363	3,146
Adjustment to ARC	(4,004)	(3,745)
Annual OPEB cost	105,836	16,059
Contributions made	(38,707)	(10,938)
Increase in net OPEB obligation	67,129	5,121
Net OPEB obligation - beginning of year	140,134	135,013
Net OPEB obligation - end of year	\$ 207,263	\$ 140,134

The Authority’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation was as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2012	\$ 16,557	39%	\$ 135,013
6/30/2013	\$ 16,059	68%	\$ 140,134
6/30/2014	\$ 105,836	37%	\$ 207,263

Funded Status and Funding Progress - As of the last valuation date (July 1, 2013), the actuarial accrued liability for benefits was \$1,213,275 and the actuarial value of assets was zero, resulting in an unfunded actuarial accrued liability (UAAL) of \$1,213,275.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedules of funding progress, presented as required supplementary information following the notes to the financial statements, present multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions - Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

CHATHAM AREA TRANSIT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2014 and 2013

The actuarial methods and assumptions used in the calculation of the annual required contribution (ARC) to the plan for the year ended June 30, 2014 are as follows:

Valuation date	July 1, 2013
Actuarial cost method	Projected unit credit cost method
Amortization method	Level percentage of pay, open
Amortization period	30 years
Actuarial assumptions:	
Investment return	2.40%
Healthcare cost trend rate	
Initial year	7%
Ultimate rate	5%

NOTE 9. COMMITMENTS AND CONTINGENCIES

The Authority participates in several federal and state assisted grant programs. These programs are subject to compliance audits by the grantors and their representatives. The amount of liability, if any, for reimbursement that could arise as a result of audits by the granting agencies, cannot be determined at this time.

Loss accruals were made for damage claims or suits that were settled subsequent to year-end or settlement is probable and the amount of settlement can be reasonably estimated at the report date based upon representations of legal counsel and the Authority. In the opinion of management, all claims not accrued are adequately covered by insurance, are without merit or would have an insignificant effect on the financial position or results of operations of the Authority, if disposed of unfavorably.

At June 30, 2014, the Authority had outstanding contract commitments totaling approximately \$1,924,000 related to the construction of an intermodal transit facility and an intelligent transit system. These capital asset projects are to be funded through matching federal grants.

CHATHAM AREA TRANSIT AUTHORITY
SCHEDULE OF FUNDING PROGRESS –
RETIREE HEALTHCARE AND LIFE INSURANCE PLANS

June 30, 2014

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Accrued Liability (AAL)</u>	<u>Accrued Liability (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>Percentage of Covered Payroll</u>
June 30, 2012	\$0	\$ 498,195	\$ 498,195	0%	\$ 6,962,162	7%
June 30, 2013	\$0	\$ 477,837	\$ 477,837	0%	\$ 7,759,910	6%
June 30, 2014	\$0	\$ 1,213,275	\$ 1,213,275	0%	\$ 8,125,443	15%



CHATHAM AREA TRANSIT

COMPLIANCE SECTION

CHATHAM AREA TRANSIT AUTHORITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2014

Federal Grantor/ Pass-through Grantor/ Program or Cluster Title	CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
<u>U.S. Department of Transportation</u>			
Federal Transit Administration:			
Federal Transit Cluster -			
Direct Programs:			
Federal Transit - Capital Investment Grants	20.500	N/A	\$ 126,239
Federal Transit - Formula Grants	20.507	N/A	5,889,576
Pass-through Program From:			
Georgia Department of Transportation			
Federal Transit - Capital Investment Grants	20.500	MSL00-0000-00(836)	<u>54,133</u>
Total Federal Transit Cluster			6,069,948
Direct Program:			
Job Access/Reverse Commute	20.516	N/A	<u>156,381</u>
Total Expenditures of Federal Awards			<u>\$ 6,226,329</u>

See accompanying notes to schedule of expenditures of federal awards.

CHATHAM AREA TRANSIT AUTHORITY

NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2014

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES

The schedule of expenditures of federal awards includes the federal grant activity of Chatham Area Transit Authority and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

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

To the Board of Directors
Chatham Area Transit Authority
Savannah, Georgia

We have audited, in accordance with the 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, the financial statements of Chatham Area Transit Authority (the "Authority"), a component unit of Chatham County, Georgia, as of and for the year ended June 30, 2014 and the related notes to the financial statements, which collectively comprise Authority's basic financial statements and have issued our report thereon dated January 9, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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 Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A deficiency in internal control 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 and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as item 2014-1 that we consider to be significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from 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*.

Authority's Response to Findings

The Authority's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Daniel & Duncan LLC

Savannah, Georgia
January 9, 2015

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

To the Board of Directors
Chatham Area Transit Authority
Savannah, Georgia

Report on Compliance for Each Major Federal Program

We have audited Chatham Area Transit Authority's (the "Authority") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Authority's major federal programs for the year ended June 30, 2014. The Authority's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Authority's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority'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 on compliance for each major federal program. However, our audit does not provide a legal determination of the Authority's compliance.

Opinion on Each Major Federal Program

In our opinion, the Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

Report on Internal Control Over Compliance

Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Authority's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 the Authority's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Daniel & Duncan LLC

Savannah, Georgia
January 9, 2015

CHATHAM AREA TRANSIT AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2014

Section I. SUMMARY OF AUDIT RESULTS

Financial Statements

- The auditor's report expresses an unmodified opinion on the financial statements of Chatham Area Transit Authority.
- One significant deficiency disclosed during the audit of the financial statements of Chatham Area Transit Authority are reported in the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Governmental Auditing Standards*. No material weaknesses are reported.
- No instances of noncompliance material to the financial statements of Chatham Area Transit Authority which would be required to be reported in accordance with *Governmental Auditing Standards*, were disclosed during the audit.

Federal Awards

- No significant deficiencies relating to the audit of the major federal award programs are reported in the Independent Auditor's Report on Compliance for Each Major Program and on Internal Control over Compliance Required by OMB Circular A-133.
- The auditor's report on compliance for the major federal award programs for Chatham Area Transit Authority expresses an unmodified opinion.
- There are no audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
- The programs tested as major programs included:

	<u>CFDA No.</u>
U.S. Department of Transportation	
Federal Transit Cluster -	
Capital Investment Grants	20.500
Formula Grants	20.507
- The threshold for distinguishing between Types A and B programs was \$300,000.
- Chatham Area Transit Authority was determined to be a low-risk auditee.

CHATHAM AREA TRANSIT AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2014

Section II. FINDINGS - FINANCIAL STATEMENT AUDIT

2014-1 General Ledger Reconciliations

Condition: During the year, the general ledger accounts were not reconciled with subsidiary information on a monthly basis.

Criteria: Reconciliation of subsidiary information to the general ledger control accounts should be performed monthly to provide assurance that all transactions have been properly recorded in the accounting records and that accurate financial data is being reported.

Effect: Failure to reconcile the subsidiary information to the general ledger in a timely manner could result in errors or large adjustments when reconciliations are performed.

Recommendation: General ledger control accounts should be reconciled with subsidiary information on a monthly basis. Timely reconciliations should be assured by establishing a realistic schedule and having completion monitored by supervisory personnel.

Management Response: Management agrees with this finding and has implemented corrective action. Subsequent to year end, software upgrades were completed that allowed staff the ability to complete needed adjustments to prior year subsidiary ledger detail and reconcile these ledgers to general control accounts. Completing this subsidiary ledger clean-up as part of the software upgrade implementation has also allowed these ledgers to become a more accurate and useful reconciliation tool. Subsidiary accounts are currently being reconciled to the general ledger control accounts and the reconciliations are being reviewed by supervisory personnel.

Section III. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT

None

Section IV. STATUS OF PRIOR YEAR AUDIT FINDINGS

None