



*CHATHAM AREA TRANSIT
AUTHORITY*

FINANCIAL REPORT

Years Ended June 30, 2012 and 2011

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

We have audited the accompanying basic financial statements of Chatham Area Transit Authority, a component unit of Chatham County, Georgia, as of and for the years ended June 30, 2012 and 2011, as listed in the table of contents. These financial statements are the responsibility of the management of Chatham Area Transit Authority. 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 audits 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Chatham Area Transit Authority, as of June 30, 2012 and 2011, and the results of its operations and its cash flows for the years 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 January 17, 2013 on our consideration of Chatham Area Transit Authority's internal control over financial reporting and 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 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.

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 22 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.

Our audit was conducted for the purpose of forming an opinion on Chatham Area Transit Authority's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The 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 financial statements or to the 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 financial statements as a whole.

Daniel & Duncan LLC

Savannah, Georgia
January 17, 2013

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, 2012 (FY 2012). 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

At the close of FY 2012, the Authority's total assets exceeded total liabilities by \$35.6 million. Of this amount \$3.7 million was unrestricted and available to support operations. Total net assets increased by approximately \$10.7 million during the current fiscal year. This 43.07% increase in total net assets compared to FY 2011 is due to an \$ 8.0 million increase in capital assets, net of related debt, and \$2.7 million increase in unrestricted net assets. The increase in capital assets, net of related debt is due primarily to the purchase of revenue vehicles, along with construction in process cost associated with three construction projects; the construction of water ferry, the construction of the Joe Murray Rivers Intermodal Transit Center and the rehabilitation of the Operations and Maintenance Facility. These additions were funded with revenue from special purpose option sales tax and U.S. Department of Transportation capital grants.

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 assets 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) Balance Sheet
- 2) Statement of Revenue, Expenses and Changes in Net Assets
- 3) Statement of Cash Flows, and
- 4) Notes to Financial Statements

MANAGEMENT'S DISCUSSION AND ANALYSIS

Balance Sheet

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

Statement of Revenues, Expenses and Changes in Net Assets

The statement of revenues, expenses and changes in net assets presents information showing how the Authority's net assets changed during the fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are 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 21 of this report.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL ANALYSIS

Condensed Balance Sheets			
(in thousands)			
	Years Ended June 30,		
	2012	2011	2010
Current Assets	\$ 9,359	\$ 5,153	\$ 3,880
Capital Assets	33,534	24,128	20,049
Total Assets	<u>\$ 42,893</u>	<u>\$ 29,281</u>	<u>\$ 23,929</u>
Current Liabilities	\$ 7,108	\$ 4,239	\$ 2,655
Long-term Liabilities	135	125	130
Total Liabilities	<u>7,243</u>	<u>4,364</u>	<u>2,785</u>
Net Assets			
Investment in Capital Assets	31,947	23,908	19,635
Unrestricted	<u>3,703</u>	<u>1,009</u>	<u>1,509</u>
Total Net Assets	<u>35,650</u>	<u>24,917</u>	<u>21,144</u>
Total Liabilities and Net Assets	<u>\$ 42,893</u>	<u>\$ 29,281</u>	<u>\$ 23,929</u>

As noted earlier, net assets may serve over time as a useful indicator of the Authority's financial position. As the above table indicates, assets exceeded liabilities by \$35.65 million as of June 30, 2012 which reflects an increase of \$10.73 million compared to \$24.92 million as of June 30, 2011.

Transit is a capital-intensive enterprise; 89.62% or \$31.95 million of the Authority's \$35.65 million in net assets at the end of FY 2012 is invested in capital assets (e.g. land, buildings, machinery and equipment), net of related debt. The Authority uses these capital assets to provide services to its customer. The remaining 10.38% or \$3.7 million is available to meet the Authority's ongoing operating and debt obligations.

At the end of FY 2011, 95.95% or \$23.91 million of the Authority's \$24.92 million in net assets was invested in capital assets, net of related debt. The remaining 4.05% or \$1.09 million is available to meet the Authority's ongoing operating and debt obligations.

MANAGEMENT'S DISCUSSION AND ANALYSIS

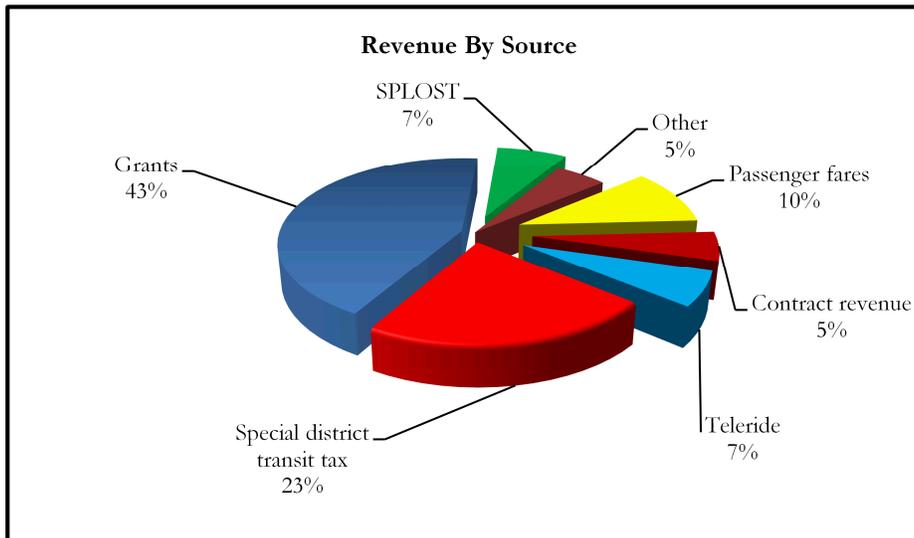
As shown on the following condensed statements of revenues, expenses and changes in net assets, the Authority's net assets increased by \$10.7 million during FY 2012. This increase is due to capital investment grant revenue from U.S. Department of Transportation.

Comparatively, net assets increased by \$3.77 million during FY 2011. This increase was also due to capital investment grant revenue from U.S. Department of Transportation.

Condensed Statements of Revenues, Expenses and Changes in Net Assets			
(in thousands)			
	Years Ended June 30,		
	2012	2011	2010
Revenue			
Operating Revenue	\$ 5,264	\$ 5,336	\$ 4,934
Nonoperating Revenue	16,060	11,742	11,677
Total Revenue	21,324	17,078	16,611
Operating Expenses	21,472	19,957	18,061
Loss before Contributions	(148)	(2,879)	(1,450)
Capital Contributions	10,881	6,652	5,409
Change in Net Assets	10,733	3,773	3,959
Net Assets - Beginning	24,917	21,144	17,185
Net Assets - End	<u>\$ 35,650</u>	<u>\$ 24,917</u>	<u>\$ 21,144</u>

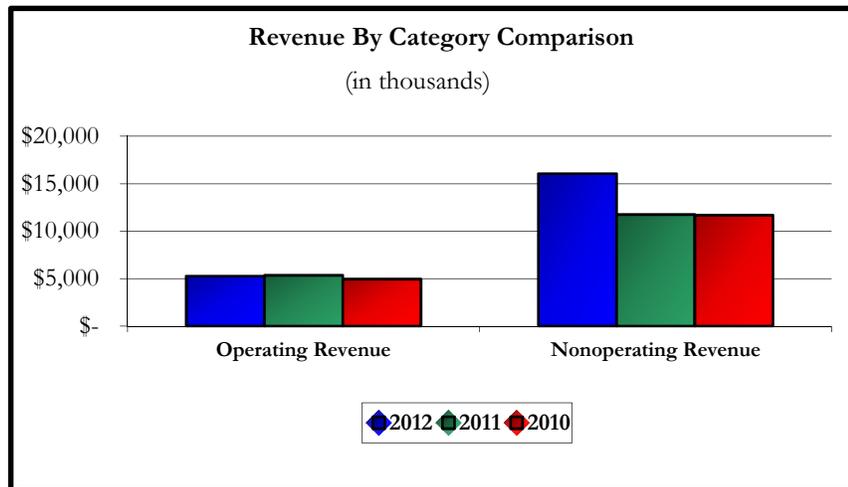
Revenue

The following graph provides a visual presentation of the Authority's revenue by source for FY2012.



MANAGEMENT'S DISCUSSION AND ANALYSIS

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 2012 decreased by \$72 thousand over FY 2011. Revenue from the following sources attributed to this decrease:

- ◆ Passenger fares decreased by \$27 thousand due to slight decrease in ridership.
- ◆ Contract revenue increased by \$4 thousand. This increase is the result of increase in Marine Services combined with a net decrease in shuttle revenue due to a fee reduction based on shuttle vehicle lease pay off.
- ◆ Other revenue decreased by \$49 thousand. This decrease is a result of a decrease in advertising revenue.

Operating revenue for FY 2011 increased by \$402 thousand over FY 2010. Revenue from the following sources attributed to this increase:

- ◆ Passenger fares increased by \$64 thousand due to increased ridership.
- ◆ Contract revenue increased by \$281 thousand. This increase is the result of increases in Shuttle and Marine Services revenue.
- ◆ Other revenue increased by \$57 thousand. This increase is a result of increasing in advertising revenue and special event revenue.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Nonoperating Revenue

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

Nonoperating revenue for FY 2012, net of nonoperating expenses, increased by \$4.32 million from FY 2011. This increase is primarily the result of:

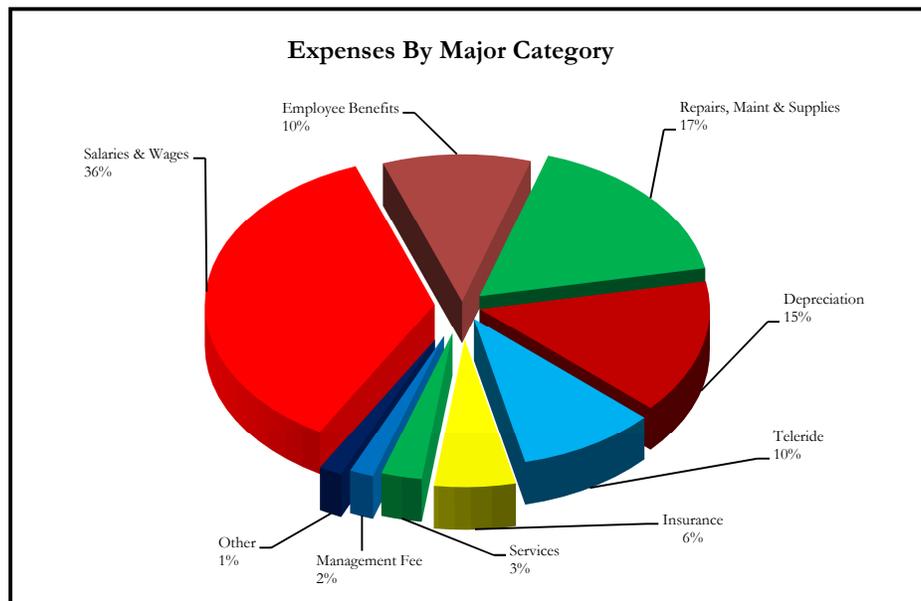
- ◆ Federal grant revenue increased \$598 thousand.
- ◆ Special district tax increased \$186 thousand.
- ◆ Special purpose local option sales tax increased by \$2.01 million.
- ◆ Teleride revenue increased \$34 thousand.
- ◆ Gain on sale of capital assets increased \$1.49 million.

Nonoperating revenue for FY 2011, net of nonoperating expenses, increased by \$65 thousand from FY 2010. This increase is primarily the result of:

- ◆ Federal grant revenue increased \$1.38 million.
- ◆ Special district tax decreased \$325 thousand.
- ◆ Special purpose local option sales tax decreased by \$892 thousand.
- ◆ Teleride revenue decreased \$91 thousand.

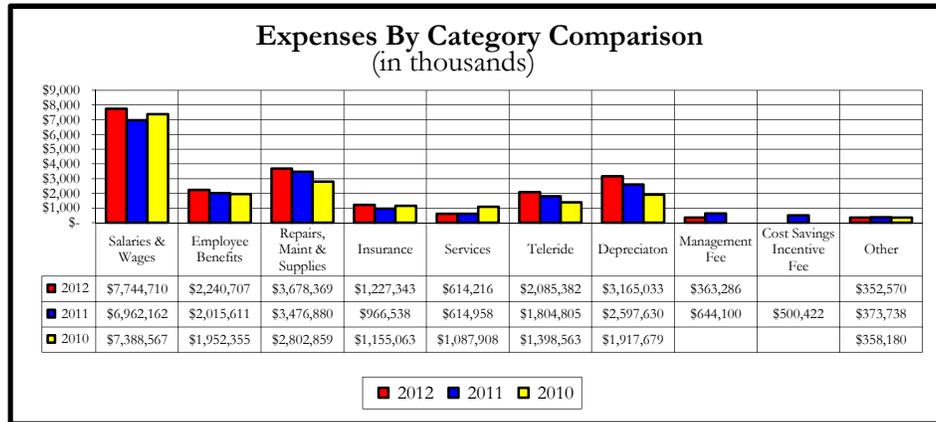
Operating Expenses

The following pie chart details the FY 2012 expenses by major category.



MANAGEMENT'S DISCUSSION AND ANALYSIS

The bar graph that follows shows the Authority's operating expenses by category for FY 2012, FY 2011, and FY 2010:



Total operating expenses for FY 2012 increased by \$1.5 million or a 7.6% increase from FY 2011. Total operating expenses for FY 2011 increased \$1.9 million or 10.5% increase from FY 2010. These changes were primarily the result of the following:

- 1) Salaries and wages for FY 2012 compared to FY 2011 increased \$783 thousand or 11.2% due primarily to operator wage increases, position vacancies and the associated overtime cost.

Salaries and wages for FY 2011 compared to FY 2010 decreased by \$426 thousand or 5.8%, primarily due to policy change in vacation benefit use implemented with the transition of employees under the delegated management contract with Veolia Transportation Services, Inc.

- 2) Employee benefits for FY 2012 compared to FY 2011 increased \$225 thousand due primarily to cost increase associated with health insurance and retirement benefits.

Employee benefits for FY 2011 compared to FY 2010 increased \$63 thousand or 3.2%. This was due primarily to a slight increase in health insurance rates.

- 3) The combined materials, supplies and maintenance expenses for FY 2012 compared to FY 2011 increased \$202 thousand or 5.8%. This net increase was primarily due to increases in fuel and lubricant costs, as well as increases associated with outsourcing bus wash during construction and buildings and grounds maintenance.

The combined materials, supplies and maintenance expenses for FY 2011 compared to FY 2010 increased \$674 thousand or 24%. This net increase was primarily due to increases in fuel and lubricant costs and revenue vehicle maintenance costs.

- 4) Services remained flat in FY 2012 compared to FY 2011.

Services decreased \$488 thousand or 44.8% in FY 2011 compared to FY 2010. This decrease is primarily due to the transition to a delegated management contract. Management fees under the delegated management contract amounted to \$644

MANAGEMENT'S DISCUSSION AND ANALYSIS

thousand during FY 2011 and are accounted for separately in operating expenses for FY 2011.

- 5) Insurance expense for FY 2012 compared to FY 2011 increased by \$261 thousand or 16.8%. This increase is the result of the increase in marine services insurance costs, an increase in workman's compensation and an increase in accident liability costs.

Insurance expense for FY 2011 compared to FY 2010 decreased by \$189 thousand or 16.32%. This decrease is the result of the management services contract that provided for lower fixed fleet insurance costs.

- 6) Teleride expense increased \$281 in FY 2012 compared to FY 2011. An increase in demand for services during the year resulted in a corresponding increase in operating cost.

Teleride expense increased \$406 in FY2011 compared to FY2010. An increase in demand for services during the year resulted in a corresponding increase in operating cost.

- 7) Depreciation expense for FY 2012 compared to FY 2011 increased by \$567 thousand due to the addition of 5 new fixed route vehicles, 12 paratransit vehicles and the continued depreciation of newer vehicles purchased in recent fiscal years.

Depreciation expense for FY 2011 compared to FY 2010 increased by \$680 thousand. This increase was due to the addition of nine new vehicles early in the fiscal year and the continued depreciation of newer vehicles purchased in recent fiscal years.

CAPITAL ASSETS

As the following chart indicates, the Authority's investment in capital assets before depreciation at the end of FY 2012 is \$52.9 million. This was an increase compared to FY 2011 of \$12.6 million. During FY12, the Authority purchased 17 revenue vehicles at a cost of \$4.3 million. The Authority also acquired land for the site of its new transit center at a cost of \$5.3 million and incurred \$3.8 million in construction cost associated with the construction of a new ferry boat nearing completion, the construction of a transit center and the rehabilitation of the Operations and Maintenance Facility.

Capital Assets by Major Category			
	<u>2012</u>	<u>2011</u>	<u>2010</u>
Land	\$ 5,712,619	\$ 1,401,467	\$ 1,401,467
Buildings & Improvements	8,279,130	8,277,646	8,233,288
Vehicles	32,255,877	27,804,222	22,776,048
Furniture & Equipment	1,114,778	1,107,878	1,104,907
Construction in Progress	5,545,790	1,746,617	144,900
	<u>52,908,194</u>	<u>40,337,830</u>	<u>33,660,610</u>
Accumulated Depreciation	<u>(19,374,547)</u>	<u>(16,209,514)</u>	<u>(13,611,884)</u>
	<u>\$ 33,533,647</u>	<u>\$ 24,128,316</u>	<u>\$ 20,048,726</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS

At June 30, 2012, the Authority had outstanding contract commitments of approximately \$14 million related to the construction of a new ferry boat, renovation of the Authority's operations center, and the construction of the Joe Murray Rivers Intermodal Transit Center. These capital asset projects are to be funded through matching federal and state grants.

Renovation of the operation center located at 900 East Gwinnett Street began in April, 2012. The project will include new mechanical components, including fueling station, bus wash, and compressors. Additionally, it will provide office space, a training room, and a library to house the Authority's archives. The facility will have LEED Silver Certification with a budget of approximately \$6.5 million.

Construction of the Joe Murray Rivers Intermodal Transit Center began in February, 2012. The project qualifies 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 will support fourteen Authority buses, four Greyhound buses, one stop for a trolley and the hub for Authority's new Bike Share Program. The facility will have LEED Gold certification and is budgeted at approximately \$15 million.

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

AUTHORITY DEBT ISSUE

The Authority has a \$1,700,000 line of credit agreement with a bank for working capital needs. The line of credit expires December 31, 2013, unless extended. 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 2012 the outstanding balance on the line of credit was \$1,500,000. Interest is payable monthly at LIBOR market index rate plus 1.5%.

ECONOMIC FACTORS

CAT's board of directors and management considered many factors when setting the fiscal year 2013 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 and the completion of two major construction projects. CAT's new transit center is scheduled for completion in September, 2013 and the administration and maintenance renovation will be completed by the end of fiscal year 2013. Both 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

BALANCE SHEETS

June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,789,418	\$ 982,500
Investments	4,087	4,082
Receivables	7,467,226	4,063,844
Inventory	91,712	75,283
Prepaid expenses	6,262	26,802
Total current assets	<u>9,358,705</u>	<u>5,152,511</u>
CAPITAL ASSETS, net	<u>33,533,647</u>	<u>24,128,316</u>
Total assets	<u>\$ 42,892,352</u>	<u>\$ 29,280,827</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 1,704,235	\$ 337,124
Note payable - bank	1,500,000	1,500,000
Due to management company	2,741,632	1,227,520
Current portion of capital lease obligation		12,933
Compensated absences payable	79,055	172,893
Deferred revenue	163,193	163,193
Other liabilities	919,507	825,228
Total current liabilities	<u>7,107,622</u>	<u>4,238,891</u>
LONG-TERM LIABILITIES		
Other postemployment benefits obligation	<u>135,013</u>	<u>124,885</u>
	<u>135,013</u>	<u>124,885</u>
NET ASSETS		
Investment in capital assets, net of related debt	31,946,629	23,907,845
Unrestricted	3,703,088	1,009,206
Total net assets	<u>35,649,717</u>	<u>24,917,051</u>
Total liabilities and net assets	<u>\$ 42,892,352</u>	<u>\$ 29,280,827</u>

CHATHAM AREA TRANSIT AUTHORITY
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
Years Ended June 30, 2012 and 2011

	2012	2011
OPERATING REVENUES		
Passenger fares	\$ 3,310,521	\$ 3,337,262
Contract revenue	1,730,851	1,727,132
Other	222,271	271,713
Total operating revenues	<u>5,263,643</u>	<u>5,336,107</u>
OPERATING EXPENSES		
Salaries and wages	7,744,710	6,962,162
Employee benefits	2,240,707	2,015,611
Materials and supplies	3,031,165	2,986,151
Depreciation	3,165,033	2,597,630
Purchased transportation - Teleride/Paratransit	2,085,382	1,804,805
Insurance	1,227,343	966,538
Management fee	363,286	644,100
Services	614,216	614,958
Cost savings incentive fee		500,422
Repair and maintenance	647,204	490,729
Utilities	136,036	140,941
Miscellaneous	216,534	232,797
Total operating expenses	<u>21,471,616</u>	<u>19,956,844</u>
Operating loss	<u>(16,207,973)</u>	<u>(14,620,737)</u>
NONOPERATING REVENUES (EXPENSES)		
Special district transit tax	7,225,676	7,040,098
Federal grants	2,971,667	2,373,347
Special purpose local option sales tax	2,324,384	312,383
Teleride	2,070,382	2,036,042
Gain on sale of capital assets	1,494,356	
Interest income	496	2,923
Interest expense	(26,905)	(23,250)
Total nonoperating revenues (expenses)	<u>16,060,056</u>	<u>11,741,543</u>
Loss before capital contributions	<u>(147,917)</u>	<u>(2,879,194)</u>
CAPITAL CONTRIBUTIONS		
Federal grants	10,701,474	6,563,196
State grants	179,109	71,687
Local		17,856
Total capital contributions	<u>10,880,583</u>	<u>6,652,739</u>
Change in net assets	10,732,666	3,773,545
Total net assets - beginning	<u>24,917,051</u>	<u>21,143,506</u>
Total net assets - ending	<u>\$ 35,649,717</u>	<u>\$ 24,917,051</u>

CHATHAM AREA TRANSIT AUTHORITY

STATEMENTS OF CASH FLOWS

Years Ended June 30, 2012 and 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Fares and other service revenues	\$ 4,977,460	\$ 5,457,285
Cash payments for goods and services	<u>(16,997,699)</u>	<u>(17,156,265)</u>
Net cash provided (used) in operating activities	<u>(12,020,239)</u>	<u>(11,698,980)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Federal and state grants	3,043,604	1,210,292
Special district transit tax	7,330,414	7,446,931
Teleride	2,310,009	2,281,127
Net borrowings under line of credit		1,500,000
Interest paid	<u>(26,905)</u>	<u>(22,123)</u>
Net cash provided (used) by non-capital financing activities	<u>12,657,122</u>	<u>12,416,227</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital grants	8,753,409	5,913,285
Special purpose local option sales tax	918,057	351,966
Proceeds from sale of capital assets	2,407,200	
Contributed capital		118,750
Acquisition and construction of capital assets	(11,896,189)	(6,677,220)
Principal payments on capital lease obligation	(12,933)	(50,177)
Interest paid		<u>(1,127)</u>
Net cash provided (used) in capital and related financing activities	<u>169,544</u>	<u>(344,523)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	<u>491</u>	<u>2,914</u>
Net cash provided (used) in investing activities	<u>491</u>	<u>2,914</u>
Increase in cash and cash equivalents	<u>806,918</u>	<u>375,638</u>
Cash and cash equivalents - Beginning of year	<u>982,500</u>	<u>606,862</u>
Cash and cash equivalents - End of year	<u>\$ 1,789,418</u>	<u>\$ 982,500</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES		
Operating loss	\$ (16,207,973)	\$ (14,620,737)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	3,165,033	2,597,630
Changes in:		
Receivables	(286,183)	121,178
Inventory	(16,429)	202,222
Prepaid expenses	20,540	(26,802)
Accounts payable	(219,908)	(474,303)
Compensated absences payable	(93,838)	(330,607)
Other postemployment benefits obligation	10,128	6,874
Due to management company	1,514,112	1,227,520
Other liabilities	<u>94,279</u>	<u>(401,955)</u>
Net cash used in operating activities	<u>\$ (12,020,239)</u>	<u>\$ (11,698,980)</u>

CHATHAM AREA TRANSIT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2012 and 2011

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 will consist of one member of the Board of Aldermen of the City of Savannah and one resident of the City of Savannah.

The Authority is reported as an enterprise fund on the financial statements of Chatham County, Georgia (the “County”). In conformity with GASB No. 14, there is no component unit that meets the criteria for component units requiring presentation in Chatham Area Transit Authority’s financial statements.

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 recorded when earned and expenses are recorded at the time liabilities are incurred.

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.

Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, requires that governments' proprietary activities apply all GASB pronouncements, as well as the pronouncements of the Financial Accounting Standards Board (FASB) and its predecessors issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. As allowed by GASB Statement No. 20, the Authority has elected not to implement FASB Statements and Interpretations issued after November 30, 1989. GASB Statement No. 62 supersedes GASB Statement No. 20, and is effective for periods beginning after December 15, 2011. The Authority has not elected early adoption of this statement.

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.

CHATHAM AREA TRANSIT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2012 and 2011

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:

Asset Type	Estimated Useful Life
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.

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.

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, 2012 and 2011, 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, 2012 and 2011:

Investment Type	June 30,			
	2012		2011	
	Fair Value	Weighted Avg. Maturity Days	Fair Value	Weighted Avg. Maturity Days
Georgia Fund I	\$ 4,087	48	\$ 4,082	59

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

CHATHAM AREA TRANSIT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2012 and 2011

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 AAAM by Standard & Poor's.

NOTE 3. RECEIVABLES

Receivables consist of the following:

	June 30,	
	2012	2011
Taxes receivable, net	\$ 1,270,405	\$ 1,375,143
Grants receivable	4,043,853	1,988,616
Accounts receivable, net	495,722	209,539
Intergovernmental receivable	1,657,246	490,546
	\$ 7,467,226	\$ 4,063,844

Accounts receivable and the special district transit tax receivables are shown net of an allowance for uncollectibles. At June 30, 2012 and 2011, the allowance for uncollectibles totaled \$50,000 and \$43,717, respectively.

NOTE 4. CAPITAL ASSETS

Capital assets are summarized as follows:

	June 30, 2011	Increases	Decreases	June 30, 2012
Capital assets, not being depreciated				
Land	\$ 1,401,467	\$ 5,212,800	\$ (901,648)	\$ 5,712,619
Construction in progress	1,746,617	3,799,173		5,545,790
Total capital assets, not being depreciated	3,148,084	9,011,973	(901,648)	11,258,409
Capital assets, being depreciated				
Buildings and improvements	8,277,646	1,484		8,279,130
Transit vehicles	27,620,447	4,451,655		32,072,102
Service vehicles	183,775			183,775
Shop equipment	438,752			438,752
Furniture and office equipment	669,126	6,900		676,026
	37,189,746	4,460,039		41,649,785
Less accumulated depreciation				
Buildings and improvements	4,654,006	359,426		5,013,432
Transit vehicles	10,453,516	2,735,867		13,189,383
Service vehicles	126,529	20,180		146,709
Shop equipment	406,462	20,606		427,068
Furniture and office equipment	569,001	28,954		597,955
Total accumulated depreciation	16,209,514	3,165,033		19,374,547
Capital assets, net	\$ 24,128,316	\$ 10,306,979	\$ (901,648)	\$ 33,533,647

CHATHAM AREA TRANSIT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2012 and 2011

	<u>June 30, 2010</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2011</u>
Capital assets, not being depreciated				
Land	\$ 1,401,467	\$	\$	\$ 1,401,467
Construction in progress	<u>144,900</u>	<u>1,601,717</u>		<u>1,746,617</u>
Total capital assets, not being depreciated	<u>1,546,367</u>	<u>1,601,717</u>		<u>3,148,084</u>
Capital assets, being depreciated				
Buildings and improvements	8,233,288	44,358		8,277,646
Transit vehicles	22,592,273	5,028,174		27,620,447
Service vehicles	183,775			183,775
Shop equipment	438,752			438,752
Furniture and office equipment	<u>666,155</u>	<u>2,971</u>		<u>669,126</u>
	<u>32,114,243</u>	<u>5,075,503</u>		<u>37,189,746</u>
Less accumulated depreciation				
Buildings and improvements	4,287,235	366,771		4,654,006
Transit vehicles	8,307,178	2,146,338		10,453,516
Service vehicles	106,349	20,180		126,529
Shop equipment	374,512	31,950		406,462
Furniture and office equipment	<u>536,610</u>	<u>32,391</u>		<u>569,001</u>
Total accumulated depreciation	<u>13,611,884</u>	<u>2,597,630</u>		<u>16,209,514</u>
Capital assets, net	<u>\$ 20,048,726</u>	<u>\$ 4,079,590</u>	<u>\$</u>	<u>\$ 24,128,316</u>

Capital assets acquired under capital lease obligations total \$185,361 at June 30, 2012 and 2011, and are included as a component of transit vehicles. Related amortization included in accumulated depreciation transit vehicles totaled \$173,004 and \$135,931 at June 30, 2012 and 2011, respectively.

NOTE 5. NOTE PAYABLE

The Authority has a \$1,700,000 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 1.5%.

Activity under line of credit for the year ended June 30, 2012 was as follows:

Beginning Balance	Advances	Repayments	Ending Balance
<u>\$ 1,500,000</u>	<u>\$</u>	<u>\$</u>	<u>\$ 1,500,000</u>

NOTE 6. 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.

CHATHAM AREA TRANSIT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2012 and 2011

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 (\$473 per month for retiree only coverage and \$946 per month for dependent coverage). 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 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, 2012 and 2011.

	June 30,	
	2012	2011
Annual required contribution	\$ 17,130	\$ 17,435
Interest on unfunded ARC	3,008	2,832
Adjustment to ARC	(3,581)	(3,372)
Annual OPEB cost	16,557	16,895
Contributions made	(6,429)	(10,021)
Increase in net OPEB obligation	10,128	6,874
Net OPEB obligation - beginning of year	124,885	118,011
Net OPEB obligation - end of year	\$ 135,013	\$ 124,885

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
6/30/2010	\$ 45,957	20%	\$ 118,011
6/30/2011	\$ 16,895	59%	\$ 124,885
6/30/2012	\$ 16,557	39%	\$ 135,013

Funded Status and Funding Progress - As of the last valuation date (July 1, 2011), the actuarial accrued liability for benefits was \$498,195 and the actuarial value of assets was zero, resulting in an unfunded actuarial accrued liability (UAAL) of \$498,195.

CHATHAM AREA TRANSIT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2012 and 2011

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. Additional information as of the latest actuarial valuation follows:

Valuation date	July 1, 2011
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 7. 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, 2012, the Authority had outstanding contract commitments totaling approximately \$13,753,000 related to design and remodeling of the administrative offices, construction of a new ferry boat and construction of a new transit center. These capital asset projects are to be funded through matching federal grants.

CHATHAM AREA TRANSIT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2012 and 2011

NOTE 8. MANAGEMENT AGREEMENTS

Effective July 1, 2010, the Authority entered into a five year agreement with Veolia Transportation Services, Inc. to manage, operate and maintain the Authority's transit system, utilizing equipment and facilities provided by the Authority and employing and furnishing its own personnel. Veolia's management fee under this agreement is based on 5% of the annual operating budget submitted by Veolia and approved by the Authority's Board adjusted for operating costs exceeding budget. In addition to the annual fee, the agreement also provides for certain cost saving incentive fees if Veolia is able to generate operational efficiencies that will reduce cost and increase farebox revenue.

The following table presents Veolia Transportation Services, Inc. current year operating costs included in the accompanying statements of revenues, expenses, and changes in net assets along with comparison to their annual operating budget as approved by the Authority's Board.

	Actual	Budget	Over (under) Budget
Salaries	\$ 7,469,978	\$ 7,243,025	\$ 226,953
Benefits	2,145,627	2,236,623	(90,996)
Materials and supplies	971,099	931,309	39,790
Insurance	997,896	1,035,247	(37,351)
Services	361,300	286,395	74,905
Repair and maintenance	469,897	313,488	156,409
Utilities	135,536	145,212	(9,676)
Miscellaneous	141,390	186,901	(45,511)
Interest	26,905	24,576	2,329
Management fee	303,287	620,139	(316,852)
	\$ 13,022,915	\$ 13,022,915	\$

For fiscal 2012, the Authority entered into an agreement with Veolia Transportation Services to manage, operate and maintain the Authority's water ferry operations, utilizing equipment and facilities provided by the Authority and employing and furnishing its own personnel. For fiscal year 2012, operating costs of the water ferry system totaled \$709,814 under this agreement.

The Authority has an agreement with Chatham County to provide teleride/paratransit passenger services for disabled persons throughout the county. This agreement is subject to renewal annually. The Authority has subcontracted with Veolia Transportation Services, Inc. to manage the operations of this service.

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

June 30, 2012

<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>
July 1, 2009	\$0	\$ 775,849	\$ 775,849	0%	\$ 7,238,171	11%
July 1, 2010	\$0	\$ 512,597	512,597	0%	\$ 7,388,567	7%
July 1, 2011	\$0	\$ 498,195	498,195	0%	\$ 365,492	136%



CHATHAM AREA TRANSIT

COMPLIANCE SECTION

CHATHAM AREA TRANSIT AUTHORITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2012

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	\$ 6,516,291
Federal Transit - Formula Grants	20.507	N/A	4,261,988
Pass-through Program From:			
Georgia Department of Transportation			
Federal Transit - Capital Investment Grants	20.500	MTG00-0098-00-001	1,469,678
Federal Transit - Capital Investment Grants	20.500	MSL00-0000-00(836)	<u>680,825</u>
Total Federal Transit Cluster			12,928,782
Direct Program:			
New Freedom	20.521	N/A	97,460
Job Access/Reverse Commute	20.516	N/A	<u>646,899</u>
Total Expenditures of Federal Awards			<u>\$ 13,673,141</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, 2012

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.

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 the basic financial statements of Chatham Area Transit Authority, a component unit of Chatham County, Georgia, as of and for the year ended June 30, 2012 and have issued our report thereon dated January 17, 2013. 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

Management of Chatham Area Transit Authority is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Chatham Area Transit Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Chatham Area Transit Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Chatham Area Transit Authority's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs as item 2012-1 and 2012-2 that we considered to be a significant deficiency in internal control over financial reporting. A significant deficiency is a deficiency, or 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Chatham Area Transit Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

Daniel & Duncan LLC

Savannah, Georgia
January 17, 2013

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

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

Compliance

We have audited the compliance of Chatham Area Transit Authority with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2012. Chatham Area Transit Authority's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Chatham Area Transit Authority's management. Our responsibility is to express an opinion on Chatham Area Transit Authority's compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards; 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 Government, 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 Chatham Area Transit 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. Our audit does not provide a legal determination on Chatham Area Transit Authority's compliance with those requirements.

In our opinion, Chatham Area Transit Authority complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

Management of Chatham Area Transit Authority is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Chatham Area Transit Authority's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance 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 Chatham Area Transit 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.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

The purpose of this report is solely to describe the scope of our testing of compliance with the types of compliance requirements applicable to each of Chatham Area Transit Authority's major programs and our testing of internal control over compliance and the results of our testing, and to provide an opinion on Chatham Area Transit Authority's compliance but not to provide an opinion on the effectiveness of Chatham Area Transit Authority's internal control over compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Chatham Area Transit Authority's compliance with requirements applicable to each major program and its internal control over compliance. Accordingly, this report is not suitable for any other purpose.

Daniel & Duncan LLC

Savannah, Georgia
January 17, 2013

CHATHAM AREA TRANSIT AUTHORITY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2012

SECTION I. SUMMARY OF AUDIT RESULTS

Financial Statements

- The auditor’s report expresses an unqualified opinion on the basic financial statements of Chatham Area Transit Authority.
- Two significant deficiencies in internal control over financial reporting are reported in the 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*.
- No instances of noncompliance material to the financial statements of Chatham Area Transit Authority, which would be required to be reported in accordance with *Government 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 Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133.
- The auditor’s report on compliance for the major federal award programs for Chatham Area Transit Authority expresses an unqualified 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 Administration –	
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, 2012

SECTION II. FINDINGS - FINANCIAL STATEMENT AUDIT

2012-1 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.

Managements Response: Management agrees with this finding and has implemented procedures that increase the frequency of general ledger account reconciliation from quarterly to monthly. Monthly reconciliation of material general ledger accounts and all subsidiary ledgers will enhance internal control over financial reporting and assist in preventing errors and large adjustments that may occur when reconciliation procedures are only completed quarterly. All reconciliations will be reviewed by supervisory personnel.

2012-2 Bank Reconciliations

Condition: Bank reconciliations were not prepared on a monthly basis during the year.

Criteria: Monthly bank reconciliations form an important review of cash transactions that may uncover possible bank and accounting errors, as well as verify the cash balance.

Effect: Failure to reconcile bank accounts on a monthly basis means that errors or other adjustments might not be recognized and resolved on a timely basis.

Recommendation: All bank accounts should be reconciled on a monthly basis. Bank reconciliations should be reviewed for accuracy and completeness on a timely basis by a responsible official.

Management Response: Management agrees with this finding and notes that cash reconciliations for the period July – December were not completed within a 30-day time period. During FY 2012, CAT revised cash reconciliation procedures to ensure that appropriate documentation of monthly cash reconciliation and review was completed timely. Cash accounts are currently reconciled on a monthly basis and reviewed by supervisory personnel.

CHATHAM AREA TRANSIT AUTHORITY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2012

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

None

SECTION IV. STATUS OF PRIOR YEAR AUDIT FINDINGS

The prior year Schedule of Findings and Questioned Costs disclosed no findings relative to federal awards.