



*CHATHAM AREA TRANSIT  
AUTHORITY*

*FINANCIAL REPORT*

*Years Ended June 30, 2013 and 2012*

**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, 2013 and 2012, 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, 2013 and 2012, 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 12 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 December 18, 2013 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  
December 18, 2013

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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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, 2013 (FY 2013). 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 2013, the Authority's total assets exceeded total liabilities by \$43.9 million. Of this amount \$1.2 million was unrestricted and available to support operations. Total net position increased by approximately \$8.3 million during the current fiscal year. This 23.21% increase in total net position compared to FY 2012 is due to a \$ 10.7 million increase in capital assets, net of related debt, and a \$2.5 million decrease in unrestricted net position. The increase in capital assets, net of related debt is due primarily to the purchase of transit vehicles, along with construction in process cost associated with three capital projects; the installation of an Intelligent Transit System, 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 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

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### **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 13 through 22 of this report.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### FINANCIAL ANALYSIS

<b>Condensed Balance Sheets</b>			
(in thousands)			
	Years Ended June 30,		
	2013	2012	2011
Current Assets	\$ 12,556	\$ 9,240	\$ 5,153
Capital Assets	45,828	33,534	24,128
<b>Total Assets</b>	<b>\$ 58,384</b>	<b>\$ 42,774</b>	<b>\$ 29,281</b>
Current Liabilities	\$ 14,318	\$ 6,989	\$ 4,239
Long-term Liabilities	140	135	125
<b>Total Liabilities</b>	<b>14,458</b>	<b>7,124</b>	<b>4,364</b>
<b>Net Position</b>			
Investment in Capital Assets	42,683	31,947	23,908
Unrestricted	1,243	3,703	1,009
<b>Total Net Position</b>	<b>43,926</b>	<b>35,650</b>	<b>24,917</b>
<b>Total Liabilities and Net Position</b>	<b>\$ 58,384</b>	<b>\$ 42,774</b>	<b>\$ 29,281</b>

As noted earlier, net position may serve over time as a useful indicator of the Authority's financial position. As the above table indicates, assets exceeded liabilities by \$43.93 million as of June 30, 2013 which reflects an increase of \$8.28 million compared to \$35.65 million as of June 30, 2012.

Transit is a capital-intensive enterprise; 97.17% or \$42.68 million of the Authority's \$43.93 million in net position at the end of FY 2013 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 2.83% or \$1.2 million is available to meet the Authority's ongoing operating and debt obligations.

At the end of FY 2012, 89.62% or \$31.95 million of the Authority's \$35.65 million in net position was invested in capital assets, net of related debt. The remaining 10.38% or \$3.7 million is available to meet the Authority's ongoing operating and debt obligations.



## MANAGEMENT'S DISCUSSION AND ANALYSIS

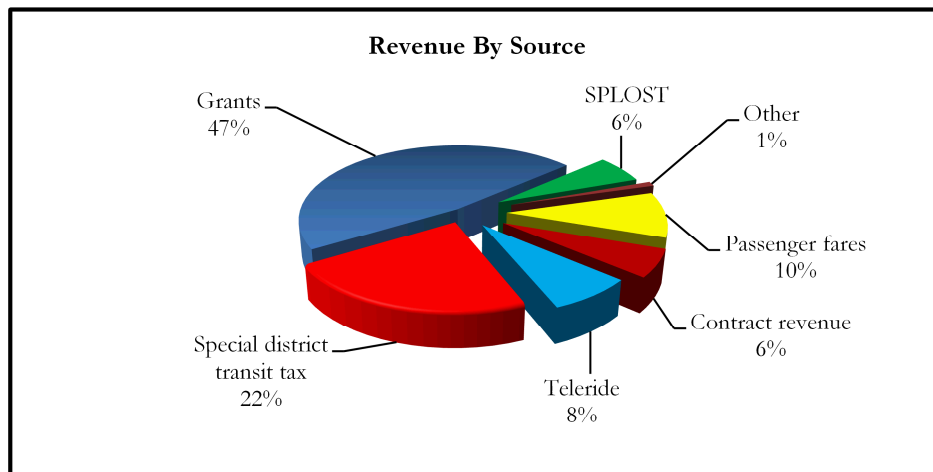
As shown on the following condensed statements of revenues, expenses and changes in net position, the Authority's net position increased by \$8.3 million during FY 2013. This increase is primarily due to capital investment grant revenue from U.S. Department of Transportation.

Comparatively, net position increased by \$10.7 million during FY 2012. This increase was also primarily due to capital investment grant revenue from U.S. Department of Transportation.

<b>Condensed Statements of Revenues, Expenses and Changes in Net Position</b>			
(in thousands)			
	Years Ended June 30,		
	2013	2012	2011
Revenue			
Operating Revenue	\$ 5,202	\$ 5,264	\$ 5,336
Nonoperating Revenue	13,673	16,060	11,742
Total Revenue	18,875	21,324	17,078
Operating Expenses	22,775	21,472	19,957
Loss before Contributions	(3,900)	(148)	(2,879)
Capital Contributions	12,176	10,881	6,652
Change in Net Position	8,276	10,733	3,773
Net Position - Beginning	35,650	24,917	21,144
Net Position - End	<u>\$ 43,926</u>	<u>\$ 35,650</u>	<u>\$ 24,917</u>

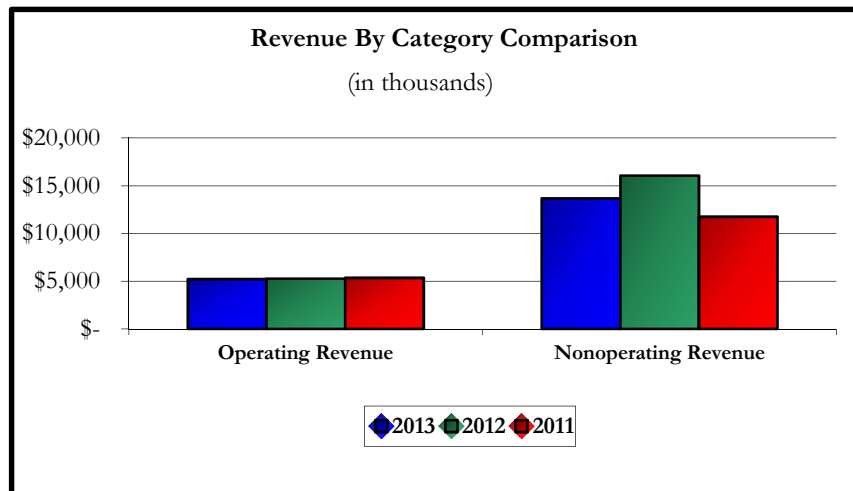
### Revenue

The following graph provides a visual presentation of the Authority's revenue by source for FY2013.



## 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 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 Marine Services and university pass program revenue.
- ◆ Other revenue increased by \$82 thousand. This increase is a result of an increase in advertising 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 decrease in advertising 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 2013, net of nonoperating expenses, decreased by \$2.39 million from FY 2012. This decrease is primarily the result of:

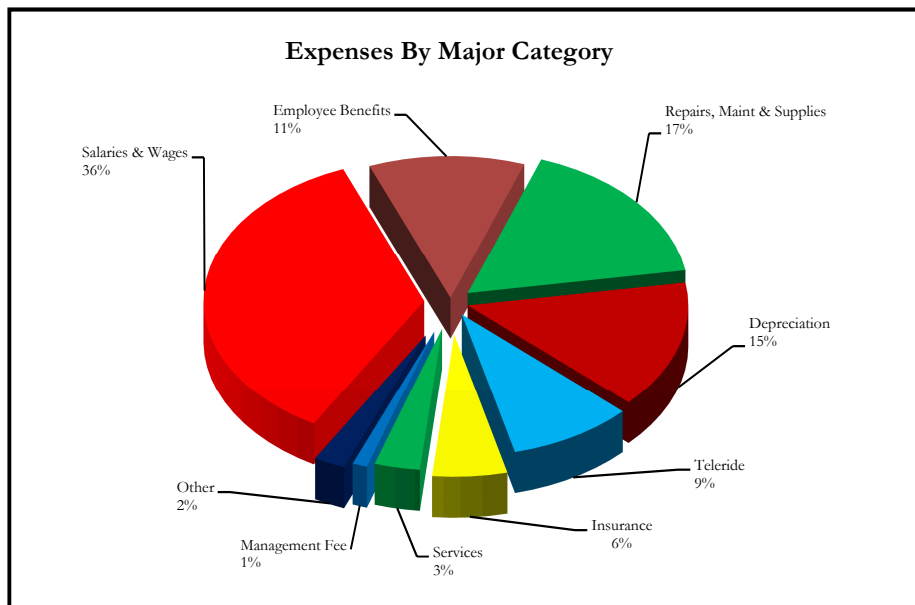
- ◆ Federal grant revenue decreased \$366 thousand.
- ◆ Special district tax decreased \$166 thousand.
- ◆ Special purpose local option sales tax decreased by \$466 thousand.
- ◆ Teleride revenue increased \$300 thousand.
- ◆ Gain (loss) on disposal of capital assets decreased \$1.69 million.

Nonoperating revenue for FY 2012, net of nonoperating expenses, increased by \$4.32 thousand 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 (loss) on disposal of capital assets increased \$1.49 million.

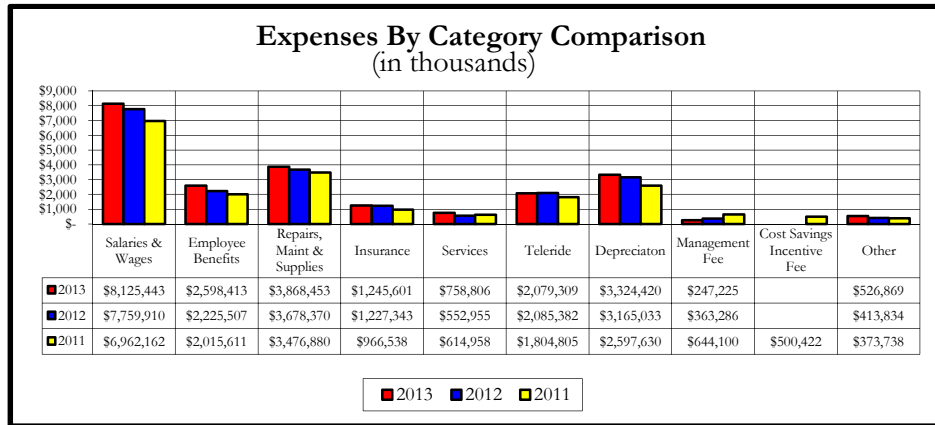
### Operating Expenses

The following pie chart details the FY 2013 expenses by major category.



## MANAGEMENT'S DISCUSSION AND ANALYSIS

The bar graph that follows shows the Authority's operating expenses by category for FY 2013, FY 2012, and FY 2011:



Total operating expenses for FY 2013 increased by \$1.3 million or a 6.1% increase from FY 2012. Total operating expenses for FY 2012 increased \$1.5 million or 7.6% increase from FY 2011. These changes were primarily the result of the following:

- 1) 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.

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.

- 2) Employee benefits for FY 2013 compared to FY 2012 increased \$373 thousand due primarily to cost increase associated with health insurance.

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

- 3) 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.

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.

- 4) 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 IT support, insurance brokerage and staffing expenses.

Services remained flat for FY2012 compared to FY 2011.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

- 5) 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.

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.

- 6) Teleride expense remained flat for FY 2013 compared to FY 2012.

Teleride expense increased \$281 thousand in FY2012 compared to FY2011. An increase in demand for services during the year resulted in a corresponding increase in operating cost.

- 7) Depreciation expense for FY 2013 compared to FY 2012 increased by \$159 thousand 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.

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.

### CAPITAL ASSETS

As the following chart indicates, the Authority's investment in capital assets before depreciation at the end of FY 2013 is \$67.38 million. This was an increase compared to FY 2012 of \$14.5 million. During FY13, the Authority purchased 4 transit vehicles at a cost of \$400 thousand. The Authority also completed construction of a new ferry boat with a total cost of \$2.1 million and incurred \$14.6 million in construction cost associated with the construction of a transit center, the rehabilitation of the Operations and Maintenance Facility and the purchase and installation of an Intelligent Transit System.

<b>Capital Assets by Major Category</b>			
	<u>2013</u>	<u>2012</u>	<u>2011</u>
Land	\$ 5,712,619	\$ 5,712,619	\$ 1,401,467
Buildings & Improvements	7,001,321	8,279,130	8,277,646
Vehicles	35,073,238	32,255,877	27,804,222
Furniture & Equipment	1,358,546	1,114,778	1,107,878
Construction in Progress	18,242,443	5,545,790	1,746,617
	<u>67,388,167</u>	<u>52,908,194</u>	<u>40,337,830</u>
Accumulated Depreciation	<u>(21,559,834)</u>	<u>(19,374,547)</u>	<u>(16,209,514)</u>
	<u>\$ 45,828,333</u>	<u>\$ 33,533,647</u>	<u>\$ 24,128,316</u>

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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At June 30, 2013, the Authority had outstanding contract commitments of approximately \$3.4 million related to the purchase and installation of an Intelligent Transit System, 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 \$7,700,000 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 2013 the outstanding balance on the line of credit was \$6,000,000. Interest is payable monthly at LIBOR market index rate plus 1.35%.

### **ECONOMIC FACTORS**

CAT's board of directors terminated the delegated management agreement with Veolia Transportation in April, 2013 after three years into a five year agreement to manage, operate and maintain the Authority's transit system. Decreasing revenue streams and a need for containing cost drove this decision. CAT returned to self-management on May 16, 2013.

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 three major construction projects. CAT's new transit center is scheduled for completion in September, 2013 and the administration and maintenance renovation and Intelligent Transit System implementation will be completed in March, 2014. All three projects are being funded with assistance from federal and state grants with matching funds provided by local option sales tax.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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### **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, 2013 and 2012

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	<u>2013</u>	<u>2012</u>
<b>ASSETS</b>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 929,152	\$ 1,789,418
Investments	4,093	4,087
Receivables	11,211,350	7,348,476
Inventory	142,629	91,712
Prepaid expenses	268,123	6,262
Total current assets	<u>12,555,347</u>	<u>9,239,955</u>
CAPITAL ASSETS, net	<u>45,828,333</u>	<u>33,533,647</u>
Total assets	<u>\$ 58,383,680</u>	<u>\$ 42,773,602</u>
<b>LIABILITIES AND NET POSITION</b>		
CURRENT LIABILITIES		
Accounts payable	\$ 3,683,439	\$ 1,704,235
Note payable - bank	6,000,000	1,500,000
Accrued salaries and withheld taxes	578,261	
Other accrued expenses	874,267	411,997
Other liabilities	3,181,886	3,372,640
Total current liabilities	<u>14,317,853</u>	<u>6,988,872</u>
LONG-TERM LIABILITIES		
Other postemployment benefits obligation	140,134	135,013
	<u>140,134</u>	<u>135,013</u>
NET POSITION		
Investment in capital assets, net of related debt	42,683,180	31,946,629
Unrestricted	1,242,513	3,703,088
Total net position	<u>43,925,693</u>	<u>35,649,717</u>
Total liabilities and net position	<u>\$ 58,383,680</u>	<u>\$ 42,773,602</u>



**CHATHAM AREA TRANSIT AUTHORITY**  
**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**  
Years Ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
<b>OPERATING REVENUES</b>		
Passenger fares	\$ 3,038,407	\$ 3,310,524
Contract revenue	1,859,340	1,730,851
Other	<u>304,273</u>	<u>222,272</u>
Total operating revenues	<u>5,202,020</u>	<u>5,263,647</u>
<b>OPERATING EXPENSES</b>		
Salaries and wages	8,125,443	7,759,910
Employee benefits	2,598,413	2,225,507
Materials and supplies	3,086,334	3,031,165
Depreciation	3,324,420	3,165,033
Purchased transportation - Teleride/Paratransit	2,079,309	2,085,382
Insurance	1,245,601	1,227,343
Management fee	247,225	363,286
Services	758,806	552,955
Repair and maintenance	782,119	647,205
Utilities	150,310	136,036
Miscellaneous	<u>376,559</u>	<u>277,798</u>
Total operating expenses	<u>22,774,539</u>	<u>21,471,620</u>
Operating loss	<u>(17,572,519)</u>	<u>(16,207,973)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Special district transit tax	7,059,897	7,225,676
Federal grants	2,605,747	2,971,667
Special purpose local option sales tax	1,858,071	2,324,384
Teleride	2,370,251	2,070,382
Gain (loss) on disposal of capital assets	(191,026)	1,494,356
Interest income	113	496
Interest expense	<u>(30,427)</u>	<u>(26,905)</u>
Total nonoperating revenues (expenses)	<u>13,672,626</u>	<u>16,060,056</u>
Loss before capital contributions	<u>(3,899,893)</u>	<u>(147,917)</u>
<b>CAPITAL CONTRIBUTIONS</b>		
Federal grants	11,631,243	10,701,474
State grants	<u>544,626</u>	<u>179,109</u>
Total capital contributions	<u>12,175,869</u>	<u>10,880,583</u>
Change in net assets	8,275,976	10,732,666
Net position - beginning of year	<u>35,649,717</u>	<u>24,917,051</u>
Net position - end of year	<u>\$ 43,925,693</u>	<u>\$ 35,649,717</u>

**CHATHAM AREA TRANSIT AUTHORITY**

**STATEMENTS OF CASH FLOWS**

Years Ended June 30, 2013 and 2012

	2013	2012
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Fares and other service revenues	\$ 5,329,700	\$ 4,977,460
Cash payments for goods and services	<u>(18,492,930)</u>	<u>(16,997,699)</u>
Net cash provided (used) in operating activities	<u>(13,163,230)</u>	<u>(12,020,239)</u>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>		
Federal and state grants	2,188,336	3,043,604
Special district transit tax	7,083,969	7,330,414
Teleride	2,132,190	2,310,009
Net borrowings under line of credit	4,500,000	
Interest paid	<u>(24,427)</u>	<u>(26,905)</u>
Net cash provided (used) by non-capital financing activities	<u>15,880,068</u>	<u>12,657,122</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Capital grants	9,293,522	8,753,409
Special purpose local option sales tax	1,381,264	918,057
Acquisition and construction of capital assets	(14,251,997)	(11,896,189)
Proceeds from sale of capital assets		2,407,200
Principal payments on capital lease obligation		<u>(12,933)</u>
Net cash provided (used) in capital and related financing activities	<u>(3,577,211)</u>	<u>169,544</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest received	<u>107</u>	<u>491</u>
Net cash provided (used) in investing activities	<u>107</u>	<u>491</u>
Increase in cash and cash equivalents	<u>(860,266)</u>	<u>806,918</u>
Cash and cash equivalents - Beginning of year	<u>1,789,418</u>	<u>982,500</u>
Cash and cash equivalents - End of year	<u>\$ 929,152</u>	<u>\$ 1,789,418</u>
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES</b>		
Operating loss	\$ (17,572,519)	\$ (16,207,973)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	3,324,420	3,165,033
Changes in:		
Receivables	127,680	(286,183)
Inventory	(50,917)	(16,429)
Prepaid expenses	(261,861)	20,540
Accounts payable	421,069	(219,908)
Accrued salaries and withheld taxes	578,261	
Other accrued expenses	456,270	(93,838)
Other postemployment benefits obligation	5,121	10,128
Other liabilities	<u>(190,754)</u>	<u>1,608,391</u>
Net cash used in operating activities	<u>\$ (13,163,230)</u>	<u>\$ (12,020,239)</u>

# CHATHAM AREA TRANSIT AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

June 30, 2013 and 2012

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### 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 recognized when earned, and expenses are recognized when incurred.

In the year ended June 30, 2012 the Authority implemented GASB 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 implementation of this guidance did not have a significant effect on the Authority’s financial statements.

In the year ended June 30, 2013 the Authority implemented GASB 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. In addition, the Authority has elected to early implement GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The implementation of this guidance affected the reporting format of the financial statements.

**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.

# CHATHAM AREA TRANSIT AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

June 30, 2013 and 2012

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**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:

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.

**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, 2013 and 2012

**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, 2013 and 2012, 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, 2013 and 2012:

Investment Type	June 30,			
	2013		2012	
	Fair Value	Weighted Avg. Maturity Days	Fair Value	Weighted Avg. Maturity Days
Georgia Fund I	\$ 4,093	43	\$ 4,087	48

**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 AAf by Standard & Poor's.

**NOTE 3. RECEIVABLES**

Receivables consist of the following:

	June 30,	
	2013	2012
Taxes receivable, net	\$ 1,246,333	\$ 1,270,405
Grants receivable	7,224,861	3,925,103
Accounts receivable, net	368,042	495,722
Intergovernmental receivable	2,372,114	1,657,246
	<u>\$ 11,211,350</u>	<u>\$ 7,348,476</u>

Accounts receivable and the special district transit tax receivables are shown net of an allowance for uncollectibles. At June 30, 2013 and 2012, the allowance for uncollectibles totaled \$61,500 and \$50,000, respectively.

**CHATHAM AREA TRANSIT AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS**

June 30, 2013 and 2012

**NOTE 4. CAPITAL ASSETS**

Capital assets are summarized as follows:

	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
	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
Total capital assets, being depreciated	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, 2013 and 2012

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**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, 2013 was as follows:

<u>Beginning Balance</u>	<u>Advances</u>	<u>Repayments</u>	<u>Ending Balance</u>
<u>\$ 1,500,000</u>	<u>\$ 4,500,000</u>	<u>\$</u>	<u>\$ 6,000,000</u>

**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 year ended June 30, 2013 totaled \$10,568.

**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 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 year ended June 30, 2013 totaled \$2,688.

**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 year ended June 30, 2013 totaled \$1,985.

**CHATHAM AREA TRANSIT AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS**

June 30, 2013 and 2012

**NOTE 7. 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 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, 2013 and 2012.

	June 30,	
	2013	2012
Annual required contribution	\$ 16,658	\$ 17,130
Interest on unfunded ARC	3,146	3,008
Adjustment to ARC	(3,745)	(3,581)
Annual OPEB cost	16,059	16,557
Contributions made	(10,938)	(6,429)
Increase in net OPEB obligation	5,121	10,128
Net OPEB obligation - beginning of year	135,013	124,885
Net OPEB obligation - end of year	\$ 140,134	\$ 135,013

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
6/30/2011	\$ 16,895	59%	\$ 124,885
6/30/2012	\$ 16,557	39%	\$ 135,013
6/30/2013	\$ 16,059	68%	\$ 140,134



# CHATHAM AREA TRANSIT AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

June 30, 2013 and 2012

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**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.

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 8. 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, 2013, the Authority had outstanding contract commitments totaling approximately \$3,430,000 related to design and remodeling of the administrative offices, construction of a new transit center and the 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, 2013

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<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, 2013

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	\$ 822,215
Federal Transit - Formula Grants	20.507	N/A	9,942,860
Pass-through Program From:			
Georgia Department of Transportation			
Federal Transit - Capital Investment Grants	20.500	MTG00-0098-00-001	2,342,723
Federal Transit - Capital Investment Grants	20.500	MSL00-0000-00(836)	<u>186,802</u>
Total Federal Transit Cluster			13,294,600
Direct Program:			
New Freedom	20.521	N/A	24,966
Job Access/Reverse Commute	20.516	N/A	<u>917,424</u>
Total Expenditures of Federal Awards			<u>\$ 14,236,990</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, 2013

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**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, 2013 and the related notes to the financial statements, which collectively comprise Authority's basic financial statements and have issued our report thereon dated December 18, 2013.

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 items 2013-1 and 2013-2 that we consider to be significant deficiencies.

### 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  
December 18, 2013

## 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, 2013. 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, 2013.



## **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  
December 18, 2013

Chatham Area Transit Authority  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
Year Ended June 30, 2013

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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
- Two significant deficiencies 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
Job Access/Reverse Commute	20.516

- The threshold for distinguishing between Types A and B programs was \$427,110.
- 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, 2013

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Section II. FINDINGS - FINANCIAL STATEMENT AUDIT

2013-1 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. Staffing levels were increased in the accounting area in order to ensure sufficient resources to allow for timely reconciliations on a realistic schedule. Subsidiary accounts are currently being reconciled to the general ledger and the reconciliations are being reviewed by supervisory personnel.

2013-2 Bank Reconciliations

*Condition:* Bank reconciliations were not prepared on a monthly basis during the last quarter of fiscal 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 has implemented corrective action. Bank reconciliations were completed on a timely basis for the first nine months of the fiscal year. Once the delegated management agreement was terminated in April, 2013, accounting staff resources were re-directed to the critical tasks of upgrading CAT's financial systems and implementing the software modules necessary to produce payroll in-house. Once transition task were complete, bank reconciliations were brought current. CAT accounting

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

Year Ended June 30, 2013

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staff will continue to make timely monthly reconciliation of all cash accounts a priority and the reconciliations will be reviewed for accuracy and completeness on a timely basis by a responsible official.

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

None

Section IV. STATUS OF PRIOR YEAR AUDIT FINDINGS

None