



*CHATHAM AREA TRANSIT
AUTHORITY*

FINANCIAL REPORT

Years Ended June 30, 2017 and 2016

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, 2017 and 2016, 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, 2017 and 2016, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming an opinion 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 Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also 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 basic 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 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 November 13, 2017 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* in considering Chatham Area Transit Authority's internal control over financial reporting and compliance.

Daniel & Duncan LLC

Savannah, Georgia
November 13, 2017

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, 2017 (FY 2017). This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities and to identify any significant changes in financial position. The information discussed here should be considered in conjunction with the basic financial statements as a whole.

FINANCIAL HIGHLIGHTS

- The Authority's total assets exceeded total liabilities by \$43 million at the close of the current fiscal year.
- The Authority's total net position increased by approximately \$1 million during the current fiscal year.
- Total net capital assets were \$44.5 million at June 30, 2017, a decrease of 0.6% over the balance at June 30, 2016 of \$44.8 million.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

Statement of Net Position

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

Statement of Revenues, Expenses and Changes in Net Position

The statement of revenues, expenses and changes in net position presents information showing how the Authority's net position changed during the fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. receivables and earned but unused vacation leave).

Statement of Cash Flows

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

Notes to the Financial Statements

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL ANALYSIS

Condensed Balance Sheets			
(in thousands)			
	Years Ended June 30,		
	2017	2016	2015
Current Assets	\$ 5,749	\$ 6,731	\$ 7,275
Capital Assets	44,486	44,754	47,064
Total Assets	\$ 50,235	\$ 51,485	\$ 54,339
Current Liabilities	\$ 5,882	\$ 7,163	\$ 5,908
Long-term Liabilities	1,597	2,496	3,465
Total Liabilities	7,479	9,659	9,373
Net Position			
Investment in Capital Assets	43,767	44,261	46,530
Unrestricted	(1,011)	(2,435)	(1,564)
Total Net Position	42,756	41,826	44,966
Total Liabilities and Net Position	\$ 50,235	\$ 51,485	\$ 54,339

The changes in total net position over time serve as a useful indicator of the Authority's financial position. As the above table indicated, assets exceeded liabilities by \$42.8 million at June 30, 2017, which reflects an increase of \$930 thousand compared to \$41.8 million at June 30, 2016. This increase was primarily due to operating and non-operating revenue in combination with capital contributions exceeding operating costs.

Comparatively, net position decreased by \$3.1 million during FY 2016. This decrease is primarily due to operating cost exceeding revenue and capital contributions.

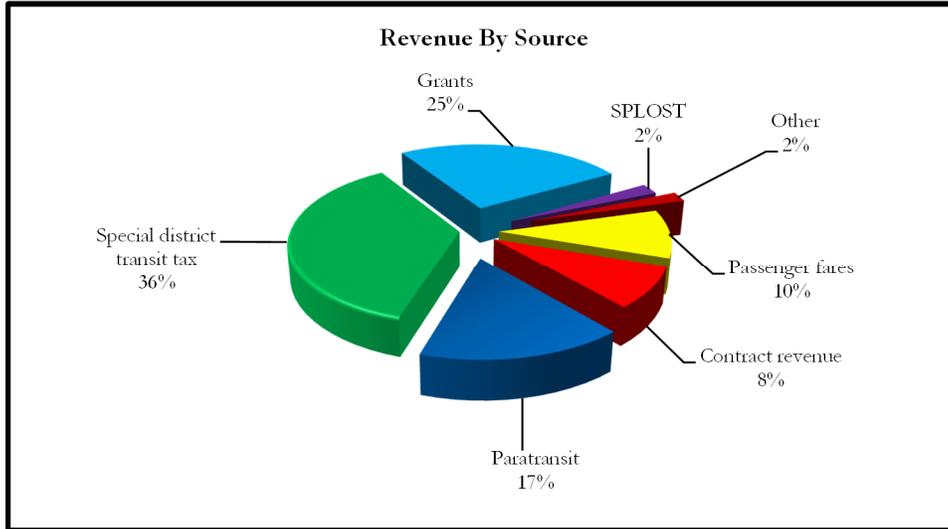
The following table reflects a condensed summary of revenues, expenses, and changes in net position for the years ended June 30, 2017, 2016 and 2015:

Condensed Statements of Revenues, Expenses and Changes in Net Position			
(in thousands)			
	Years Ended June 30,		
	2017	2016	2015
Revenue			
Operating Revenue	\$ 9,167	\$ 7,778	\$ 7,727
Nonoperating Revenue	13,742	12,570	13,581
Total Revenue	22,909	20,348	21,308
Operating Expenses	25,149	24,620	23,650
Loss before Contributions	(2,240)	(4,272)	(2,342)
Capital Contributions	3,170	1,132	4,113
Change in Net Position	930	(3,140)	1,771
Net Position - Beginning	41,826	44,966	43,195
Net Position - End	\$ 42,756	\$ 41,826	\$ 44,966

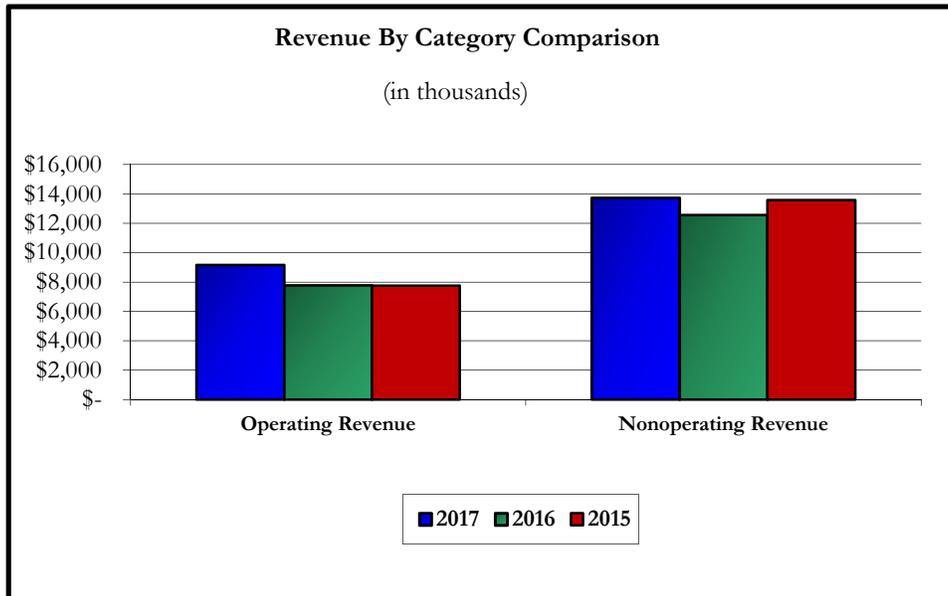
MANAGEMENT'S DISCUSSION AND ANALYSIS

Revenue

The following graph provides a visual presentation of the Authority's revenue by source for FY 2017:



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



MANAGEMENT'S DISCUSSION AND ANALYSIS

Operating Revenue

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

Operating revenue for FY 2017 increased by \$1.4 million compared to FY 2016. Revenue from the following sources attributed to this increase:

- ◆ Passenger fares decreased by \$146 thousand due to an overall decrease in ridership and increased usage of pass media which provide a lower per trip fare.
- ◆ Paratransit revenue increased by \$1.2 million. This increase is the result of a service fee increase for FY 2017.
- ◆ Contract revenue increased by \$503 thousand. This increase is the result of an increase in revenue from ferry service and additional revenue from the City for the Liberty Shuttle and the Senior Circulator Shuttle.
- ◆ Other revenue decreased by \$152 thousand. This is primarily due to recovery of financial losses through restitution included in other income in FY16.

Operating revenue for FY 2016 increased by \$51 thousand compared to FY 2015. Revenue from the following sources attributed to this increase:

- ◆ Passenger fares decreased by \$206 thousand due to an overall decrease in ridership and increased usage of pass media which provide a lower per trip fare.
- ◆ Paratransit revenue increased by \$374 thousand due to an increase in paratransit services.
- ◆ Contract revenue decreased by \$299 thousand due to a decrease in revenue from ferry service.
- ◆ Other revenue increased by \$182 thousand due primarily increase in advertising and financial losses recovered through restitution.

Nonoperating Revenue

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

Nonoperating revenue for FY 2017, net of nonoperating expenses, increased by \$1.2 million from FY 2016. This increase is primarily the result of:

- ◆ Federal grant revenue increased \$897 thousand.
- ◆ Special district tax increased \$376 thousand.
- ◆ Insurance settlement of \$110 from storm damage.
- ◆ Special purpose local option sales tax decreased by \$120 thousand.

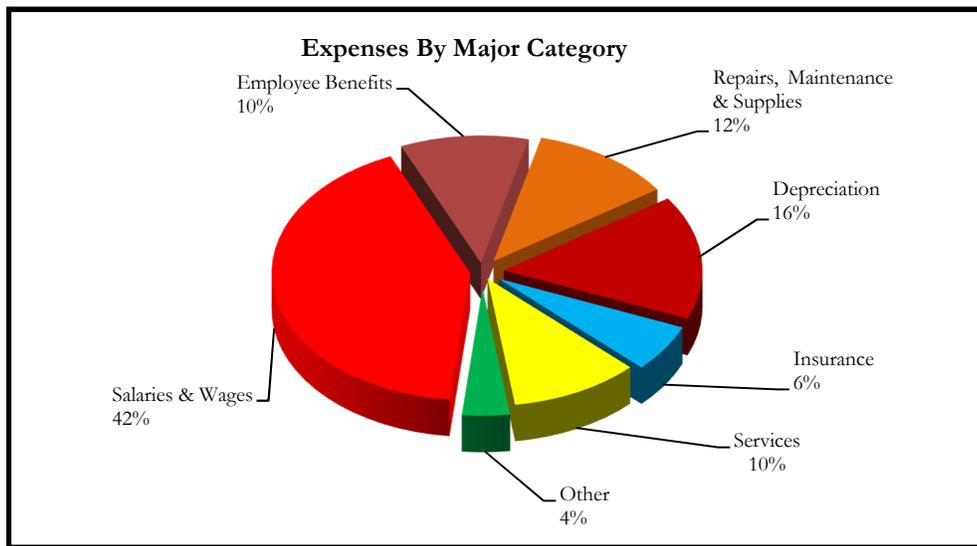
MANAGEMENT'S DISCUSSION AND ANALYSIS

Nonoperating revenue for FY 2016, net of nonoperating expenses, decreased by \$1 million from FY 2015. This decrease is primarily the result of:

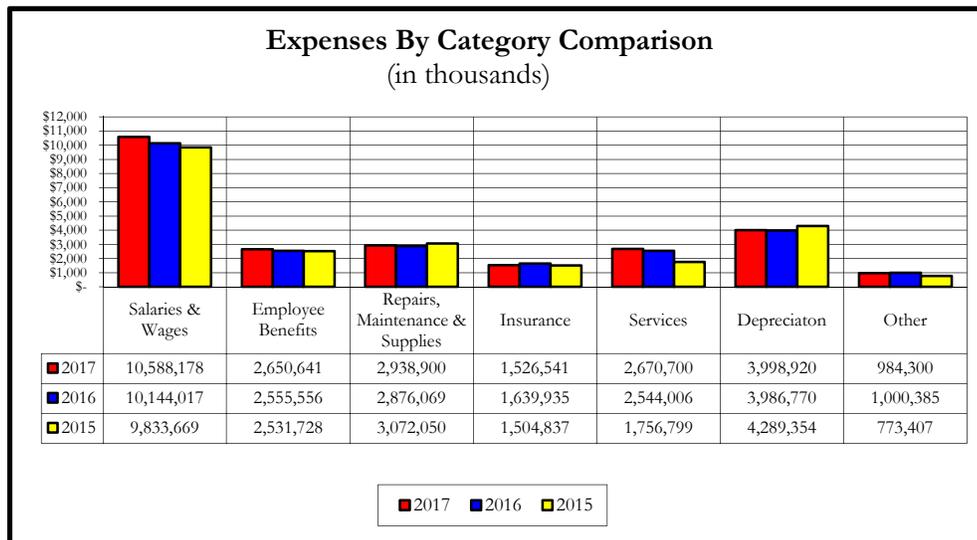
- ◆ Federal grant revenue decreased \$633 thousand.
- ◆ Special district tax increased \$388 thousand.
- ◆ Special purpose local option sales tax decreased by \$773 thousand.

Operating Expenses

The following pie chart provides a visual presentation of the Authority's expenses by major category for FY 2017:



The bar graph that follows shows the Authority's operating expenses by category for FY 2017, FY 2016, and FY 2015:



MANAGEMENT'S DISCUSSION AND ANALYSIS

Total operating expenses for FY 2017 increased by \$473 thousand or a 2.1% increase from FY 2016. Total operating expenses for FY 2016 increased \$970 thousand or a 4.1% increase from FY 2015. These changes were primarily the result of the following:

- 1) Salaries and wages for FY 2017 compared to FY 2016 increased \$444 thousand or 4.4% due primarily to wage increases, filling vacant positions in the Service Delivery and Executive Units, and additional service hours incurred due to Hurricane Matthew evacuation efforts.

Salaries and wages for FY 2016 compared to FY 2015 increased \$310 thousand or 3.2% due primarily to operator wage increases and the hiring of additional employees in the Service Delivery and Financial Services Units.

- 2) Employee benefits for FY 2017 compared to FY 2016 increased \$95 thousand or 3.7% due primarily to increase in salaries and wages.

Employee benefits for FY 2016 compared to FY 2015 increased \$24 thousand or 0.9% due primarily to increase in salaries and wages.

- 3) The combined materials, supplies and maintenance expenses for FY 2017 compared to FY 2016 increased \$63 thousand or 2.2%. This net increase was primarily due to increases in vehicle fuel costs.

The combined materials, supplies and maintenance expenses for FY 2016 compared to FY 2015 decreased \$196 thousand or 6.4%. This net decrease was primarily due to decreases in vehicle fuel costs.

- 4) Services for FY 2017 compared to FY 2016 increased \$127 thousand or 5.0%. This increase is primarily due to an increase in cost necessary to support paratransit operations.

Services for FY 2016 compared to FY 2015 increased \$787 thousand or 44.8%. This increase is primarily due to an increase in the cost required to support paratransit operations, the operations of the Intelligent Transit System, information technology (IT) support and vehicle maintenance.

- 5) Insurance expense for FY 2017 compared to FY 2016 decreased by \$113 thousand or 6.9%. This decrease is the result of worker's compensation claim reserves combined with a decrease in recoveries through subrogation. This decrease is offset by an increase in the fleet insurance premiums.

Insurance expense for FY 2016 compared to FY 2015 increased by \$135 thousand or 9.0%. This increase is the result of higher accident and worker's compensation claims.

- 6) Depreciation expense for FY 2017 compared to FY 2016 increased by \$12 thousand or 0.3% due to depreciable asset additions.

Depreciation expense for FY 2016 compared to FY 2015 decreased by \$303 thousand or 7.1% due to the lack of substantial depreciable asset additions.

MANAGEMENT'S DISCUSSION AND ANALYSIS

CAPITAL ASSETS

As the following chart indicates, the Authority had \$44.5 million (net of depreciation) invested in capital assets at June 30, 2017. This amount represents a net decrease of \$268 thousand compared to FY 2016, which is due to depreciation expense exceeding capital asset additions. Major acquisitions during FY 2017 included the rehabilitation of 12 buses along with the purchase of a Trolley at a total cost of \$2.8 million. The Authority also completed the replacement of a ferry dock at a cost of \$385 thousand and purchased new radios for the fleet at a cost of \$219 thousand.

	2017	2016	2015
Land	\$ 6,175,878	\$ 6,175,878	\$ 6,175,878
Buildings & Improvements	29,908,592	29,521,404	29,725,326
Vehicles	36,828,089	34,149,012	35,666,963
Furniture & Equipment	4,913,847	4,820,589	4,589,528
Construction in Progress	551,751	383,266	110,994
	78,378,157	75,050,149	76,268,689
Accumulated Depreciation	(33,892,181)	(30,295,905)	(29,204,672)
	<u>\$ 44,485,976</u>	<u>\$ 44,754,244</u>	<u>\$ 47,064,017</u>

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

AUTHORITY DEBT

The Authority has a \$1,500,000 line of credit agreement with a bank for working capital needs. The bank made advances on the line of credit in order to provide the Authority with operating funds throughout the year. At the end of FY 2017 the outstanding balance on the line of credit was \$1,500,000. Interest is payable monthly at LIBOR market index rate plus 1.50%.

In December, 2014, the Authority refinanced \$5,000,000 of its outstanding line of credit with a five-year term loan. Annual principal payments of \$1,000,000 are due each January through 2019 and interest is payable monthly at a fixed rate of 1.95%.

ECONOMIC FACTORS

The Authority's board of directors and management considered many factors when setting the fiscal year 2017 budget. These factors include the expected increase in ridership and costs related to paratransit and contract services, fuel, labor and employee benefits. Also considered were the anticipated capital grant funding needed for new buses, a ferry dock replacement project and our passenger amenities program. The bus rehabilitation project was ongoing during the fiscal year and approximately 70% completed by the end of the fiscal year. Capital 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

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, 2017 and 2016

	2017	2016
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 741,781	\$ 1,020,138
Investments	4,139	4,116
Receivables	4,230,373	5,114,898
Inventory	330,962	252,089
Prepaid expenses	441,889	339,177
Total current assets	5,749,144	6,730,418
CAPITAL ASSETS, net	44,485,976	44,754,244
Total assets	\$ 50,235,120	\$ 51,484,662
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES		
Accounts payable	\$ 1,705,093	\$ 1,743,107
Note payable - bank	1,500,000	1,500,000
Current portion of long-term debt	1,000,000	1,000,000
Accrued salaries and withheld taxes	317,108	1,625,244
Other accrued expenses	732,752	887,488
Advances and deposits	32,880	32,880
Compensated absences	225,752	218,910
Unearned revenue	85,877	
Other liabilities	282,325	155,344
Total current liabilities	5,881,787	7,162,973
LONG-TERM LIABILITIES		
Long-term debt, net of current portion	1,000,000	2,000,000
Compensated absences, net of current portion	235,400	177,017
Other postemployment benefits obligation	361,746	318,916
	1,597,146	2,495,933
NET POSITION		
Investment in capital assets, net of related debt	43,767,075	44,261,167
Unrestricted	(1,010,888)	(2,435,411)
Total net position	42,756,187	41,825,756
Total liabilities and net position	\$ 50,235,120	\$ 51,484,662

See notes to financial statements.

CHATHAM AREA TRANSIT AUTHORITY
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

Years Ended June 30, 2017 and 2016

	2017	2016
OPERATING REVENUES		
Passenger fares	\$ 2,560,826	\$ 2,706,598
Paratransit	4,269,242	3,085,749
Contract revenue	2,193,531	1,690,574
Other	143,612	295,485
Total operating revenues	<u>9,167,211</u>	<u>7,778,406</u>
OPERATING EXPENSES		
Salaries and wages	10,588,178	10,144,017
Employee benefits	2,650,641	2,555,556
Materials and supplies	2,464,555	2,378,386
Depreciation	3,998,920	3,986,770
Insurance	1,526,541	1,639,935
Services	2,670,700	2,544,006
Repair and maintenance	474,345	497,683
Utilities	299,351	297,497
Miscellaneous	476,311	576,521
Total operating expenses	<u>25,149,542</u>	<u>24,620,371</u>
Operating loss	<u>(15,982,331)</u>	<u>(16,841,965)</u>
NONOPERATING REVENUES (EXPENSES)		
Special district transit tax	9,550,650	9,175,000
Federal grants	3,687,182	2,790,430
State grants	15,962	23,933
Special purpose local option sales tax	553,453	673,513
Rental income	33,737	33,737
Insurance proceeds	110,244	
Interest income	35	15
Interest expense	(81,657)	(95,238)
Loss on disposition of capital assets		(31,129)
Other expenses	(126,981)	
Total nonoperating revenues (expenses)	<u>13,742,625</u>	<u>12,570,261</u>
Loss before capital contributions	<u>(2,239,706)</u>	<u>(4,271,704)</u>
CAPITAL CONTRIBUTIONS		
Federal grants	2,947,433	1,037,426
Local	222,704	94,432
Total capital contributions	<u>3,170,137</u>	<u>1,131,858</u>
Change in net assets	930,431	(3,139,846)
Net position - beginning of year	<u>41,825,756</u>	<u>44,965,602</u>
Net position - end of year	<u>\$ 42,756,187</u>	<u>\$ 41,825,756</u>

CHATHAM AREA TRANSIT AUTHORITY

STATEMENTS OF CASH FLOWS

Years Ended June 30, 2017 and 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Fares and other service revenues	\$ 8,757,450	\$ 7,492,775
Cash payments to employees	(10,413,108)	(10,060,955)
Cash payment for employee benefits	(4,025,792)	(2,251,846)
Cash payments for goods and services	(8,511,087)	(7,040,320)
Net cash provided (used) in operating activities	(14,192,537)	(11,860,346)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Federal and state grants	5,204,017	3,216,391
Special district transit tax	9,558,147	9,935,199
Rent receipts	33,737	33,737
Insurance settlement proceeds - Hurricane Matthew	110,244	
Payment on long-term debt	(1,000,000)	(1,000,000)
Interest paid	(81,657)	(95,238)
Net cash provided (used) by non-capital financing activities	13,824,488	12,090,089
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Federal and state grants	2,387,762	1,203,427
Special purpose local option sales tax	915,922	302,817
Contributed capital	290,822	
Payments for acquisition and construction of capital assets	(3,504,826)	(1,897,051)
Net cash provided (used) in capital and related financing activities	89,680	(390,807)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	12	4
Net cash provided (used) in investing activities	12	4
Decrease in cash and cash equivalents	(278,357)	(161,060)
Cash and cash equivalents - Beginning of year	1,020,138	1,181,198
Cash and cash equivalents - End of year	\$ 741,781	\$ 1,020,138
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES		
Operating loss	\$ (15,982,331)	\$ (16,841,965)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	3,998,920	3,986,770
Changes in:		
Receivables	(409,761)	(285,631)
Inventory	(78,873)	(22,662)
Prepaid expenses	(102,712)	(24,339)
Accounts payable	(263,840)	467,324
Accrued salaries and withheld taxes	(1,308,136)	370,725
Other accrued expenses	(154,736)	337,657
Advances and deposits		32,880
Compensated absences	65,225	(25,415)
Other liabilities	43,707	144,310
Net cash used in operating activities	\$ (14,192,537)	\$ (11,860,346)
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital assets financed through accounts payable	\$ 718,901	\$ 493,076

See notes to financial statements.

CHATHAM AREA TRANSIT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

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. The Authority is governed by a nine member board of directors of which seven are appointed by the Chatham County Board of Commissioners and consist of three members of the Board of Commissioners of Chatham County and four residents of Chatham County with one having a disability. The remaining two are appointed by the Board of Aldermen and the mayor of the City of Savannah and consists of one member of the Board of Aldermen of the City of Savannah and one resident of the City of Savannah.

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

Basis of accounting - The Authority accounts for its operations on the flow of economic resources measurement focus and the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

New Accounting Pronouncements - In August 2015, the Governmental Accounting Standards Board (GASB) issued Statement No. 77, *Tax Abatement Disclosures*. This statement defines a tax rebatement and requires disclosure of tax abatement information about (1) a reporting government’s own tax abatement agreements and (2) those that are entered into by other governments and that reduce the reporting government’s tax revenues. The Authority implemented the provisions of this statement effective for fiscal year ended June 30, 2017.

In December 2015, GASB issued Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*. This statement amends the scope and applicability of Statement No. 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan. The provisions of this statement which are effective for reporting periods beginning after December 15, 2015, had no impact on the Authority’s basic financial statements.

In January 2016, GASB issued Statement No. 80, *Blending Requirements for Certain Component Units an Amendment of GASB Statement No. 14*. This statement establishes additional blending requirements for component units organized as not-for-profit corporations in which government is the sole corporate member. The provisions of this statement which are effective for reporting periods beginning after June 15, 2016, had no impact on the Authority’s basic financial statements.

Revenue/Expense Recognition - Operating revenues consist primarily of passenger fares and paratransit revenue received from Chatham County pursuant to an agreement with the County to provide paratransit service required by the Americans with Disability Act of 1990. The Authority also recognizes operating revenue for other contracted services 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, 2017 and 2016

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.

Unearned Revenue – Unearned revenue consist of grants received, but for which the Authority has not met certain eligibility requirements.

Compensated Absences - Employees of the Authority who are not covered under union contract are allowed to accumulate a maximum of 30 days of 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.

Capital Assets – Capital assets are stated at cost, less accumulated depreciation. Expenditures and capital asset contributions for additions and improvements with a value in excess of \$1,000 and a useful life of more than one year are capitalized. Expenditures for maintenance, repairs, and minor replacements are expensed to operations as incurred. Depreciation has been provided on a straight-line basis over the estimated useful life of the respective assets as follows:

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

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

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, 2017 and 2016

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, 2017 and 2016, 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, 2017 and 2016:

Investment Type	June 30,			
	2017		2016	
	Fair Value	Weighted Avg. Maturity Days	Fair Value	Weighted Avg. Maturity Days
Georgia Fund I	\$ 4,139	26	\$ 4,116	42

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

NOTE 3. RECEIVABLES

Receivables consist of the following:

	June 30,	
	2017	2016
Taxes receivable, net	\$ 1,187,914	\$ 1,195,411
Grants receivable	1,081,078	1,937,280
Accounts receivable, net	374,834	866,339
Intergovernmental receivable	1,586,547	1,115,868
	\$ 4,230,373	\$ 5,114,898

Taxes receivable and accounts receivable are shown net of an allowance for uncollectible accounts totaling \$63,000 at June 30, 2017 and 2016.

CHATHAM AREA TRANSIT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

NOTE 4. CAPITAL ASSETS

Capital assets are summarized as follows:

	<u>June 30, 2016</u>	<u>Increases</u>	<u>Disposals</u>	<u>Transfers</u>	<u>June 30, 2017</u>
Capital assets, not being depreciated					
Land	\$ 6,175,878	\$	\$	\$	\$ 6,175,878
Construction in progress	<u>383,266</u>	<u>277,072</u>		<u>(108,587)</u>	<u>551,751</u>
Total capital assets, not being depreciated	<u>6,559,144</u>	<u>277,072</u>			<u>6,727,629</u>
 Capital assets, being depreciated					
Buildings and improvements	29,521,404	387,188			29,908,592
Transit vehicles	33,712,051	2,974,630	(393,570)	108,587	36,401,698
Service vehicles	436,961		(10,570)		426,391
Shop equipment	364,763				364,763
Furniture and office equipment	<u>4,455,826</u>	<u>93,258</u>			<u>4,549,084</u>
Total capital assets, being depreciated	<u>68,491,005</u>	<u>3,455,076</u>	<u>(404,140)</u>		<u>71,650,528</u>
Less accumulated depreciation					
Buildings and improvements	6,124,981	896,153			7,021,134
Transit vehicles	21,964,496	2,332,586	(393,570)		23,903,512
Service vehicles	256,833	52,062	(9,074)		299,821
Shop equipment	282,000	24,687			306,687
Furniture and office equipment	<u>1,667,595</u>	<u>693,432</u>			<u>2,361,027</u>
Total accumulated depreciation	<u>30,295,905</u>	<u>3,998,920</u>	<u>(402,644)</u>		<u>33,892,181</u>
Capital assets, net	<u>\$ 44,754,244</u>	<u>\$ (266,772)</u>	<u>\$ (1,496)</u>	<u>\$</u>	<u>\$ 44,485,976</u>
	<u>June 30, 2015</u>	<u>Increases</u>	<u>Disposals</u>	<u>Transfers</u>	<u>June 30, 2016</u>
Capital assets, not being depreciated					
Land	\$ 6,175,878	\$	\$	\$	\$ 6,175,878
Construction in progress	<u>110,994</u>	<u>272,272</u>			<u>383,266</u>
Total capital assets, not being depreciated	<u>6,286,872</u>	<u>272,272</u>			<u>6,559,144</u>
 Capital assets, being depreciated					
Buildings and improvements	29,725,326	509,645	(713,567)		29,521,404
Transit vehicles	35,387,042	779,204	(2,148,029)	(306,166)	33,712,051
Service vehicles	279,921	172,090	(15,050)		436,961
Shop equipment	562,185		(197,422)		364,763
Furniture and office equipment	<u>4,027,343</u>	<u>122,317</u>		<u>306,166</u>	<u>4,455,826</u>
Total capital assets, being depreciated	<u>69,981,817</u>	<u>1,583,256</u>	<u>(3,074,068)</u>		<u>68,491,005</u>
Less accumulated depreciation					
Buildings and improvements	5,754,420	922,727	(552,166)		6,124,981
Transit vehicles	22,051,188	2,309,477	(2,130,899)	(265,270)	21,964,496
Service vehicles	222,259	49,624	(15,050)		256,833
Shop equipment	454,735	24,687	(197,422)		282,000
Furniture and office equipment	<u>722,070</u>	<u>680,255</u>		<u>265,270</u>	<u>1,667,595</u>
Total accumulated depreciation	<u>29,204,672</u>	<u>3,986,770</u>	<u>(2,895,537)</u>		<u>30,295,905</u>
Capital assets, net	<u>\$ 47,064,017</u>	<u>\$ (2,131,242)</u>	<u>\$ (178,531)</u>	<u>\$</u>	<u>\$ 44,754,244</u>

CHATHAM AREA TRANSIT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

NOTE 5. NOTE PAYABLE

The Authority has a \$1,500,000 line of credit agreement with a bank for working capital with a maturity date of April 30, 2018. 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 1.50%.

Activity under line of credit for the year ended June 30, 2017 was as follows:

<u>Beginning Balance</u>	<u>Advances</u>	<u>Reductions</u>	<u>Ending Balance</u>
\$ 1,500,000	\$ 1,500,000	\$ (1,500,000)	\$ 1,500,000

NOTE 6. LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2017 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Long-term debt	\$ 3,000,000	\$	\$ (1,000,000)	\$ 2,000,000	\$ 1,000,000
Compensated absences	395,927	65,225		461,152	225,752
Other post-employment benefits	318,916	66,094	(23,264)	361,746	
	<u>\$ 3,714,843</u>	<u>\$ 131,319</u>	<u>\$ (1,023,264)</u>	<u>\$ 2,822,898</u>	<u>\$ 1,225,752</u>

Long-term debt at June 30, 2017 was as follows:

\$5,000,000 bank term loan payable in annual principal installment of \$1,000,000 beginning January 31, 2015 with the final principal installment due January 31, 2019. Interest payable monthly at a fixed rate of 1.95%.

Long-term liability activity for the year ended June 30, 2016 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Long-term debt	4,000,000	\$	\$ (1,000,000)	\$ 3,000,000	\$ 1,000,000
Compensated absences	421,342		(25,415)	395,927	218,910
Other post-employment benefits	277,454	65,967	(24,505)	318,916	
	<u>\$ 4,698,796</u>	<u>\$ 65,967</u>	<u>\$ (1,049,920)</u>	<u>\$ 3,714,843</u>	<u>\$ 1,218,910</u>

NOTE 7. RETIREMENT PLANS

Union Employees' Retirement Plan

The Authority provides a 401(a) money purchase plan for 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

CHATHAM AREA TRANSIT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

maximum annual employer contribution of \$1,500. Employee and employer contributions are remitted to the plan on a monthly basis. Employee contributions to the plan for the years ended June 30, 2017 and 2016 totaled \$171,537 and \$176,941, respectively. The Authority recognized pension expense for the years ended June 30, 2017 and 2016 of \$154,396 and \$76,735, respectively. For the years ended June 30, 2017 and 2016, forfeitures reduced the Authority's pension expense by \$8,048 and \$72,392, respectively.

Non-union Employees Retirement Plan

The Authority provides 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. Employee contributions to the plan for the years ended June 30, 2017 and 2016 totaled \$77,281 and \$75,906, respectively. The Authority recognized pension expense for the years ended June 30, 2017 and 2016 of \$54,817 and \$43,189, respectively. For the years ended June 30, 2017 and 2016, forfeitures reduced the Authority's pension expense by \$1,532 and \$1,493, respectively.

Executive Retirement Plan

The Authority provided a 401(a) money purchase plan for the former 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. Employee contributions to the plan for the year ended June 30, 2016 totaled \$13,213.

NOTE 8. POSTEMPLOYMENT LIFE INSURANCE AND MEDICAL PLAN

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

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

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

CHATHAM AREA TRANSIT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

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, 2017 and 2016.

	June 30,	
	2017	2016
Annual required contribution	\$ 65,121	\$ 65,121
Interest on unfunded ARC	12,757	11,098
Adjustment to ARC	(11,784)	(10,252)
Annual OPEB cost	66,094	65,967
Contributions made	(23,264)	(24,505)
Increase in net OPEB obligation	42,830	41,462
Net OPEB obligation - beginning of year	318,916	277,454
Net OPEB obligation - end of year	\$ 361,746	\$ 318,916

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
6/30/2015	\$ 109,784	36%	\$ 277,454
6/30/2016	\$ 65,967	37%	\$ 318,916
6/30/2017	\$ 66,094	35%	\$ 361,746

Funded Status and Funding Progress - As of July 1, 2016, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$725,521 and the actuarial value of assets was zero, resulting in an unfunded actuarial accrued liability (UAAL) of \$725,521.

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

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

CHATHAM AREA TRANSIT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

The actuarial methods and assumptions used in the calculation of the annual required contribution (ARC) to the plan for the year ended June 30, 2017 are as follows:

Valuation date	July 1, 2016
Actuarial cost method	Projected unit credit
Amortization method	Level percentage of pay, open
Amortization period	30 years
Actuarial assumptions:	
Investment return*	4.00%
Pre-medicare trend rate	7.75% - 5.00%
Year of ultimate trend rate	2022

*Includes inflation at 3.25%

NOTE 9. TAX ABATEMENTS

The Savannah Economic Development Authority (SEDA) provides property tax abatements to attract new businesses to Chatham County, Georgia and to incentivize existing businesses to retain or expand operations in the County. SEDA is authorized to enter into tax abatement agreements as a state constitutional authority and by state law. SEDA determines eligibility, length of agreement, as well as abatement percentage based on a projects' commitment of the dollar amount of investment and the number of qualifying jobs to be created and/or maintained. Property under abatement is titled in the name of SEDA (a tax-exempt entity) and a lease agreement is executed to obligate the abatement recipient to pay the non-abated tax as a lease payment or payment in lieu of tax. SEDA retains the payments to expend for public purposes of promoting trade, commerce, industry, and employment opportunities in the County. SEDA follows the State of Georgia's performance guidelines for recipients that fail to meet its commitments and the property may be placed back on the tax digest with no further abatement. Under agreements entered into by SEDA, the Authority's property tax revenues were reduced by \$288,864.

NOTE 10. 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, 2017, the Authority had outstanding contract commitments totaling approximately \$9 million related to a bus rehabilitation project and a bus replacement project which will be funded through federal and state grants along with special-purpose local-option sales tax (SPLOST).

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

June 30, 2017

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
July 1, 2013	\$0	\$ 1,213,275	\$ 1,213,275	0%	\$ 8,125,443	15%
July 1, 2014	\$0	\$ 1,276,761	\$ 1,276,761	0%	\$ 8,971,621	14%
July 1, 2016	\$0	\$ 725,521	\$ 725,521	0%	\$ 8,685,576	8%



CHATHAM AREA TRANSIT

COMPLIANCE SECTION

CHATHAM AREA TRANSIT AUTHORITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2017

Federal Grantor/ Pass-through Grantor/ Program or Cluster Title	CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. Department of Transportation			
Federal Transit Administration:			
Direct Awards			
Federal Transit Cluster -			
Federal Transit - Capital Investment Grants	20.500	N/A	\$ 2,009,549
Federal Transit - Formula Grants	20.507	N/A	4,005,938
Federal Transit - State of Good Repair Grants Program	20.525	N/A	69,684
Federal Transit - Bus and Bus Facilities Formula Program	20.526	N/A	<u>425,319</u>
Total Federal Transit Cluster			6,510,490
New Freedom Program	20.521	N/A	<u>4,408</u>
Total U.S. Department of Transportation			6,514,898
Department of Homeland Security			
Pass Through Awards			
Pass through Georgia Emergency Management and Homeland Security Agency			
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	FEMA-DR-4284-DR-GA	<u>119,717</u>
Total Expenditures of Federal Awards			<u>\$ 6,634,615</u>

See accompanying notes to schedule of expenditures of federal awards.

CHATHAM AREA TRANSIT AUTHORITY

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2017

NOTE 1. BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (SEFA) includes the federal award activity of Chatham Area Transit Authority under programs of the federal government for the year ended June 30, 2017. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the SEFA presents only a selected portion of the operations of Chatham Area Transit Authority, it is not intended to and does not present the net position, changes in net position, or cash flows of Chatham Area Transit Authority.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the SEFA are reported on the accrual basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles contained in the Uniform Guidance or OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE 3. INDIRECT COSTS

The Authority does not use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

**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, 2017 and the related notes to the financial statements, which collectively comprise Authority's basic financial statements and have issued our report thereon dated November 13, 2017.

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.

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*.

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
November 13, 2017

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

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 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, 2017. 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 the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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, 2017.

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 the Uniform Guidance, 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Daniel & Duncan LLC

Savannah, Georgia
November 13, 2017

CHATHAM AREA TRANSIT AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2017

Section I. 20.SUMMARY OF AUDIT RESULTS

Financial Statements

- The auditor's report expresses an unmodified opinion on whether the financial statements of Chatham Area Transit Authority were prepared in accordance with GAAP.
- No significant deficiencies relating to 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 instances of noncompliance material to the financial statements of Chatham Area Transit Authority 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 the Uniform Guidance.
- 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 2 CFR section 200.516(a).
- The programs tested as major programs included:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
20.500, 20.507, 20.525, 20.526	Federal Transit Cluster
- The threshold for distinguishing between Types A and B programs was \$750,000.
- Chatham Area Transit Authority was determined to be a low-risk auditee.

Section II. FINDINGS - FINANCIAL STATEMENT AUDIT

None

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

None