

# **EXHIBIT C - 2016 FINANCIAL STATEMENT**

**LAKELAND AREA MASS TRANSIT DISTRICT**  
Lakeland, Florida

**Annual Financial Report**  
September 30, 2016 and 2015

LAKELAND AREA MASS TRANSIT DISTRICT  
Lakeland, Florida

FINANCIAL STATEMENTS  
September 30, 2016 and 2015

CONTENTS

LETTER OF TRANSMITTAL (UNAUDITED).....	1-5
INDEPENDENT AUDITOR'S REPORT .....	6-8
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) .....	9-16
BASIC FINANCIAL STATEMENTS	
STATEMENTS OF NET POSITION.....	17-18
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION.....	19-20
STATEMENTS OF CASH FLOWS .....	21-22
NOTES TO FINANCIAL STATEMENTS .....	23-40
REQUIRED SUPPLEMENTARY INFORMATION	
SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY .....	42
SCHEDULE OF CONTRIBUTIONS .....	43
SUPPLEMENTARY INFORMATION	
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE.....	45-46
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE.....	47
SCHEDULE OF REVENUE AND EXPENSES, POLK COUNTY TRANSIT SERVICES .....	48
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. ....	49-50
INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND STATE FINANCIAL ASSISTANCE PROJECT; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE REQUIRED BY UNIFORM GUIDANCE AND CHAPTER 10.550 RULES OF THE AUDITOR GENERAL .....	51-53
SCHEDULE OF FINDINGS AND QUESTIONED COSTS – FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE.....	54-57
MANAGEMENT'S CORRECTIVE ACTION PLAN.....	58
MANAGEMENT LETTER.....	59-62
INDEPENDENT ACCOUNTANT'S REPORT ON COMPLIANCE WITH SECTION 218.415, FLORIDA STATUTES .....	63



February 27, 2017

Mr. George Lindsey, Board Chair and  
Members of the Board of Directors of the Lakeland Area Mass Transit District Citizens of  
our Service Area

Dear Board Chair, Board Members and Citizens:

State law requires that all independent special districts publish each fiscal year a complete set of financial statements presented in conformity with accounting principles generally accepted in the United States of America (GAAP) and audited 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 by a firm of licensed certified public accountants. Pursuant to that requirement, we hereby issue the Annual Financial Report of the Lakeland Area Mass District, a/k/a Citrus Connection for the fiscal year ended September 30, 2016.

This Financial Report is indicative of the District management's continued commitment to provide high quality, complete, concise, and reliable financial information on the District.

This report consists of management's representations concerning the finances of the District. Consequently, management assumes full responsibility for the completeness and reliability of all the information presented in this report. To provide a reasonable basis for making these representations, management of the District has established a comprehensive internal control framework that is designed both to provide the District's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the District's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh its benefit, the District's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The District's basic financial statements have been audited by Crowe Horwath LLP, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the basic financial statements of the District for the fiscal year ended September 30, 2016 are free of material misstatement. The independent audit involved performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements; evaluating the appropriateness of

accounting policies used and the reasonableness of significant estimates made by management and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was reasonable basis for rendering an unmodified opinion that the District's financial statements for the fiscal year ended September 30, 2016 are fairly presented in conformity with GAAP. The independent auditors' report is located on page 6 of this report.

The independent audit of the financial statements of the District was part of a broader, mandated Uniform Guidance Standards designed to meet the special needs of federal and state grantor agencies. The standards governing Single Audit engagements require the independent auditors to report not only on the fair presentation of the basic financial statements, but also on the audited government's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal and state grant awards. These reports are included in the supplementary information section of this report.

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. This year's MD&A can be found immediately following the report of the independent auditors.

**Profile of the District**

The Lakeland Area Mass Transit District, operating and also known as Citrus Connection, or LAMTD, was created as a body politic and corporate under Chapter 163, Part V, Sections 163.567, et seq., Florida Statutes, on June 16, 1980. It was originally chartered for the purpose of providing mass transit service to the City of Lakeland, ("the City") and the unincorporated areas of Polk County, Florida ("the County").

The District's Board of Directors is comprised of two directors appointed by Polk County Board of Commissioners, and three Directors from the City of Lakeland. The Authority is governed by its 5- member Board of Directors ("Board"), which makes decisions, designates management, significantly influences operations and maintains primary fiscal responsibility.

The District has been determined to be an "Independent Special District" as described in Section 189.403, Florida Statutes, and is authorized to levy an ad valorem tax of up to one-half mill (1.0) on the taxable value of real and tangible personal property within the jurisdiction of the City of Lakeland. Chapter 165.570, Florida Statutes, allows the District to levy up to one mill, subject to public referendum. The District's ad valorem taxes are reviewed as part of the annual assessment of Polk County, which levies its taxes November 1. Collection of taxes is scheduled November through the following March. Taxes become delinquent April 1 and tax certificates placing liens on the property are sold May 31.

Additional revenues and funding are received from passenger fares, other revenue services and grants from the U.S. Government and the State of Florida.

Located in Polk County, Florida, on the west coast of the state, the District is a regional provider of mass transportation services primarily within Polk County.

## **Services and Ridership**

The District provides virtually all public transportation services in the Lakeland incorporated area. These services include fixed route, paratransit, and specialized services. The District maintains over 10 ADA bus stops, 68 shelters, 1 transit terminal, and a fleet of 51 fixed route, and paratransit vehicles.

FY2016 Ridership: Includes both the District and Polk County Ridership.

- Fixed Route: 1,304,808 (an increase of 22% percent compared to FY2015)
- Paratransit: 88,809 (a decrease of 28% percent compared to FY 2015)

## **Management**

The District is managed by an Executive Director who acts in accordance with the direction, goals and policies articulated by the Board. The Executive Director is responsible for the District's daily operations and directly supervises the core personnel who lead the organization: Finance, Safety, Bus Operations, Maintenance, Administration and Marketing. Additionally, there are departments that support these functions.

## **Budget**

The Board is required to adopt an annual operating budget before the beginning of each fiscal year. The budget serves as a policy document, an operation's guide, a financial plan and a communication device. The process for developing the District's budget begins with budget review and planning in March through May; and through a series of meetings and analysis, results in a balanced operating budget and a prioritized capital budget. The District may not spend more than the approved operating budget, with the Board having to approve increases to the budget. The Executive Director and the Chief Financial Officer may permit movement of funds within the approved budget.

The District Board's adopted FY2016-17 operating and capital budget total \$10.4 million. This adopted budget allows the District to continue to provide the same level of service in FY20 16-17 as was delivered in FY20 15-16.

## **Factors Affecting Financial Condition**

The District is challenged to deliver more transit services due to stagnant revenue for operations and capital, while the demand for service increases. The District's ability to fund its operations, and this increased service demand, is heavily dependent on a millage levy generated from property taxes. Property tax revenues have declined by \$120,224 or 3.4% since 2010, but is showing an increase now. The District's millage rate in both 2015 and 2016 was .5000.

In lieu of having ample property taxes to fund operations, the District has chosen to shift Federal 5307 formula funding, intended for capital improvements such as vehicles, facilities and equipment, to fund operational cost. In FY2016, 31% and for FY 2016 25% of the Federal 5307 formula funding was used for capital improvements (preventative maintenance) and the remainder was used to fund operating costs.

### **Long-Range Financial Planning**

The District has seen a significant challenge in maintaining the current level of service to the community due to the national and regional economic down-turn. While the economic conditions have reduced available revenue to provide service delivery, those same conditions drive the need and use of those services higher. To ensure the District maintains, and can support increases in that service demand in the future, prudent long-range financial planning is critical. Over the past year, the District has worked diligently to reduce its overall operating costs. As of September 30, 2016, the District's unrestricted net position totaled \$6.7 million, which is inclusive of the Board's requirement of maintaining an operating reserve for positive cash flow and contingency planning. In the coming year, the District will look at solidifying and building its reserves, examine a multi-year operating and capital budgeting process, and continue to work on reducing overall expenses through gains in efficiency and productivity.

### **Major Initiatives**

- With the failure of the My Ride consolidated Transit Development Plan (TDP) referendum in November 2014 to raise one percent in sales tax with one half (1/2) of the proceeds from the transportation surtax to the Transit Authority (Polk Transit Authority) to be used for transit services, the District was forced to reduce services in FY 2014-15.
- In fiscal year 2014-15 the District reduced transit services totaling \$1.477 million or 13.5% of the fiscal year budget due to fiscal constraints and to facilitate a balanced budget in FY 2015-16 with funding for capital expenses for bus purchases.
- For fiscal year 2015-16 the District began to address the capital funding needs for bus and vehicle replacements. In doing so \$680,000 was designated for debt service to finance a lease purchase program for vehicle replacements.
- The District joined the Florida Retirement System (FRS) effective October 1, 2015 to provide a sustainable retirement plan for the work force for employee retention, employee's retirement and to address the need for a permanent retirement plan for the first time.
- In light of the failure of the My Ride referendum in 2014, the District entered into a local inter-governmental agreement with Polk County to provide transit services for the Polk County transit service area resulting in the District now being the sole provider of fixed route and paratransit services and to incrementally add other services. The three-year agreement for the period October 1, 2015 through September 30, 2018 is an attempt to address a consolidated effort to provide transit services County wide. The first year agreement totals \$6.5 million and \$6.1 million in FY 2016.

## Acknowledgements

The preparation of this report would not have been possible without the efficient and dedicated service of the entire staff of the Finance Department and the District organization. We wish to express our appreciation to all members of the organization who assisted and contributed to the preparation of this report. Credit also must be given to the governing Board of Directors for its unfailing support for maintaining the highest standards of professionalism in the management of the District's finances.

Respectfully submitted,



Tom Phillips  
Executive Director



David Persaud MPA, CGFM, CFE  
Chief Financial Officer

## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Lakeland Area Mass Transit District  
Lakeland, Florida

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the Lakeland Area Mass Transit District (the District), as of and for the years ended September 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the District'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.

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## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District, as of September 30, 2016 and 2015, and the changes in its financial position and its cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Emphasis of Matters**

As discussed in Note 1 to the financial statements, in June 2012 the GASB issued GASB Statement No. 68, "Accounting and Financial Reporting for Pensions." Also, in November 2013 the GASB issued GASB Statement No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date." Statements 68 and 71 are effective for the District's fiscal year ending September 30, 2016 since the District entered in to the Florida Retirement System effective October 1, 2015. These Statements replace the requirements of Statement No. 27, "Accounting for Pensions by State and Local Governmental Employers" and Statement No. 50, "Pension Disclosures." Statements 68 and 71 establish standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources and expenses as well as identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value and attribute that present value to periods of employee service. Note disclosures and required supplementary information requirements about pensions are also addressed. As a result, the District began to record net pension liability and the effects on net position of contributions made by the District and pension expense as of October 1, 2015. Our opinion is not modified with respect to this matter.

As discussed in Note 3 to the financial statements, in February 2015 the GASB issued GASB Statement No. 72, "Fair Value Measurement and Application." Statement 72 is effective for the District's fiscal year ending September 30, 2016. This Statement addresses accounting and financial reporting issues related to fair value measurements. Note disclosures requirements about fair value measurements are also addressed. Our opinion is not modified with respect to this matter.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of proportionate share of net pension liability and schedule of contributions on pages 9-16, 42 and 43, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by 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.

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*Supplementary Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The Letter of Transmittal and Schedule of Revenue and Expenses, Polk County Transit Services are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Schedule of Revenue and Expenses, Polk County Transit Services 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. 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 Revenue and Expenses, Polk County Transit Services is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The Letter of Transmittal has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated May 15, 2017 on our consideration of District'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 District's internal control over financial reporting and compliance.



Crowe Horwath LLP

Lakeland, Florida  
May 15, 2017

LAKELAND AREA MASS TRANSIT DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
September 30, 2016 and 2015

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

This section of the Annual Financial Report of the Lakeland Area Mass Transit District d/b/a Citrus Connection (the "District") presents management's analysis of the Authority's financial performance during the Fiscal Years that ended on September 30, 2016 and 2015, respectively. Please read it in conjunction with the financial statements, which follow this section.

### **Financial Highlights**

#### **Fiscal 2016**

- Operating revenues increased by 134%, or \$3.8 million for Polk County Transit Services, from FY2015. This was due to increases in customer fares, local and other contract services and advertising revenues.
- Non-operating revenues increased \$.87 million or 11.7%. This was due to increases on property taxes, and federal and state operating grants.
- Operating expenses increased by 56%, or \$5.8 million, from FY2015. This was due in part to the agreement with the County for \$5.5 million to operate County Transit Services and the District increases in operating expenses.
- Total assets increased \$3.5 million or 21% due to increase in cash and pension assets.
- Total liabilities increased by \$6.6 million. This was due to a new capital lease purchase of \$1.2 million relating to bus purchase and GASB 68 pension liabilities.
- Current liabilities increased by \$1.65 million, from FY2015, due to a refund to the County for operating expenses coming in under budget and increase in accounts payable.
- Overall net position increased by 1.2%, or \$34,259 from FY2015, basically due to increase in current assets.

### **Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The basic financial statements consist of two parts: Financial Statements and Notes to the Financial Statements. The report also contains supplementary information in addition to the financial statements themselves.

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### **Required Financial Statements**

The financial statements of the District report information about the District using full accrual accounting methods similar to those used by private sector companies. These statements offer short-term and long-term financial information about its activities. The Statements of Net Position include all of the Authority's assets, liabilities, deferred outflows and inflows of resources and net position, and provides information about the nature and amounts of investments in resources (assets) and the obligations to District creditors (liabilities). The assets and liabilities are presented in a classified format, which distinguishes between current and long-term assets and liabilities. It also provides the basis for computing the rate of return, evaluation of the capital structure of the District and assessing the liquidity and financial flexibility of the District. All of the current year's revenues and expenses are accounted for in the Statements of Revenues, Expenses, and Changes in Net Position. These statements measure the success of the District 's operations over the past year and can be used to determine whether the District has successfully recovered all its costs through its customer fares, contract services, and operating subsidies, as well as its profitability and credit worthiness. The final required financial statement for each year is the Statement of Cash Flows. The primary purpose of this statement is to provide information about the District 's cash receipts and cash payments during the reporting period. The statement reports cash receipts, cash payments, and net changes in cash resulting from operating, investing, and financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

### **Financial Analysis of the District**

Our analysis of the District begins below with the Financial Statements. One of the most important questions asked about the District 's finances is "Is the District, as a whole, better off or worse off as a result of the year's activities?" The Statements of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position report information about the District 's activities in a way that will help answer this question. These two statements report the net position of the District and changes in them. You can think of the District's net position -- difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources -- as one way to measure financial health or financial position. Over time, increases or decreases in the District's net position are one indicator of whether its financial health is improving or deteriorating. However, you will need to consider other non-financial factors such as changes in economic conditions, population growth, regulation, and new or changed government legislation.

### **Net Position**

To begin our analysis, a summary of the District 's Statements of Net Position is presented in Table A-I.

LAKELAND AREA MASS TRANSIT DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
September 30, 2016 and 2015

**Table A - 1**  
**Summary of Net Position**

	<u>2016</u>	<u>2015</u>	<u>2014</u>
<b>Current assets:</b>	\$ 9,220,061	\$ 6,902,960	\$ 5,934,203
Designated assets	1,911,714	132,740	127,148
<b>Noncurrent assets:</b>			
Capital assets, net	6,732,403	7,347,120	7,645,229
Land	1,902,250	1,902,250	1,902,250
<b>Total assets</b>	<u><b>19,766,428</b></u>	<u><b>16,285,070</b></u>	<u><b>15,608,830</b></u>
 Deferred Outflow of Resources	 3,196,584	 -	 -
 <b>Current liabilities:</b>	 2,057,094	 400,997	 890,684
Noncurrent liabilities	1,529,645	284,508	251,624
Pension Liability	3,719,914	-	-
<b>Total liabilities</b>	<u>7,306,653</u>	<u>685,505</u>	<u>1,142,308</u>
 Deferred Inflows of Resources	 22,535	 -	 -
 <b>Net Position:</b>			
Invested in capital assets	8,634,653	9,249,370	9,547,479
Unrestricted	6,999,171	6,350,195	5,304,051
 <b>Total Net Position</b>	 <u><b>\$ 15,633,824</b></u>	 <u><b>\$ 15,599,565</b></u>	 <u><b>\$ 14,851,530</b></u>

The Statements of Net Position show the change in assets, liabilities, deferred outflows of resources, deferred inflows of resources and the resulting net position. Net position may serve, over time, as a useful indicator of a government's overall financial position. As can be seen from the Table A-1, Net Position increased \$34,259 to \$15.6 million in FY2016. Compared to FY2015, Net Investment in Capital Assets decreased \$615,000.

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LAKELAND AREA MASS TRANSIT DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
September 30, 2016 and 2015

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**Table A - 2**  
**Summary of Revenues, Expenses and Changes in Net Position**

	<u>2016</u>	<u>2015</u>	<u>2014</u>
<b>Operating revenues</b>			
Passenger fares and contractual revenues for transit service	\$ 2,270,043	\$ 1,472,318	\$ 1,619,035
Winter Haven transit service	-	1,167,513	977,964
Polk Cty Transit Svcs. Contract Revenue	4,133,861	-	-
Sale of advertising space	153,731	155,249	106,137
<b>Total operating revenues</b>	<u>6,557,635</u>	<u>2,795,080</u>	<u>2,703,136</u>
<b>Operating expenses:</b>			
Salaries and wages	6,787,731	4,552,568	4,642,708
Employee benefits (Note 5)	3,068,791	1,835,440	1,885,304
Fuel and lubricants	757,485	847,259	1,325,588
Depreciation (Note 4)	1,156,721	1,090,688	1,156,929
Materials, supplies, maintenance, and contract services	1,806,936	814,599	1,087,931
Insurance	246,549	237,765	253,120
Professional services	440,283	258,747	254,024
Utilities	183,937	126,703	114,451
Lease expense	5,123	817	1,988
Office expense	180,814	101,123	38,793
Travel and meetings	56,461	46,448	18,151
Uniforms	22,750	13,658	12,671
Advertising	72,151	102,280	149,350
Training and education	13,075	3,124	10,822
FRS Expense	545,865	-	-
Miscellaneous	285,556	301,982	289,530
Repairs and maintenance	477,980	20,324	12,627
<b>Total operating expenses</b>	<u>16,108,208</u>	<u>10,353,526</u>	<u>11,253,987</u>
Operating loss	<u>(9,550,573)</u>	<u>(7,558,447)</u>	<u>(8,550,851)</u>

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LAKELAND AREA MASS TRANSIT DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
September 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>	<u>2014</u>
<b>Non-operating revenues (expenses)</b>			
Property taxes	\$ 3,691,580	\$ 3,468,727	\$ 3,429,699
Federal and state operating grants (Note 9)	4,484,669	3,966,428	3,685,724
Investment income	19,584	1,455	3,405
Unrealized gain/ loss on cash, cash equivalents and investments	-	16,321	(9,145)
Interest expense	(31,279)	-	-
Gain (loss) on disposals of equipment	5,737	600	(711)
CRA Contribution	(139,136)	(143,692)	
Miscellaneous revenue (expense)	<u>430,748</u>	<u>402,371</u>	<u>118,832</u>
 Total non-operating revenues	 <u>8,461,903</u>	 <u>7,712,210</u>	 <u>7,227,804</u>
 Net Income (loss) before capital contributions	 (1,088,670)	 153,763	 (1,323,047)
 <b>Capital Contributions</b>	 <u>1,122,929</u>	 <u>594,271</u>	 <u>1,371,397</u>
 <b>Change in Net Position</b>	 34,259	 748,035	 48,350
 Net position at beginning of year	 <u>15,599,565</u>	 <u>14,851,530</u>	 <u>14,803,180</u>
 Net position at end of year	 <u>\$ 15,633,824</u>	 <u>\$ 15,599,565</u>	 <u>\$ 14,851,530</u>

**Intergovernmental Agreement with Polk County and The State of Florida.**

The District entered into an interlocal agreement for FY 2015-16 with Polk County to provide transit services for fixed route and paratransit services for the County Service Area. The total expenses for the fiscal year totaled \$5,373,433.

The District also contracted with the Florida Commission for the Transportation Disadvantaged for providing Transit Disadvantaged Services for the Polk County Service Area. The total expenses for the six-month period totaled \$536,214.

The District total operating expenses for the period is \$10,368,977 for a grand total for operating expenses of \$16,108,209.

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LAKELAND AREA MASS TRANSIT DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
September 30, 2016 and 2015

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**Capital Assets**

At the end of FY 2016, the District had a broad range of Capital Assets, consisting of Land, Buildings and Shelters, Revenue Vehicles, and Equipment. For additional information on the District 's capital assets, please see financial statement note 5, capital assets.

**Table A - 3  
Capital Assets**

	<u>2016</u>	<u>2015</u>
Building and Shelters	\$ 5,292,476	\$ 5,162,059
Rolling Stock	10,679,556	10,396,187
Shop & Support Equipment	2,881,142	2,832,221
Office Furniture & Equipment	<u>1,927,403</u>	<u>1,719,639</u>
Subtotal	20,780,577	20,110,106
Less Accumulated Depreciation	<u>(14,139,502)</u>	<u>(12,982,781)</u>
Subtotal	<u>6,641,075</u>	<u>7,127,325</u>
Land	1,902,250	1,902,250
Construction work in progress	<u>91,328</u>	<u>219,795</u>
Subtotal	<u>1,993,578</u>	<u>2,122,045</u>
Net Capital Assets	<u><u>\$ 8,634,653</u></u>	<u><u>\$ 9,249,370</u></u>

**Long-Term Obligations**

The District (as Lessee) has entered into a Lease Agreement with Banc of America Public Capital Acquisition (BAPCC), a subsidiary of Bank of America for financing the acquisition of three heavy duty buses in FY2016. The amount financed is \$1,357,500 with an interest rate of 2.6482 percent for twelve years. The proceeds of the lease \$1,357,500 is placed in an escrow account for payment of the buses. These lease agreements qualify as capital lease for accounting purposes and are recorded at the present value of the future minimum lease payments at the inception date. The debt service payments for principal and interest at September 30, 2016 totaled \$1,387,825.

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(Continued)

LAKELAND AREA MASS TRANSIT DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
September 30, 2016 and 2015

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**Operating Passenger Fares for Transit Service**

In fiscal year 2016 ridership decreased 2.2% compared to fiscal year 2015 and passenger fare revenue for fiscal year 2016 decreased 16.4% compared to fiscal year 2015.

<u>Ridership</u>	<u>Fixed Route</u>	<u>Demand Response</u>	<u>WHAT Contract</u>	<u>TOTAL</u>
FY 2016 (1)	\$1,304,808	\$88,809	\$0	\$1,393,617
FY 2015	1,073,008	69,268	282,689	1,424,965
FY 2014	1,215,338	85,569	346,103	1,647,010
FY 2013	1,224,636	94,053	319,781	1,638,470
<b><u>Riders Per Hour</u></b>				
FY 2016	14.64	1.77	16.41	
FY 2015	16.54	2.90	18.92	
FY 2014	16.02	2.84	23.97	
FY 2013	17.27	3.20	19.83	
<b><u>Operational Cost Per Revenue Hour</u></b>				
FY 2016	\$122.49	(LAMTD) & \$104.76 combined LAMTD& PCTS		
FY 2015	89.45			
FY 2014	86.29			
FY 2013	83.84			

(1) PCTS combined with LAMTD

**Fiscal 2017 Outlook**

The District has operated at a net operating deficit for six of the past eleven fiscal years, funded by prior year accumulated reserves. This had resulted in recurring negative cash flows from operations. While these conditions would normally raise the concern as to the ability to continue operations, several steps were taken in fiscal year 2011 to eliminate the operating deficit.

- A reduction in service was implemented in July 2011 in order to align the Districts operating costs with its revenues
- Additional revenues were secured as a result of a successful Section 5317 New Freedom Grant Application
- A balanced operating budget was approved for fiscal years 2014, thru FY 2017, which included increased revenues and decreased expenditures.
- During FY2015 the District reduced services by \$1.5 million or 13.5%.

Polk Transit has legislative authority to levy ad valorem taxes. Based on feedback received through a number of public outreach efforts and from local stakeholders and leadership, a sales tax is considered a better option for funding public transportation services in Polk County. Sales tax benefit include spending flexibility, revenue generated shared across multiple groups, and the opportunity to offset existing mileage rates being assessed for public transportation.

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(Continued)

LAKELAND AREA MASS TRANSIT DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
September 30, 2016 and 2015

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**Request for Information**

This financial report is designed to provide a general overview of Lakeland Area Mass Transit District's finances and to demonstrate the District's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Chief Financial Officer, Lakeland Area Mass Transit District, 1212 George Jenkins Blvd., Lakeland, Florida, 33815.

LAKELAND AREA MASS TRANSIT DISTRICT  
 STATEMENTS OF NET POSITION  
 September 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<b>ASSETS</b>		
Current assets		
Cash, cash equivalents and investments (Note 2)	\$ 7,840,552	\$ 1,453,738
Receivables	219,015	571,205
Due from other governments	521,414	4,425,694
Inventory	353,806	356,958
Prepaid expenses	<u>285,274</u>	<u>95,365</u>
Total current assets	<u>9,220,061</u>	<u>6,902,960</u>
Other assets		
Cash, cash equivalents and investments (Note 4)	<u>1,911,714</u>	<u>132,740</u>
Property and equipment (Note 5)		
Buildings	5,292,476	5,162,059
Rolling stock	10,679,556	10,396,187
Shop and support equipment	2,881,142	2,832,221
Office furnishings and equipment	1,927,403	1,719,639
Construction work in progress	<u>91,328</u>	<u>219,795</u>
	20,871,905	20,329,901
Less accumulated depreciation	<u>14,139,502</u>	<u>12,982,781</u>
	6,732,403	7,347,120
Land and land improvements	<u>1,902,250</u>	<u>1,902,250</u>
Net property and equipment	<u>8,634,653</u>	<u>9,249,370</u>
<b>Total assets</b>	<u><b>19,766,428</b></u>	<u><b>16,285,070</b></u>
Deferred Outflow of Resources (Note 6)		
Deferred outflows of resources related to pension	<u>3,196,584</u>	<u>-</u>
Total Deferred Outflows of Resources	<u><b>3,196,584</b></u>	<u>-</u>

(Continued)

LAKELAND AREA MASS TRANSIT DISTRICT  
STATEMENTS OF NET POSITION  
September 30, 2016 and 2015

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	<u>2016</u>	<u>2015</u>
<b>LIABILITIES</b>		
Current liabilities, payable from current assets		
Accounts payable	\$ 770,115	\$ 186,767
Accrued liabilities	1,285,950	213,870
Deposits held	1,029	360
Total current liabilities	<u>2,057,094</u>	<u>400,997</u>
Noncurrent liabilities		
Accrued liabilities, less current portion	1,529,645	284,508
Net Pension Liability-FRS	3,719,914	-
Total noncurrent liabilities	<u>5,249,559</u>	<u>284,508</u>
<b>Total liabilities</b>	<u><b>7,306,653</b></u>	<u><b>685,505</b></u>
Deferred Inflows of Resources		
Deferred Inflows of resources related to pension	<u>22,535</u>	<u>-</u>
<b>Total Deferred Inflow of Resources</b>	<u><b>22,535</b></u>	<u><b>-</b></u>
<b>NET POSITION</b>		
Net investment in capital assets (Note 5)	8,634,653	9,249,370
Unrestricted	<u>6,999,171</u>	<u>6,350,195</u>
<b>Total net position</b>	<u><b>\$ 15,633,824</b></u>	<u><b>\$ 15,599,565</b></u>

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See accompanying notes to financial statements.

LAKELAND AREA MASS TRANSIT DISTRICT  
 STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
 Years ended September 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<b>Operating revenues</b>		
Passenger fares and contractual revenues for transit service	\$ 2,270,043	\$ 1,472,318
Winter Haven transit service	-	1,167,513
Polk County Transit Services contract revenue	4,133,861	-
Sale of advertising space	153,731	155,249
<b>Total operating revenues</b>	<u>6,557,635</u>	<u>2,795,080</u>
<b>Operating expenses</b>		
Salaries and wages	6,787,731	4,552,568
Employee benefits (Note 6)	3,068,791	1,835,440
Fuel and lubricants	757,485	847,259
Depreciation (Note 5)	1,156,721	1,090,688
Materials, supplies, maintenance	1,806,936	814,600
Insurance	246,549	237,765
Professional services	440,283	258,747
Utilities	183,937	126,703
Lease expense	5,123	817
Office expense	180,814	101,123
Travel and meetings	56,461	46,448
Uniforms	22,750	13,658
Advertising	72,151	102,280
FRS Expense (Note 6)	545,865	-
Training and education	13,075	3,124
Miscellaneous	285,556	301,982
Repairs and maintenance	477,980	20,324
<b>Total operating expenses</b>	<u>16,108,208</u>	<u>10,353,526</u>
<b>Operating loss</b>	<u>(9,550,573)</u>	<u>(7,558,446)</u>

(Continued)

LAKELAND AREA MASS TRANSIT DISTRICT  
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
Years ended September 30, 2016 and 2015

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	<u>2016</u>	<u>2015</u>
Nonoperating revenues (expenses)		
Property taxes	\$ 3,691,580	\$ 3,468,727
Federal and state operating grants (Note 9)	4,484,669	3,966,428
Investment income	19,584	1,455
Unrealized gain/loss on cash, cash equivalents and investments	-	16,321
Interest Expense (Note 7)	(31,279)	
Gain on disposals of equipment	5,737	-
CRA Contribution	(139,136)	(143,692)
Miscellaneous revenue	430,748	402,971
Total nonoperating revenues	<u>8,461,903</u>	<u>7,712,210</u>
Net Income (loss) before capital contributions	(1,088,670)	153,764
Capital contributions	<u>1,122,929</u>	<u>594,271</u>
Change in net position	34,259	748,035
Net position at beginning of year	<u>15,599,565</u>	<u>14,851,530</u>
Net position at end of year	<u>\$ 15,633,824</u>	<u>\$ 15,599,565</u>

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See accompanying notes to financial statements.

LAKELAND AREA MASS TRANSIT DISTRICT  
STATEMENTS OF CASH FLOWS  
Years ended September 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<b>Cash flows from operating activities</b>		
Cash received from customers	\$ 7,309,083	\$ 2,638,290
Other operating cash receipts (payments)	291,612	258,679
Cash paid for operating goods and services	(4,146,773)	(3,080,148)
Cash paid to employees	<u>(7,539,305)</u>	<u>(6,328,808)</u>
Net cash used in operating activities	<u><b>(4,085,383)</b></u>	<u><b>(6,511,987)</b></u>
 <b>Cash flows from investing activities</b>		
Investment income	<u>19,584</u>	<u>17,776</u>
 <b>Cash flows from noncapital financing activities</b>		
Proceeds from federal grants	5,492,874	2,116,838
Proceeds from state grants	2,496,818	1,470,411
Property tax revenues received	<u>3,691,580</u>	<u>3,468,727</u>
Net cash provided by noncapital financing activities	<u><b>11,681,272</b></u>	<u><b>7,055,976</b></u>
 <b>Cash flows from capital and related financing activities</b>		
Proceeds from federal grants restricted for capital acquisitions	905,717	78,498
Proceeds from state grants restricted for capital acquisitions	4,860	102,774
Proceeds from charitable contributions restricted for capital acquisitions	212,352	409,820
Accounts payable	(30,610)	-
Purchase of property and equipment	<u>(542,004)</u>	<u>(792,579)</u>
Net cash provided (used) by capital and related financing activities	<u>550,315</u>	<u>(201,487)</u>
 Net change in cash and cash equivalents	8,165,788	360,278
 Cash and cash equivalents at beginning of year	<u>1,586,478</u>	<u>1,226,200</u>
 <b>Cash and cash equivalents at end of year</b>	<u><b>\$ 9,752,266</b></u>	<u><b>\$ 1,586,478</b></u>

(Continued)

LAKELAND AREA MASS TRANSIT DISTRICT  
STATEMENTS OF CASH FLOWS  
Years ended September 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<b>Classified in statements of net position as</b>		
Current assets	\$ 7,840,552	\$ 1,453,738
Other assets	<u>1,911,714</u>	<u>132,740</u>
	<u>\$ 9,752,266</u>	<u>\$ 1,586,478</u>
 <b>Reconciliation of operating loss to net cash used in operating activities</b>		
Operating loss	\$ (9,550,573)	\$ (7,558,446)
Adjustments to reconcile operating loss to net cash used in operating activities		
Depreciation	1,156,721	1,090,688
Gain on sale of fixed assets	5,737	-
Increase in receivables	774,443	(169,463)
Decrease in fuel tax refund receivable	(22,996)	12,672
Increase in inventory	3,152	10,495
Decrease in prepaid expenses	(189,909)	(88,597)
Increase (decrease) in accounts payable	583,348	(127,817)
Decrease in accrued liabilities	2,317,217	59,202
Increase in pension-related deferred outflows	(3,196,584)	-
Increase in pension-related deferred inflows	3,719,914	-
Increase in Net Pension Liability	22,535	-
Non-operating miscellaneous income (expense)	<u>291,612</u>	<u>259,279</u>
	<u>\$ (4,085,383)</u>	<u>\$ (6,511,987)</u>
 <b>Noncash investing, capital, or financing transactions</b>		
Capital contributions	<u>\$ 1,122,929</u>	<u>\$ 594,271</u>

See accompanying notes to financial statements.

LAKELAND AREA MASS TRANSIT DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
September 30, 2016 and 2015

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

General: The Lakeland Area Mass Transit District (“the District”) was created by Ordinance 80-13 of the Board of County Commissioners of Polk County and 2205 of the City of Lakeland, Florida, under the authority of Chapter 125, Florida Statutes. It is a special taxing district created for the purpose of establishing, operating, and maintaining a public mass transit system within the territorial boundaries of the District, which has been expanded from its original boundaries several times by voter referendum.

The accounting policies of the District conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The summary of significant accounting policies is presented to assist the reader in interpreting the financial statements and other data in this report. These policies, as presented, should be viewed as an integral part of the accompanying financial statements.

The District is accounted for as an enterprise fund. An enterprise fund is used to account for operations that are financed and operated in a manner similar to private business enterprises, where the stated intent is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

There are no component units of the District, and the District is not included as a component unit of any other government.

The District uses the accrual basis of accounting. Basis of accounting refers to when revenues and expenses are recognized and reported in the financial statements. Basis of accounting also relates to the timing of the measurements made, regardless of the measurement focus applied. Revenues are recognized in the period in which they are earned and expenses are recognized in the period incurred. The District has adopted the uniform system of accounts prescribed by the Federal Transit Administration, U.S. Department of Transportation.

New Accounting Pronouncements: In June 2012, the GASB issued Statement 68, *Accounting and Financial Reporting for Pensions*. This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers* and Statement No. 50, *Pension Disclosures*, as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. Statement 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The Statement also enhances accountability and transparency through revised and new note disclosures and required supplementary information (RSI). The provisions of this Statement effective for the District’s financial year ending September 30, 2016 since the District entered into the Florida Retirement System effective October 1, 2015. The implementation on this Statement required the District to record beginning net pension liability and the effects on the net position of contributions made by the District and pension expense for the year ending September 30, 2016.

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(Continued)

LAKELAND AREA MASS TRANSIT DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
September 30, 2016 and 2015

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

In January 2013, the GASB issued Statement 69, *Government Combinations and Disposals of Government Operations*. This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this Statement, the term government combinations include a variety of transactions referred to as mergers, acquisitions, and transfers of operations. The distinction between a government merger and a government acquisition is based upon whether an exchange of significant consideration is present within the combination transaction. Government mergers include combinations of legally separate entities without the exchange of significant consideration. This Statement requires the use of carrying values to measure the assets and liabilities in a government merger. Conversely, government acquisitions are transactions in which a government acquires another entity, or its operations, in exchange for significant consideration. This Statement requires measurements of assets acquired and liabilities assumed generally to be based upon their acquisition values as well as provides guidance for transfers of operations that do not constitute entire legally separate entities and in which no significant consideration is exchanged. This Statement defines the term operations for purposes of determining the applicability of this Statement and requires the use of carrying values to measure the assets and liabilities in a transfer of operations. A disposal of a government's operations results in the removal of specific activities of a government. This Statement provides accounting and financial reporting guidance for disposals of government operations that have been transferred or sold as well as requires disclosures to be made about government combinations and disposals of government operations to enable financial statement users to evaluate the nature and financial effects of those transactions. The requirements of this Statement are effective for government combinations and disposals of government operations occurring in fiscal year ending September 30, 2015, and should be applied on a prospective basis. Earlier application is encouraged. The implementation on this Statement did not have an impact on the District.

In November 2013, The GASB issued Statement 71 *Pension Transition for Contributions made Subsequent to the Measurement Date – An Amendment of GASB statement No. 68*. The District has implemented this statement in companion with GASB Statement No 68.

On March 2, 2015, the Governmental Accounting Standards Board (GASB) released Statement No. 72, *Fair Value Measurement and Application*, which would generally require state and local governments to measure investments at fair value. GASB's goal is to enhance comparability of governmental financial statements by requiring fair value measurement for certain assets and liabilities using a consistent definition and accepted valuation techniques. This standard expands fair value disclosures to provide comprehensive information for financial statement users about the impact of fair value measurements on a government's financial position. The District implemented GASB 72 during fiscal year 2016. The implementation of this standard included additional disclosures to the financial statements.

In December 2015 GASB issues Statement 78 *Pensions Provided Through Certain Multiple – Employer Defined Benefit Pension Plans* effective for reporting periods beginning December 15, 2015. The implementation of this Statement did not have an impact on the District.

In December 2015 GASB issued Statement No 79 *Certain External Investment Pools and Pool Participants*. This Statement addresses accounting and financial reporting for certain external investment pools and pool participants, effective for reporting periods beginning after December 15, 2015. The implementation did not have an impact on the District.

In January 2016 GASB issued Statement 80 *Blending Requirements for Certain Component Units- An Amendment to GASB Statement 41*. Since the District does not have a component unit there is no impact on the District from this Statement that is effective for reporting periods beginning after June 15, 2016.

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(Continued)

LAKELAND AREA MASS TRANSIT DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
September 30, 2016 and 2015

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

In March 2016, the GASB issued Statement No 81, *Irrevocable Split-Interest Rate Agreements*. In an Irrevocable Split-Interest Agreement a donor transfer assets for the shared benefit of at least two beneficiaries. The implementation of this Statement did not have an impact on the District.

In March 2016 GASB issues Statement 82- *Pensions Issues an Amendment of GASB Statements 67, 68 and 73* effective for reporting periods beginning after June 15, 2016. The objective of this statement is to address certain issues with respect to the various pension Statements for clarification purposes. The District will evaluate these issues for implementation in the next fiscal year to ensure compliance as well as the impact on the District.

Cash, Cash Equivalents and Investments: Cash, cash equivalents and investments consist of amounts on deposit with the State Board of Administration and are recorded at cost which is the same as market for this type of investment. For the statement of cash flow purposes, this investment is treated as a cash equivalent because there is no stated maturity and the funds are available on demand.

Investments: Florida Statute 218.415 and the Districts investment policy authorize the District to invest surplus funds in certain investments. These investments include the Local Government Surplus Funds Trust Fund, an investment pool administered by the State Board Administration (SBA), under the regulatory oversight of the State of Florida, Chapter 19-7 of the Florida Administrative Code.

On December 4, 2007, based on recommendations from an outside financial advisor, the SBA restructured the Pool into two separate pools. Pool A, subsequently renamed the LIGP pool, consisted of all money market appropriate assets. The LIGP pool is considered a Securities and Exchange Commission (SEC) "2a7-like" fund with the fair value of the investment equal to the account balance. A 2a7-like fund is not registered with the SEC as an investment company, but has a policy that it will and does operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940, the rules governing money market funds. Thus, the pool operates essentially as a money market fund, but is classified as an external investment pool.

Receivables: Receivables are generally attributable to services provided by the District. An allowance for uncollectible accounts is estimated and no amounts were recorded based on management's judgment that all receivables are fully collectible.

Due from Other Governments: Due from other governments represents amounts due to the District from Federal and State agencies under expenditure-driven grant agreements, and from the Polk Transit Authority ("PTA"), a related entity, under an interlocal agreement providing for the reimbursement of costs borne by the District on the PTA's behalf, and for the providing of transit services in the Winter Haven area pursuant to a Transit Operators Agreement.

Inventory: The inventory of spare parts is valued at the lower of cost or market. Cost is determined by using the average cost method.

Property and Equipment: Property and equipment acquired by the District are recorded at historical cost. Property and equipment purchased with an original value of \$500 or more is capitalized. Depreciation is computed using the straight-line method over the estimated useful lives of the assets as follows:

Buildings	40 years
Rolling stock	5 - 12 years
Shop and support equipment	3 - 10 years
Office furnishings and equipment	3 - 15 years

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(Continued)

LAKELAND AREA MASS TRANSIT DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
September 30, 2016 and 2015

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Routine maintenance and repairs are charged against operations as incurred. Upon sale or retirement of property and equipment, the cost and related accumulated depreciation are eliminated from the respective accounts and the resulting gain or loss is included in operations.

Pensions: In the statement of net position, liabilities are recognized for the District's proportionate share of each pension plan's net pension liability. For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the Florida Retirement System (FRS) defined benefit plan and the Health Insurance Subsidy (HIS) and additions to/deductions from FRS's and HIS's fiduciary net position have been determined on the same basis as they are reported by the FRS and HIS plans. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds of employee contributions are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Deferred Outflows/Inflows of Resources: In addition to assets, the statement of financial position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The deferred outflows of resources reported in the District's statement of net position represent changes in actuarial assumptions, the net difference between projected and actual earnings on Health Insurance Subsidy Program investments, changes in the proportion and differences between the District's contributions and proportionate share of contributions, and the District's contributions subsequent to the measurement date, relating to the Florida Retirement System Pension Plan and the Retiree Health Insurance Subsidy Program. These amounts will be recognized as increases in pension expense in future years.

In addition to liabilities, the statement of financial position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The deferred inflows of resources reported in the District's statement of net position represent the difference between expected and actual economic experience and the net difference between projected and actual earnings on Florida Retirement System Pension investments, relating to the Florida Retirement System Pension Plan. These amounts will be recognized as reductions in pension expense in future years.

Net Position: Net position presents the difference between assets and deferred outflows, and liabilities and deferred inflows in the statements of net position. Net position is reported as restricted when there are legal limitations imposed on their use by laws or regulations of other governments or external restrictions by creditors and grantors. Unrestricted net position may be designated for specific purposes at the option of the Board of Directors.

Net investment in Capital Assets: This category consists of capital assets, net of accumulated depreciation, less outstanding balances of any bonds, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.

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(Continued)

LAKELAND AREA MASS TRANSIT DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
September 30, 2016 and 2015

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Property Taxes: Property taxes become due and payable on November 1 of each year. Polk County, Florida, bills and collects the property taxes pertaining to the District. For the fiscal years ended September 30, 2016 and September 30, 2015, the District levied .5000 mills. A 4% discount is allowed if the taxes are paid in November with the discount declining by 1% each month thereafter. Taxes become delinquent on April 1 of each year. The levy date for property taxes for the current year was October 31 and the lien date is January 1.

Federal and State Operating Grants: Proceeds from federal and state operating grants to assist in financing operating deficits are recognized as revenue in the fiscal year to which they apply.

Accordingly, revenues are recognized when the related costs are incurred as opposed to when the funds are actually received.

Federal and state operating grants are subject to special audit. Such audits could result in claims against the District for disallowed costs or noncompliance with grantor restrictions.

Compensated Absences: The amounts of unpaid vacation and sick leave accumulated by District employees are accrued as expenses when incurred. At year end, the total available sick leave and vacation hours are multiplied by the current pay rate to determine the accrued liability. Sick leave is limited such that a percentage of accrued sick time, ranging from 0% to 60%, is paid based on years of full-time employment, and the maximum amount to be paid to any single employee shall not exceed \$9,000. The District has separated that portion of the liability that is expected to be paid from current assets and has classified that estimate as a current liability and the remainder as non-current.

Management Estimates: The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

Restricted Funds: When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first and then unrestricted resources when they are needed.

Operating Revenue: Consists of revenues relating to the normal operations of the District such as fares, contracted services, and advertising.

Non-Operating Revenues: The District classifies revenues which are directly related to operating its public mass transit system as operating. All other revenues are classified as non-operating, including property taxes and grants.

Non-Operating Expenses: The District classifies expenses which are directly related to operating its public mass transit system as operating. All other expenses are classified as non-operating.

Charitable Contributions: The District is not designated as a "qualified" organization under section 501 (c) of the Internal Revenue Code. However, contributions made for the purpose of supporting the District's community bus shelter program qualify as a tax-deductible contribution under other provisions of the Internal Revenue Code. The District recognizes charitable contributions in the period received as "contributed capital" for financial reporting purposes.

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(Continued)

LAKELAND AREA MASS TRANSIT DISTRICT  
 NOTES TO FINANCIAL STATEMENTS  
 September 30, 2016 and 2015

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**NOTE 2 - CASH, CASH EQUIVALENTS AND INVESTMENTS**

As of September 30, 2016 and 2015, the aggregate carrying amounts of the District's deposits were \$3,748,238 and \$1,101,446, respectively, and the aggregate bank balances were \$2,480,938 and \$1,281,998, respectively, of which \$250,000 was covered by Federal depository insurance.

Custodial Credit Risk – Deposits: Custodial credit risk is the risk that in the event of bank failure, the District's deposits may not be returned to it. Florida Statutes require deposits by governmental units in a financial institution be collateralized. The State of Florida maintains control over the collateral requirements and authorizes certain financial institutions to act as depositories for governmental units ("Qualified Public Depositories"). The District maintains all accounts in Qualified Public Depositories.

Cash Equivalents and Investments: The types of investments in which the District may invest are governed by several forms of legal and contractual provisions. The District may invest in direct obligations of the Federal Government, interest bearing time deposits, obligations of the Federal Farm Credit Banks, Federal Home Loan Mortgage Corporation, Federal Home Loan Bank or obligations guaranteed by the Government National Mortgage Association or the Federal National Mortgage Association. The District may also invest reserve funds with the Florida State Board of Administration.

As of September 30, 2016, the District has the following investments and maturities:

Investment Maturities (in Years)

<u>Investment Type</u>	<u>Fair Value</u>	<u>Less than 1</u>	<u>1 - 3</u>	<u>3 - 5</u>	<u>5 - 10</u>	<u>10 - 20</u>
State investment pool (1)	\$6,004,028	\$6,004,028	\$ -	\$ -	\$ -	\$ -

(1) Funds are invested in the SBA's local governments pooled investment account. The rate of interest fluctuates daily. The interest rate on September 30, 2016 was .78 percent. The interest rate on September 30, 2015 was 0.25 percent. The SBA account is divided into two (2) funds. Fund A is accounted for as an SEC 2a7-like fund. The District carries these investments at amortized cost, which approximates fair value in accordance with GASB 79. The SBA's duties related to the Local Government Surplus Funds Trust Funds are defined in Sections 218.40-218.41, Florida Statutes. The Executive Director is authorized to use all investment authority included in Section 215.47, Florida Statutes, and is responsible for all internal measurements, regulation and rules defined in these sections of the Florida Statutes.

Fund B's creation on December 1, 2007 as a result of the liquidity crisis beginning in the late summer of 2007. Fund B's liquid cash holdings have been distributed as they become available from maturities, sales, investment interest and other income received from the assets in Fund B. On September 5, 2014 the SBA transferred the final portion of original principal for all fund participants to Florida PRIME. As a result, the District has no principal balance in Fund B.

As of September 30, 2015, the District had the following investments and maturities:

Investment Maturities (in Years)

<u>Investment Type</u>	<u>Fair Value</u>	<u>Less than 1</u>	<u>1 - 3</u>	<u>3 - 5</u>	<u>5 - 10</u>	<u>10 - 20</u>
State investment pool	\$485,032	\$485,032	\$ -	\$ -	\$ -	\$ -

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(Continued)

LAKELAND AREA MASS TRANSIT DISTRICT  
 NOTES TO FINANCIAL STATEMENTS  
 September 30, 2016 and 2015

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**NOTE 2 - CASH, CASH EQUIVALENTS AND INVESTMENTS** (Continued)

Interest Rate Risk: As a means of limiting its exposure to fair market value losses arising from interest rates, the District's investment policy requires at least one quarter of the District's investment portfolio to be maturities of less than one year. Investment maturities are limited as follows:

<u>Maturity</u>	<u>Maximum Investment</u>
One to three years	75%
Three to five years	30%
Five to ten years	20%
Ten to twenty years	10%

Concentration of Credit Risk: The District places no limit on the amount the District may invest in any one issuer. Investments in the State Board of Administration investment pool are 100 percent of the District's investments.

Cash, cash equivalents and investments are reported in the accompanying statements of net position as of September 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Current assets		
Cash, cash equivalents and investments	\$ 7,840,552	\$ 1,453,738
Other assets		
Cash, cash equivalents and investments	<u>1,911,714</u>	<u>132,740</u>
	<u>\$ 9,752,266</u>	<u>\$ 1,586,478</u>
	<u>2016</u>	<u>2015</u>
Cash, cash equivalents and investments are held as:		
Cash in bank	\$ 3,748,238	\$ 1,101,446
Cash with State Board of Administration	<u>6,004,028</u>	<u>485,032</u>
	<u>\$ 9,752,266</u>	<u>\$ 1,586,478</u>

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(Continued)

LAKELAND AREA MASS TRANSIT DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
September 30, 2016 and 2015

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**NOTE 2 - CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)**

Credit Risk: At September 30, 2016, the District's investments, along with their respective ratings from Moody's Investor Services, were as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Credit Rating</u>
Local Government Surplus Funds Trust Fund A	\$ 6,004,028	AAAm

Credit Risk: At September 30, 2015, the District's investments, along with their respective ratings from Moody's Investor Services, were as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Credit Rating</u>
Local Government Surplus Funds Trust Fund A	\$485,032	AAAm

**NOTE 3 - FAIR VALUE MEASUREMENT AND APPLICATION**

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

On March 2, 2015, the Governmental Accounting Standards Board (GASB) released Statement No. 72, *Fair Value Measurement and Application*, which would generally require state and local governments to measure investments at fair value. GASB's goal is to enhance comparability of governmental financial statements by requiring fair value measurement for certain assets and liabilities using a consistent definition and accepted valuation techniques. This standard expands fair value disclosures to provide comprehensive information for financial statement users about the impact of fair value measurements on a government's financial position.

The standard requires fair value measurement for certain investments not previously measured at fair value, but it does not expand scope to other assets or liabilities not previously measured at fair value. The provisions of this statement should be applied to financial statements of all state and local governments.

Investments: Investments generally would be measured at fair value. GASB defines an investment asset as "a security or other asset that a government holds primarily for the purpose of income or profit and its present service capacity is based solely on its ability to generate cash or to be sold to generate cash." The investment designation would be made at acquisition and would remain for the life of the asset, even if usage changes over time. An asset initially reported as a capital asset and later held for sale would not subsequently be reclassified as an investment.

Investments Exempt from Fair Value Measurement: The following investments would be measured in accordance with existing literature and not at fair value: Investments in nonparticipating interest-earning investment contracts (cost-based measure). Investments in unallocated insurance contracts (should be reported as interest-earning investment contracts according to the provisions of Statement No. 31 or Statement No. 59). Money market investments and participating interest-earning investment contracts that have remaining maturity at time of purchase of one year or less and are held by governments other than external investment pools (amortized cost). Investments held by 2a-7 external investment pools (amortized cost).

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(Continued)

LAKELAND AREA MASS TRANSIT DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
September 30, 2016 and 2015

**NOTE 3 - FAIR VALUE MEASUREMENT AND APPLICATION** (Continued)

Investments in 2a7-like pools (NAV per share). Synthetic guaranteed investment contracts that are fully benefit-responsive (contract value). Investments in life insurance contracts that do not meet the definition of a life settlement contract (cash surrender value).

The District has no investments that are required for fair value measurement at September 30, 2016 and 2015, as it's only investment is in the state investment pool, which is carried at amortized cost.

**NOTE 4 - OTHER ASSETS**

The District has established long range plans concerning bus replacement in the event the federal and state capital assistance grants are no longer available. As part of the plan, management has set aside certain assets that would be used to fund this project. The Board evaluates the plan on an annual basis. The assets set aside for reserves as of September 30, 2016 and 2015, consist of the following:

	<u>2016</u>	<u>2015</u>
Cash, cash equivalents and investments	\$ 1,911,714	\$ 132,740

**NOTE 5 - PROPERTY AND EQUIPMENT**

A summary of changes to property and equipment and related accumulated depreciation consist of the following:

	Balance September 30, <u>2015</u>	<u>Additions</u>	<u>Deletions</u>	Balance September 30, <u>2016</u>
<b>Depreciable Assets</b>				
Buildings	\$ 5,162,059	\$ 130,417	\$ -	\$ 5,292,476
Rolling stock	10,396,187	283,369	-	10,679,556
Shop and support equipment	2,832,221	48,921	-	2,881,142
Office furnishings and equipment	1,719,639	207,764	-	1,927,403
<b>Total Depreciable Assets</b>	<b>20,110,106</b>	<b>670,471</b>	<b>-</b>	<b>20,780,577</b>
Less accumulated depreciation	12,982,781	1,156,721	-	14,139,502
<b>Total depreciable assets, net</b>	<b>7,127,325</b>	<b>(486,250)</b>	<b>-</b>	<b>6,641,075</b>
<b>Non-depreciable Assets</b>				
Construction work in progress	219,795	-	128,467	91,328
Land and land improvements	1,902,250	-	-	1,902,250
<b>Total Non-depreciable Assets</b>	<b>2,122,045</b>	<b>-</b>	<b>128,467</b>	<b>1,993,578</b>
<b>Total capital assets, net</b>	<b>\$ 9,249,370</b>	<b>\$ (486,250)</b>	<b>\$ 128,467</b>	<b>\$ 8,634,653</b>

(Continued)

LAKELAND AREA MASS TRANSIT DISTRICT  
 NOTES TO FINANCIAL STATEMENTS  
 September 30, 2016 and 2015

**NOTE 5 - PROPERTY AND EQUIPMENT (Continued)**

	Balance September 30, <u>2014</u>	<u>Additions</u>	<u>Deletions</u>	Balance September 30, <u>2015</u>
<b>Depreciable Assets</b>				
Buildings	\$ 5,160,269	\$ 1,790	\$ -	\$ 5,162,059
Rolling stock	9,858,558	537,629	-	10,396,187
Shop and support equipment	1,423,568	1,408,653	-	2,832,221
Office furnishings and equipment	1,646,527	73,112	-	1,719,639
<b>Total Depreciable Assets</b>	<b>18,088,922</b>	<b>2,021,184</b>	<b>-</b>	<b>20,110,106</b>
Less accumulated depreciation	11,892,093	1,090,688	-	12,982,781
<b>Total depreciable assets, net</b>	<b>6,196,829</b>	<b>930,496</b>	<b>-</b>	<b>7,127,325</b>
<b>Non-depreciable Assets</b>				
Construction work in progress	1,448,400	131,768	1,360,373	219,795
Land and land improvements	1,902,250	-	-	1,902,250
<b>Total Non-depreciable Assets</b>	<b>3,350,650</b>	<b>131,768</b>	<b>1,360,373</b>	<b>2,122,045</b>
<b>Total capital assets, net</b>	<b>\$ 9,547,479</b>	<b>\$ 1,062,264</b>	<b>\$ 1,360,373</b>	<b>\$ 9,249,370</b>

**NOTE 6 - DEFINED BENEFIT PENSION PLANS**

**State of Florida Retirement System (FRS)**

All permanent employees of the District participate in the State of Florida Retirement System (the "FRS"), a multiple-employer cost - sharing defined benefit retirement plan or defined contribution retirement plan, administrated by the Florida Department of Administration, Division of Retirement. As a general rule, membership in the FRS is compulsory for all employees working in a regular established position for a state agency, county government, district school board, state university, community college or a participating city or special district within the State of Florida. The FRS provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. Employees are classified in either the regular service class or the senior management service class ("SMSC") The senior management service class is for members who fill the senior level management positions.

- The District joined the Florida Retirement System on October 1, 2015 and this is the first year for financial reporting.

Benefits are established by Chapter 121, Florida Statutes, and Chapter 60S, Florida Administrative Code. Amendments to the law can be made only by an act of the Florida Legislature.

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**NOTE 6 - DEFINED BENEFIT PENSION PLANS** (Continued)

Employees may participate in the Public Employee Optional Retirement Program (the "Investment Plan"), a defined contribution retirement program, in lieu of participation in the defined benefit retirement plan ("Pension Plan"). If the Investment Plan is elected, active membership in the defined benefit retirement plan is terminated. Eligible members of the Investment Plan are vested at one year of service and receive a contribution for self-direction in an investment product with a third party administrator selected by the State Board of Administration. The contribution rates for the years ended June 30, 2016 was for regular class and 7.26% and 21.43% for senior management class, respectively.

For employees in the Pension Plan, benefits are computed on the basis of age, average final compensation and service credit. Regular class and senior management class employees who were enrolled in the FRS prior to July 1, 2011 and retire at or after age 62 with at least six years of credited service or 30 years of service, regardless of age, are entitled to a retirement benefit payable monthly for life, based on their final average compensation of their five highest fiscal years of pay for each year of credited service. Employees enrolled on or after July 1, 2011 and who retire at or after age 65 with at least eight years of credited service, or 33 years of service, regardless of age, are entitled to a retirement benefit payable monthly for life, as explained above, based on their eight highest fiscal years of pay. Using their date of enrollment as a basis, vested employees with less than the minimum years of service may retire before the minimum age and receive reduced retirement benefits.

In addition to the above benefits, the FRS administers a Deferred Retirement Option Program ("DROP"). The Program allows the eligible employees to defer receipt of monthly retirement benefit payments while continuing employment with a Florida Retirement System employer for a period not to exceed 60 months after electing to participate. Deferred monthly benefits are held in the FRS Trust Fund and accrue interest.

Starting on July 1, 2011, Chapter 2011-68 of the Laws of Florida required members of the FRS not enrolled in DROP to contribute 3% of their salary to their retirement. Governmental employers are required to make contributions to the FRS based on statewide contribution rates. For the year ended June 30, 2016, the contribution rate applied to regular employee salaries was 7.26%, including 1.26% for a post-retirement health insurance subsidy ("HIS").

The total contributions by the District for employees covered by the Pension Plan for the year ended September 30, 2016 was \$193,116 FRS and \$75,661 HIS.

**Health Insurance Subsidy (HIS) Program**

The Retiree Health Insurance Subsidy (HIS) Program is a cost-sharing, multiple-employer defined benefit pension plan established and administrated in accordance with Section 112.363, Florida Statutes. The benefit is a monthly payment to assist retiree of the state- administrated retirement systems in paying their health insurance costs. For the fiscal year ended June 30, 2016, eligible retirees and beneficiaries received a monthly HIS payment equal to the number of years of service credited at retirement multiplied by \$5. The minimum payment is \$30 and the maximum payment is \$150 per month, pursuant to Section 112.363, Florida Statutes. To be eligible to receive a HIS benefit, a retiree under one of the state- administered retirement systems must provide proof of eligible health insurance coverage, which can include Medicare.

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(Continued)

LAKELAND AREA MASS TRANSIT DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
September 30, 2016 and 2015

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**NOTE 6 - DEFINED BENEFIT PENSION PLANS** (Continued)

**Net Pension Liability**

The component of the collective net pension liability of the District for the measurement date of June 30, 2015 and 2016:

	<u>FRS</u>	<u>HIS</u>	<u>Total</u>
June 30, 2016	\$1,999,537	\$1,720,377	\$3,719,914
June 30, 2015	\$N/A	\$N/A	\$N/A

The total pension liability for each plan was determined by the plans' actuary and reported in the plans' valuations dated July 1, 2016 for the net pension liability as of June 30, 2016.

**Actuarial Methods and Assumptions**

Actuarial assumptions for both defined benefit plans are reviewed annually by the Florida Retirement System Actuarial Assumptions Conference. The FRS Pension Plan has a valuation performed annually. The HIS program also has a valuation performed annually. The most recent evaluation for the FRS Pension Plan was completed in 2016 as of June 30, 2016. The HIS Program is funded on a pay-as-you-go basis, and the most recent evaluation was June 30, 2016.

The total pension liability for each of the defined plans was determined by an actuarial valuation as of June 30, 2016, using the entry age normal actuarial cost method. Inflation increases for both plans is assumed at 2.60%. Payroll growth for both plans is assumed at 3.25%. Both the discount rate and the long-term expected rate of return used for FRS Pension Plan Investments is 7.60%. The plans' fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees.

Therefore, the discount rate for calculating the total pension liability is equal to the long-term expected rate of return. Because the HIS Program uses the pay-as-you-go funding structure, a municipal bond rate of 2.85% was used to determine the total pension liability for the program. Mortality assumptions for both plans were based on the Generational RP-2000 with Projection Scale BB tables.

The following changes in actuarial assumptions occurred during the year ended June 30, 2016:

- FRS: As of June 30, 2016, the inflation rate assumption remained at 2.60%, the salary increases including inflation was 3.25%. The long-term expected rate of return decreased from 7.65% to 7.60%.
- HIS: the municipal rate used to determine total pension liability was 2.85%, which was a decrease of .95% due to the changes in the applicable long term municipal bond index rate.

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(Continued)

LAKELAND AREA MASS TRANSIT DISTRICT  
 NOTES TO FINANCIAL STATEMENTS  
 September 30, 2016 and 2015

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**NOTE 6 - DEFINED BENEFIT PENSION PLANS (Continued)**

**Sensitivity Analysis- FRS Net Pension Liability, Current Discount Rate Of**

The following presents the net pension liability of the pension plan, calculated using the discount rate of 7.60 percent, as well as what the pension plan's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.60 percent) or 1 percentage point higher (8.60 percent) than the current rate.

FRS	1% Decrease 6.60%	Current Discount Rate 7.60%	1% Increase 8.60%
Employer's proportinate share of the net pension liability	\$ 3,681,283	\$ 1,999,537	\$ 599,706

**Sensitivity Analysis- HIS Net Pension Liability, Current Discount Rate Of**

The following presents the net pension liability of the HIS, calculated using the discount rate of 2.85 percent, as well as what the HIS's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (1.85 percent) or 1 percentage point higher (3.85 percent) than the current rate.

HIS	1% Decrease 1.85%	Current Discount Rate 2.85%	1% Increase 3.85%
Employer's proportinate share of the net pension liability	\$ 1,973,663	\$ 1,720,377	\$ 1,510,163

**Changes in Net Pension Liability**

The actuarial assumptions that determined the FRS Total Pension Liability as of September 30, 2016 for the District's proportionate share is presented below for both the District proportionate share for the FRS and the HIS.

The District's proportionate share of Net Pension Liability is \$1,999,537 and for the HIS is \$1,720,337 at September 30, 2016.

The District recognized pension expense of \$268,063 for the FRS and \$259,803 for the HIS for the period ended September 30, 2016.

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(Continued)

LAKELAND AREA MASS TRANSIT DISTRICT  
 NOTES TO FINANCIAL STATEMENTS  
 September 30, 2016 and 2015

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**NOTE 6 - DEFINED BENEFIT PENSION PLANS (Continued)**

**Proportionate Share of Net Pension Liability  
 Florida Retirement System**

The District reported deferred outflows of resources and deferred inflows of resources from the following sources:

	<u>Deferred Outflows</u>	<u>Deferred Inflows</u>	
Balance as of 09/30/2015	\$ -	\$ -	
Experience	153,100	(18,617)	
Assumptions	120,966	-	
Investments	516,856	-	
Employer Specific Adjustments	941,170	-	
Balance as of 09/30/2016	<u>\$ 1,732,092</u>	<u>\$ (18,617)</u>	
Total			\$ 1,713,475
Employer Contributions			(193,116)
Employer Annual Pension Expense			479,178
Employer proportionate Share of Net Pension Liability as of 09/30/2016			<u>\$ 1,999,537</u>

**Proportionate Share of Net Pension Liability  
 Health Insurance Subsidy Program**

The District reported deferred outflows of resources and deferred inflows of resources from the following sources:

	<u>Deferred Outflows</u>	<u>Deferred Inflows</u>	
Balance as of 09/30/2015	\$ -	\$ -	
Experience	-	(3,918)	
Assumptions	269,971	-	
Investments	870	-	
Employer Specific Adjustments	1,193,651	-	
Balance as of 09/30/2016	<u>\$ 1,464,492</u>	<u>\$ (3,918)</u>	
Total			\$ 1,460,574
Employer Contributions			(75,661)
Employer Annual Pension Expense			335,465
Employer proportionate Share of Net Pension Liability as of 09/30/2016			<u>\$ 1,720,377</u>

(Continued)

LAKELAND AREA MASS TRANSIT DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
September 30, 2016 and 2015

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**NOTE 6 - DEFINED BENEFIT PENSION PLANS** (Continued)

**Pension Expense and Deferred Outflows/(Inflows) of Resources**

In accordance with GASB 68, paragraph 71, changes in the net pension liability are recognized in pension expense in the current measurement period, except as indicated below. For each of the following, a portion is recognized in pension expense in the current measurement period, and the balance is amortized as deferred outflows or deferred inflows of resources using a systematic and rational method over a closed period, as defined below:

- Differences between expected and actual experience with regard to economic and demographic factors - amortized over the average expected remaining service life of all employees that are provided with pensions through the pension plan (active and inactive employees).
- Changes of assumptions or other inputs - amortized over the average expected remaining service life of all employees that are provided with pensions through the pension plan (active and inactive employees).
- Differences between expected and actual earnings on pension plan investments are amortized over five years.

Amounts reported as deferred outflows of resources and defined inflows of resources related to pension expense will be recognized as a reduction of the net pension liability as follows:

<u>Year Ending</u>	<u>FRS Expense</u>	<u>HIS Expense</u>
2017	\$ 280,672	\$ 240,321
2018	280,672	240,321
2019	482,174	240,155
2020	385,004	240,076
2021	205,284	233,664
Thereafter	<u>79,669</u>	<u>266,037</u>
<b>Totals</b>	<b><u>\$ 1,713,475</u></b>	<b><u>\$ 1,460,574</u></b>

**Additional Financial and Actuarial Information**

Additional audited financial information supporting the Schedules of Employer Allocations and the Schedule of Pensions Amounts by Employer is located in the Florida CAFR and in the Florida Retirement System Pension Plan and Other State-Administered Systems CAFR for the fiscal year ended June 30, 2016.

The Florida CAFR is available on-line at:

<http://www.myfloridacfo.com/Division/AA/Reports/Default.htm>

The System's CAFR and the actuarial valuation reports as if July 1, 2014, are available on-line at:

[http://www.dms.myflorida.com/workforce\\_operations/retirement/publications](http://www.dms.myflorida.com/workforce_operations/retirement/publications)

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(Continued)

LAKELAND AREA MASS TRANSIT DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
September 30, 2016 and 2015

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**NOTE 6 - DEFINED BENEFIT PENSION PLANS** (Continued)

The system's CAFR and actuarial reports may also be obtained by contacting the Division of Retirement at:

Department of Management Services  
Division of Retirement  
Bureau of Research and Member Communications  
P.O. Box 9000  
Tallahassee, Florida 32315-900  
850-488-4706 or toll free at 877-377-1737

The District offers employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan was created, and may be amended by the Board of Directors. The plan is available to all District employees and permits employees to defer part of their wages. All contributions under this plan are discretionary. The District provides no matching employer contribution. Payments from the deferred compensation plan are not available to employees until termination, retirement, death or unforeseeable emergency.

**NOTE 7 - CAPITAL LEASE**

The District (as Lessee) has entered into a Lease Agreement with Banc of America Public Capital Acquisition (BAPCC), a subsidiary of Bank of America for financing the acquisition of three heavy duty buses. The amount financed is \$1,357,500 with an interest rate of 2.6482 percent for twelve years. The proceeds of the lease \$1,357,500 is placed in an escrow account for payment of the buses. These lease agreements qualify as capital lease for accounting purposes and are recorded at the present value of the future minimum lease payments at the inception date. The debt service payments for principal and interest are as follows as of September 30, 2016.

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 98,698	\$ 33,476	\$ 132,174
2018-2028	\$1,210,424	\$ 177,401	\$ 1,387,825

**NOTE 8 - GOVERNMENT COMBINATIONS AND DISPOSALS**

Lakeland Area Mass Transit District is a separate Independent Special Service District created by Polk County and City of Lakeland Ordinances with a Taxing Authority approved through voter referendum. Under an intergovernmental agreement between the District and the Polk County Government, the District will combine its Transit Services Operations with the Polk County for the purpose of providing public transit services to the Polk County citizens. On October 1, 2015 the Polk County Government transferred its public transit services operations to the District. The Polk County Government did not transfer any material assets and liabilities to the District.

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(Continued)

**NOTE 9 - FEDERAL AWARDS, STATE, AND LOCAL FINANCIAL ASSISTANCE**

The Polk County Government has agreed under this agreement dated October 1, 2015 to pay the District \$6,557,484 for the first year interlocal agreement for providing the transit services. At the end of the fiscal year September 30, 2016 and the completion of the District annual audited financial statement the District will rebate to Polk County Government any remaining funds over and above the cost of providing the transit services. In the event the cost of the transit services exceeds the amount paid to the District, the Polk County Government will have to reimburse the District the additional cost of providing the services. There are no deferred outflow of resources or deferred inflow of resources associated with the District's Transit Service Operations. The current interlocal agreement expires September 30, 2016 with a new agreement for the next three years. At September 30, 2016, the District owed Polk County \$1,111,417 which is included in accrued liabilities in the accompanying statement of net position.

The District has evaluated the impact of GASB Statement No. 69, *Government Combinations and Disposals of Government Operations* and determined that there is no measurable and tangible financial impact on the District finances.

Operating Grants: For each fiscal year, the District applies for an operating assistance grant from the Federal Transit Administration and the Florida Department of Transportation to assist in defraying the operating costs of the transit system. The maximum amount receivable under these grants is 50 percent of the operating deficit incurred during the respective fiscal year. For purposes of determining the amount of these deficits, proceeds from other federal awards and state financial assistance, expenditures reimbursable under the other federal awards and state financial assistance, property tax revenues, and depreciation expense are not considered. The District has recognized non-operating revenue of \$4,484,669 and \$3,966,428 in fiscal years 2016 and 2015, respectively, under these grants.

Capital Grants and Contributions: The District has recognized \$1,122,929 and \$594,271 as capital grants and contributions for fiscal years 2016 and 2015, respectively, relating to the reimbursed portion of eligible costs that are capitalized as property and equipment.

**NOTE 10 - COMMITMENTS AND CONTINGENCIES**

The District had two active construction project as of September 30, 2016 and one in 2015. These projects involve the installation of passenger bus shelters and computers. The amount committed to these projects is \$88,028 and \$216,495 as of September 30, 2016 and 2015, respectively.

**NOTE 11 - RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; natural disasters and workers' compensation claims. These risks are covered by property and casualty insurance purchased from an independent third party. Settled claims from these risks have not exceeded the District's property and casualty coverage for the past three fiscal years.

LAKELAND AREA MASS TRANSIT DISTRICT  
 NOTES TO FINANCIAL STATEMENTS  
 September 30, 2016 and 2015

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**NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS**

The District has determined that any liability for other postemployment benefits is immaterial. As such, no liability has been recorded pursuant to GASB 43.

**NOTE 13 - RELATED PARTIES**

The District has one related party for which transactions occurred during fiscal 2016 and 2015 – the Polk Transit Authority (the “Authority”). The transactions consist of the reimbursement of expenses incurred by the District on behalf of the Authority. The reimbursed costs include office expenses and labor costs associated with shared employee responsibilities. The reimbursement was authorized by both Boards of Directors and is pursuant to an interlocal agreement between the entities. The amount of reimbursable costs for fiscal years 2016 and 2015, respectively, was \$1,321 and \$2,865.

**NOTE 14 - LONG TERM LIABILITIES**

The District’s long-term liabilities consist of the non-current portion of accumulated unpaid vacation and sick pay and, a capital lease obligation (See Note 7). It is estimated that the non-current portion of the accumulated unpaid vacation and sick pay liability will not be paid within one year of the reporting date of the financial statements.

	Balance September 30, <u>2015</u>	<u>Additions</u>	<u>Deletions</u>	Balance September 30, <u>2016</u>	Due in one <u>Year</u>
Accumulated compensated absences	\$ 336,002	\$ 374,908	\$ 316,004	\$ 394,906	\$ 75,685

	Balance September 30, <u>2014</u>	<u>Additions</u>	<u>Deletions</u>	Balance September 30, <u>2015</u>	Due in one <u>Year</u>
Accumulated compensated absences	\$ 308,470	\$ 240,477	\$ 212,945	\$ 336,002	\$ 51,494

Capital lease activity for the year is as follows:

	Balance September 30, <u>2015</u>	<u>Additions</u>	<u>Deletions</u>	Balance September 30, <u>2016</u>	Due in one <u>Year</u>
Bus lease	\$ -	\$ 1,357,500	\$ 48,378	\$ 1,309,122	\$ 98,698

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**REQUIRED SUPPLEMENTARY INFORMATION**

LAKELAND AREA MASS TRANSIT DISTRICT  
 SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY  
 Years ended September 30, 2016 and 2015

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<b>Florida Retirement System Pension Plan</b>	<b><u>2016</u></b>	<b><u>2015 N/A</u></b>
District's Proportion of Net Pension Liability	0.007918934%	
District's Proportionate Share of the Net Pension Liability		
	\$ 1,999,537	
District's Covered-Employee Payroll	\$ 6,195,524	
District's Proportionate Share o the Net Pension Liability(Asset) as a Percentage of Its Covered-Employee Payroll	32.27%	
Plan Fiduciary Net Position as a Percentage of the total Pension Liability	84.88%	

Note: The amounts presented for 2016 were determined as of June 30, 2016.

Note: Information is required to be presented for 10 years. However, until a full 10 year trend is complied, the District will present information for only those years for which information is available.

<b>Retiree Health Insurance Subsidy Program</b>	<b><u>2016</u></b>	<b><u>2015 N/A</u></b>
District's Proportion of Net Pension Liability	0.04761374%	
District's Proportionate Share of the Net Pension Liability		
	\$ 1,720,377	
District's Covered-Employee Payroll	\$ 6,195,524	
District's Proportionate Share o the Net Pension Liability(Asset) as a Percentage of Its Covered-Employee Payroll	27.77%	
Plan Fiduciary Net Position as a Percentage of the total Pension Liability	0.97%	

Note: The amounts presented for 2016 were determined as of June 30, 2016.

Note: Information is required to be presented for 10 years. However, until a full 10 year trend is complied, the District will present information for only those years for which information is available.

LAKELAND AREA MASS TRANSIT DISTRICT  
SCHEDULE OF CONTRIBUTIONS  
Years ended September 30, 2016 and 2015

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<b>Florida Retirement System Pension Plan</b>	<b><u>2016</u></b>	<b><u>2015 N/A</u></b>
Contractually required Contribution	\$ 193,116	
Contributions in Relation to the Contractually Required Contribution Deficiency (Excess)	(193,116)	-
District's Covered-Employee Payroll	6,195,524	
Contributions as a Percentage of Covered Employee Payroll	3.12%	

Note: The Amounts Presented for Each Fiscal Year Were Determined as of June 30.

Note: Information is required to be presented for 10 years. However, until the full 10 years is complied, the District will present information for only those years for which information is available .

<b>Retiree Health Insurance Subsidy Program</b>	<b><u>2016</u></b>	<b><u>2015 N/A</u></b>
Contractually required Contribution	\$ 75,661	
Contributions in Relation to the Contractually Required Contribution Deficiency (Excess)	(75,661)	-
District's Covered-Employee Payroll	6,195,524	
Contributions as a Percentage of Covered Employee Payroll	1.22%	

Note: The Amounts Presented for Each Fiscal Year Were Determined as of June 30.

Note: Information is required to be presented for 10 years. However, until the full 10 years is complied, the District will present information for only those years for which information is available .

**SUPPLEMENTARY INFORMATION**

LAKELAND AREA MASS TRANSIT DISTRICT  
 SCHEDULE OF EXPENDITURES OF  
 FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE  
 Year Ended September 30, 2016

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<u>Agency/Program</u>	<u>CFDA or CFSA Number</u>	<u>Grant Identifying Number</u>	<u>FY16 Expenditures</u>
<b><u>FEDERAL AGENCY:</u></b>			
<b>Department of Transportation/ Federal Transit Administration:</b>			
<b>Direct Awards:</b>			
Federal Transit Capital Investment Grant	20.500	FL-04-0108-00	\$ 56,228
Subtotal Capital Investment Grants			56,228
Federal Transit Formula Grants			
Operating and Capital Assistance	20.507	FL-2016-010	1,121,319
Operating and Capital Assistance	20.507	FL-2016-042	<u>2,611,507</u>
Subtotal Formula Grants			<u>3,732,826</u>
Total Federal Transit Cluster			<u>3,789,054</u>
<b>State of Florida Department of Transportation (pass through):</b>			
<b>FTA Transit Capital Investment Grant</b>	20.513	FL-16-0040	100,742
Job Access & Reverse Commute Program	20.521	ARE52	<u>153,859</u>
<b>Total Expenditures of Federal Awards</b>			<u><u>\$ 4,043,655</u></u>

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(Continued)

LAKELAND AREA MASS TRANSIT DISTRICT  
 SCHEDULE OF EXPENDITURES OF  
 FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE  
 Year Ended September 30, 2016

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<u>Agency/Program</u>	<u>CFDA or CFSA Number</u>	<u>Grant Identifying Number</u>	<u>Expenditures</u>
<b><u>STATE AGENCY:</u></b>			
<b>State of Florida Department of Transportation:</b>			
Transportation Disadvantaged	55.001	G0991	\$ 375,049
Transportation Disadvantaged	55.001	G0C02	185,657
Public Transit Block Grant Program Operating Assistance	55.010	AQQ77	743,196
Congestion Management	55.011	AQH55	3,300
State Transit Service Development	55.012	AQQ95	1,560
Transit Corridor Program - Service Enhancement Project	55.013	G0907	<u>226,426</u>
Total State of Florida Department of Transportation			<u>1,535,188</u>
<b>Total Expenditures of State Financial Assistance</b>			<b><u>\$ 1,535,188</u></b>

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See accompanying note to the  
 Schedule of Expenditures of Federal Awards and State Financial Assistance.

LAKELAND AREA MASS TRANSIT DISTRICT  
NOTES TO THE SCHEDULE OF EXPENDITURES OF  
FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE  
Year Ended September 30, 2016

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**NOTE 1 - BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards and state financial assistance includes the federal and state award activity of the Lakeland Area Mass Transit District and is presented on the accrual basis of accounting. The information in this schedule is presented 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) and Chapter 10.550, *Rules of the Auditor General*. Rules of the Auditor General; therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

There were no non-cash awards or Federal Insurance maintained in the current year.

There were no sub-recipients of federal awards and state financial assistance in the current year.

LAKELAND AREA MASS TRANSIT DISTRICT  
SCHEDULE OF REVENUES AND EXPENSES  
POLK COUNTY TRANSIT SERVICES  
Year Ended September 30, 2016

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	<b><u>2016</u></b>
<b>Operating revenues</b>	
FTA 5307 Grant	\$ 1,121,318
Fares	118,254
PCTS	<u>5,245,278</u>
<b>Total operating revenue</b>	<u>6,484,850</u>
<b>Operating expenses</b>	
Labor expenses	2,002,366
Contract expenses	654,712
Operating expenses	<u>2,716,355</u>
<b>Total operating expenses</b>	<u>5,373,433</u>
<b>Revenue over expenses</b>	<u><u>\$ 1,111,417</u></u>

**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**

Board of Directors  
Lakeland Area Mass Transit District  
Lakeland, Florida

We have audited, 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, the financial statements of the Lakeland Area Mass Transit District (the District), as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated May 15, 2017.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the District'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 District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

*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. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2016-001 to be a material weakness.

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. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2016-002 to be a significant deficiency.

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(Continued)

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District'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*.

## **District's Response to Findings**

The District's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs and management's corrective action plan. The District'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 over financial reporting 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.



Crowe Horwath LLP

Lakeland, Florida  
May 15, 2017

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND STATE FINANCIAL ASSISTANCE PROJECT; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE REQUIRED BY THE UNIFORM GUIDANCE AND CHAPTER 10.550 RULES OF THE AUDITOR GENERAL**

Board of Directors  
Lakeland Area Mass Transit District  
Lakeland, Florida

**Report on Compliance for Each Major Federal Program and State Financial Assistance Project**

We have audited the Lakeland Area Mass Transit District's (the District) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* and the requirements described in the *Department of Financial Services' State Projects Compliance Supplement*, that could have a direct and material effect on each of the District's major federal programs and state financial assistance projects for the year ended September 30, 2016. The District's major federal programs and state financial assistance projects 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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs and state financial assistance projects.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the District's major federal programs and state financial assistance projects 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); and Chapter 10.550, *Rules of the Auditor General*. Those standards and the Uniform Guidance, and Chapter 10.550, *Rules of the Auditor General* 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 or state financial assistance project occurred. An audit includes examining, on a test basis, evidence about the District'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 and state financial assistance project. However, our audit does not provide a legal determination of the District's compliance.

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(Continued)

## ***Opinion on Each Major Federal Program and State Financial Assistance Project***

In our opinion, the District 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 program or state financial assistance project for the year ended September 30, 2016.

### ***Report on Internal Control Over Compliance***

Management of the District 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 District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program and state financial assistance project 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 state financial assistance project and to test and report on internal control over compliance in accordance with the Uniform Guidance and Chapter 10.550, *Rules of the Auditor General*, 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 District's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

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 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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2016-003 to be a material weakness.

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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2016-004 to be a significant deficiency.

The District's response to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs and management's corrective action plan. The District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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 and Chapter 10.550, *Rules of the Auditor General*. Accordingly, this report is not suitable for any other purpose.

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(Continued)

**Report on Schedule of Expenditures of Federal Awards and State Financial Assistance Required by the Uniform Guidance and Chapter 10.550 Rules of the Auditor General**

We have audited the financial statements of the District as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements. We issued our report thereon dated May 15, 2017, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards and state financial assistance is presented for purposes of additional analysis as required by the Uniform Guidance and Chapter 10.550, *Rules of the Auditor General* and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the 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 expenditure of federal awards and state financial assistance is fairly stated in all material respects in relation to the basic financial statements as a whole.



Crowe Horwath LLP

Lakeland, Florida  
May 15, 2017

LAKELAND AREA MASS TRANSIT DISTRICT  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS -  
 FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE  
 Year Ended September 30, 2016

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**Section I - Summary of Auditor's Results**

**Financial Statements**

Type of auditor's report issued	Unmodified
Internal control over financial reporting	
Material weakness identified?	Yes
Significant deficiencies identified not considered to be material weaknesses?	Yes
Noncompliance material to financial statements noted?	No

**Federal Awards and State Financial Assistance**

Internal Control over major programs	
Material weakness identified?	Yes
Significant deficiencies identified not considered to be material weaknesses?	Yes
Type of auditor's report issued on compliance for major programs	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a), and Section 215.97 of Chapter 10.550, Rules of the Auditor General?	Yes

Identification of major programs

CFDA/CFSA Number(s)      Name of Federal Award/State Program

Federal:

20.500/20.507              Federal Transit Cluster

State:

55.001                      Transportation Disadvantaged  
 55.010                      Public Transit Block Grant Program

Dollar threshold used to distinguish between Type A and Type B programs	\$750,000
Dollar threshold used to distinguish for State Projects	\$300,000
Auditee qualified as low-risk auditee?	No

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(Continued)

LAKELAND AREA MASS TRANSIT DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS -  
FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE  
Year Ended September 30, 2016

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**Section II – Financial Statement Findings**

**Finding 2016-001: Financial Statement Preparation – Material Weakness**

**Criteria:** The District's financial statements are required to be reported in accordance with U.S. Generally Accepted Accounting Principles (GAAP).

**Condition:** The District's financial statements provided to the auditor contained multiple errors related to the preparation in conformity with GAAP.

**Context:** The final draft of the financial statements provided to the auditor contained errors related to the proper reporting under GAAP including items such as presentation consistency, calculation of net assets and cash flows.

**Effect:** The District could be presenting financial statements not in accordance with GAAP.

**Cause:** During the year, the District experienced turnover in two key accounting positions responsible for external financial statement reporting.

**Recommendations:** We recommend the District cross-train staff in procedures related to financial statement reporting.

**Management's View and Planned Corrective Actions:** The District has filled the two positions and staff are being cross trained in all accounting areas.

**Finding 2016-002: Cash Disbursements – Significant Deficiency**

**Criteria:** Strong internal controls require observable documentation of internal control activities related to financial reporting.

**Condition:** The District's documentation of internal control activities performed over cash disbursements did not include observable evidence of the review of the disbursement related controls for certain disbursements.

**Context:** The District was unable to provide documentation of approval for 6 of 32 cash disbursement registers and 2 of 32 accounts payable detail reviews selected for testing during the audit.

**Effect:** The District could be improperly expending funds.

**Cause:** The District performs reviews of the disbursement and accounts payable registers and the verbal approval was not documented.

**Recommendations:** We recommend the District formally document the review and approval of cash disbursements and accounts payable detail registers.

**Management's View and Planned Corrective Actions:** The District reconciled the bank accounts on a timely basis and accounted for all the checks written on the check register. The addition of the Polk County Transit Operations \$5.4 million and the Transportation Disadvantaged Program \$.5 million compounded the paperwork. The missing documents are not a reflection of mismanagement, but needs improved coordination.

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(Continued)

LAKELAND AREA MASS TRANSIT DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS -  
FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE  
Year Ended September 30, 2016

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**Section III – Findings and Questioned Costs – Major Federal Award Programs**

**Finding 2016-003: Fixed Asset Capitalization – Material Weakness**

**Impacted Programs:** 20.500/20.507- Federal Transit Cluster

**Criteria:** 2 CFR section 200.33 of the Uniform Guidance states that equipment is defined as tangible personal property, including technology systems, having a useful life or more than one year and a per-unit acquisition cost which equals or exceeds the lesser of the capitalization level established by the non-federal entity for financial statement purposes or \$5,000. The non-federal entity must follow 2 CFR section 200.313 (c) through (e) to ensure equipment purchased with grant funds are properly tracked and maintained.

**Condition:** The District purchased multiple quantities of radios which were in excess of the District's capitalization threshold of \$500. The radios were expensed rather than capitalized and not identified as assets purchased with grant funds.

**Questioned Costs:** None.

**Context:** During procedures performed over procurement, Crowe noted there were invoices related to purchases of radios which individually and in the aggregate exceeded the capitalization threshold of the District. The District did not record these purchases as capital asset additions.

**Effect:** Capital assets were understated and not being tracked per grant requirements.

**Cause:** The District did not capitalize certain fixed asset purchases in accordance with their established policy.

**Recommendations:** We recommend controls be put in place to identify multiple purchases of the same item to identify and aggregate for analysis of the District's capitalization policy.

**Identification as a Repeat Finding:** There was not a finding in the prior year related to this finding.

**Management's View and Planned Corrective Actions:** The radios were not capitalized because individual purchases were made. Also, the capitalization threshold is \$500 and maybe it should be increased to \$1,000. Procedures are in place to track all capital purchases.

**Finding 2016-004: Expenditure Tracking– Significant Deficiency**

**Impacted Programs:** 20.500/20.507- Federal Transit Cluster; 55.001- Florida Commission for the Transportation Disadvantaged(CTD) Trip and Equipment Grant Program; 55.010- Public Transit Block Grant Program

**Criteria:** 2 CFR section 200.302 (b)(1) requires that the financial management system of each non-Federal entity must provide for the following: Identification, in its accounts, of all Federal awards received and expended and the Federal programs under which they were received. Federal program and Federal award identification must include, as applicable, the CFDA title and number, Federal award identification number and year, name of the Federal agency, and name of the pass-through entity, if any.

**Condition:** The District does not maintain expenditure tracking in the general ledger in order to track expenditures by grant for reporting purposes.

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(Continued)

LAKELAND AREA MASS TRANSIT DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS -  
FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE  
Year Ended September 30, 2016

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**Section III – Findings and Questioned Costs – Major Federal Award Programs**

**Questioned Costs:** None.

**Context:** During audit procedures over grant expenditures we noted the District was not utilizing a flagging feature in its general ledger software to track expenditures to a particular grant, instead relying on purchase order tracking. The District utilizes manual tracking reports by invoice/check number.

**Effect:** The District could be double counting expenditures over multiple grants or be unable to provide an exact listing of expenditures charged against a specific grant that reconciled to the total expenditures per the general ledger.

**Cause:** The District utilizes purchase order reports and a separate tracking of expenditures on an invoice/check number basis to account for expenditures for grants.

**Recommendations:** We recommend the District utilize the flagging function in their general ledger software to track grant expenditures.

**Identification as a Repeat Finding:** There was not a finding in the prior year related to this finding.

**Management’s View and Planned Corrective Actions:** The procedures applied to grant tracking will be reviewed to ensure that the grant expenses are effectively tracked and reconciled to the MCSJ accounting system to ensure accuracy.

**Section IV – Findings and Questioned Costs – Major State Financial Assistance Projects**

**Finding 2016-004: Expenditure Tracking– Significant Deficiency**

See Section III above.

**Section V – Findings from Prior Year**

There were no findings from the prior year.

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(Continued)

LAKELAND AREA MASS TRANSIT DISTRICT  
MANAGEMENT'S CORRECTIVE ACTION PLAN  
Year Ended September 30, 2016

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**Finding 2016-001: Financial Statement Preparation – Material Weakness**

**Corrective Action Plan:** The District has filled the two positions and staff are being cross trained in all accounting areas.

**Anticipated Completion Date:** This action will be completed by September 30, 2017.

**Finding 2016-002: Cash Disbursements – Significant Deficiency**

**Corrective Action Plan:** The District reconciled the bank accounts on a timely basis and accounted for all the checks written on the check register. The addition of the Polk County Transit Operations \$5.4 million and the Transportation Disadvantaged Program \$.5 million compounded the paperwork. The missing documents are not a reflection of mismanagement, but needs improved coordination.

**Anticipated Completion Date:** This action will be completed by September 30, 2017.

**Finding 2016-003: Fixed Asset Capitalization – Material Weakness**

**Corrective Action Plan:** The radios were not capitalized because individual purchases were made. Also, the capitalization threshold is \$500 and maybe it should be increased to \$1,000. Procedures are in place to track all capital purchases.

**Anticipated Completion Date:** This action will be completed by September 30, 2017.

**Finding 2016-004: Expenditure Tracking– Significant Deficiency**

**Corrective Action Plan:** The procedures applied to grant tracking for the fiscal year ending September 30, 2016 is consistent with the previous year's methodology. The District will continue to track these expenses carefully to ensure that all Operating and Capital Grants are recorded correctly in the General Ledger.

**Anticipated Completion Date:** This action will be completed by September 30, 2017.

**Contact Information:**

David Persaud, CFO  
1212 George Jenkins Blvd.  
Lakeland, Florida  
Telephone: 863-327-1303

Board of Directors  
Lakeland Area Mass Transit District  
Lakeland, Florida

### **Report on the Financial Statements**

We have audited the financial statements of the Lakeland Area Mass Transit District (the District) as of and for the fiscal year ended September 30, 2016, and have issued our report thereon dated May 15, 2017.

### **Auditor's Responsibility**

We conducted our audit 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; the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements of Federal Awards* (Uniform Guidance); and Chapter 10.550, *Rules of the Auditor General*.

### **Other Reports and Schedule**

We have issued our Independent Auditor's Report on Internal Control over Financial Reporting and Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*; Independent Auditor's Report on Compliance for Each Major Federal Program and State Project and Report on Internal Control over Compliance; Schedule of Findings and Questioned Costs; and Independent Accountant's Report(s) on an examination conducted in accordance with AICPA Professional Standards, Section 601, regarding compliance requirements in accordance with Chapter 10.550, *Rules of the Auditor General*. Disclosures in those reports and schedule, which are dated May 15, 2017, should be considered in conjunction with this management letter.

### **Prior Audit Findings**

Section 10.554(1)(i)1., *Rules of the Auditor General*, requires that we determine whether or not corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report. Corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report. There were no findings in the prior year.

### **Official Title and Legal Authority**

Section 10.554(1)(i)4., *Rules of the Auditor General*, requires that the name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed in this management letter, unless disclosed in the notes to the financial statements. The District was established as described in Note 1.

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(Continued)

## **Financial Condition**

Sections 10.554(1)(i)5.a. and 10.556(7), *Rules of the Auditor General*, require that we apply appropriate procedures and report the results of our determination as to whether or not the District has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific condition(s) met. In connection with our audit, we determined that the District did not meet any of the conditions described in Section 218.503(1), Florida Statutes.

Pursuant to Sections 10.554(1)(i)5.c. and 10.556(8), *Rules of the Auditor General*, we applied financial condition assessment procedures. It is management's responsibility to monitor the District's financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by same.

## **Annual Financial Report**

Sections 10.554(1)(i)5.b. and 10.556(7), *Rules of the Auditor General*, require that we apply appropriate procedures and report the results of our determination as to whether the annual financial report for the District for the fiscal year ended September 30, 2016, filed with the Florida Department of Financial Services pursuant to Section 218.32(1)(a), Florida Statutes, is in agreement with the annual financial audit report for the fiscal year ended September 30, 2016. In connection with our audit, we determined that these two reports were in agreement.

## **Special District Component Units**

Section 10.554(1)(i)5.d., *Rules of the Auditor General*, requires that we determine whether or not a special district that is a component unit of a county, municipality, or special district, provided the financial information necessary for proper reporting of the component unit, within the audited financial statements of the county, municipality, or special district in accordance with Section 218.39(3)(b), Florida Statutes. In connection with our audit, we determined that all special district component units provided the necessary information for proper reporting in accordance with Section 218.39(3)(b), Florida Statutes.

## **Other Matters**

Section 10.554(1)(i)2., *Rules of the Auditor General*, requires that we address in the management letter any recommendations to improve financial management. In connection with our audit, we have noted our findings under the heading Current Year Recommendations. Matters communicated in this letter are classified as follows:

Deficiency – A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis.

Section 10.554(1)(i)3., *Rules of the Auditor General*, requires that we address noncompliance with provisions of contracts or grant agreements, or abuse, that have occurred, or are likely to have occurred, that have an effect on the financial statements that is less than material but which warrants the attention of those charged with governance. In connection with our audit, we did not have any such findings.

Management's written responses to the matters identified in our audit have not been subjected to the auditing procedures applied in the audit of financial statements and, accordingly, we express no opinion on those responses.

## Current Year Recommendations

2016-005 Suspension and Debarment Check		Deficiency
<b>Condition:</b>	The District performed the required suspension and debarment check at the time of the initial award on a multi-year contract to purchase buses. There were no further suspension and debarment checks in subsequent years to verify the vendor was not on the suspension and debarment list.	
<b>Criteria:</b>	2 CFR section 180 states that Non-Federal entities are prohibited from contracting with or making sub-awards under covered transactions to parties that are suspended or debarred. 2 CFR sections 180.220 defines "Covered transactions" as contracts for goods and services awarded under a non-procurement transaction (e.g., grant or cooperative agreement) that are expected to equal or exceed \$25,000 or meet certain other criteria).	
<b>Cause:</b>	The suspension and debarment check of the vendor was completed at the time of the initial award. Purchases made under the award from the same vendor in subsequent years did not include a suspension and debarment check of the vendor.	
<b>Effect:</b>	The District could incur expenditures that would not be allowable reimbursements under the grant agreements and be in violation of federal grant requirements.	
<b>Recommendation:</b>	We recommend controls be put in place to check vendors against the suspension and debarment listing each year for multi-year contracts in addition to the initial check at the time of the award.	
<b>Management's Response:</b>	The Procurement Checklist has been revised to include the Suspension and Debarment for all purchases on an annual basis for compliance with 2 CFR Section 180.	

2016-006 Grant Schedule Preparation		Deficiency
<b>Condition:</b>	The District's Schedule of Expenditures of Federal Awards and State Financial Assistance (SEFA) incorrectly classified amounts related to a bus purchase through federal and state monies.	
<b>Criteria:</b>	2 CFR section 200.61 and 200.62 define internal controls as it related to the Uniform Guidance. 2 CFR section 200.515 (c) requires the auditor to perform procedures to obtain the internal control over Federal programs sufficient to plan the audit to support a low assessed level of control risk of noncompliance for major programs.	
<b>Cause:</b>	The District misclassified a portion of a bus purchase with federal funds passed through to the state.	
<b>Effect:</b>	The District improperly classified expenditures on the SEFA.	
<b>Recommendation:</b>	We recommend controls be established to properly report federal and state award expenditures consistent with the provisions of the Uniform Guidance.	
<b>Management's Response:</b>	The September 30, 2016 SEFA reflected the acquisition of a fixed asset with Federal funding 80%, State funding 10%, and Local funding 10%, however the District only recorded the local 10%, since the 90% was paid directly to the vendor. Controls have been put in place to avoid this occurrence in the future.	

(Continued)

2016-007 Pensionable Wage Calculation		Deficiency
<b>Condition:</b>	The District included a health insurance subsidy as pensionable wages which are not classified as such pursuant to the Florida Retirement system.	
<b>Criteria:</b>	Provisions of the Florida Retirement System define the criteria for items to be considered pensionable wages.	
<b>Cause:</b>	This was the first year for the District as a participant in the Florida Retirement System. The District incorrectly determined the health insurance subsidy was a pensionable wage when reviewing the pensionable wage definitions under the Florida Retirement System.	
<b>Effect:</b>	The District incurred additional expenditures as a result of including the health insurance subsidy as part of the pensionable wage base. The Florida Retirement System would also include the health insurance subsidy as additional pensionable wages incorrectly.	
<b>Recommendation:</b>	We recommend the District check all non-wage payments to employees against the pensionable wage definitions under the Florida Retirement System.	
<b>Management's Response:</b>	Fiscal year ending September 30, 2016 was the first year the District implemented the FRS. Given the short period the District had to implement the plan, the health insurance subsidy was applied incorrectly to the FRS contributions. Once the District identified the error it was corrected promptly.	

### Purpose of this Letter

Our management letter is intended solely for the information and use of the Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representatives, the Florida Auditor General, Federal and other granting agencies the Board of Directors, and applicable management, and is not intended to be and should not be used by anyone other than these specified parties.



Crowe Horwath LLP

Lakeland, Florida  
May 15, 2017

**INDEPENDENT ACCOUNTANT'S REPORT ON COMPLIANCE WITH  
SECTION 218.415, FLORIDA STATUTES**

Board of Directors  
Lakeland Area Mass Transit District  
Lakeland, Florida

We have examined the Lakeland Area Mass Transit District's (the District) compliance with Section 218.415, *Florida Statutes*, concerning the investment of public funds during the year ended September 30, 2016. Management is responsible for the District's compliance with those requirements. Our responsibility is to express an opinion on the District's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the District's compliance with specified requirements.

In our opinion, the District complied, in all material respects, with the aforementioned requirements for the year ended September 30, 2016.



Crowe Horwath LLP

Lakeland, Florida  
May 15, 2017