

LAKELAND AREA MASS TRANSIT DISTRICT (LAMTD)

Office of Purchasing and Contracts
P.O. Box 1687, Lakeland Florida 33802

AMENDMENT OF SOLICITATION

| | | |
|--|---------------------------|--------------------------------------|
| 1. SOLICITATION No. 14-005 | 2. AMENDMENT No. 1 | 3. EFFECTIVE DATE: 05/28/2014 |
| 4. ISSUED BY: Lisa Harris, Contracts Specialist Direct Dial: (863) 327-1314 Email: LHarris@ridecitrus.com | | 5. NUMBER OF PAGES: 46 |
| 6. REVISED SUBMISSION DUE DATE AND TIME: The submission due date and time is changed as follows: DATE AND TIME: No Change | | |
| 7. AMENDMENT OF SOLICITATION: The solicitation identified in Block 1, is hereby amended as described in Block 10. Except as provided herein, all other provisions of the solicitation, as hereto amended, shall remain unchanged and in full force and effect. | | |
| 8. REQUIREMENT TO ACKNOWLEDGE AMENDMENT: Failure of an offeror to acknowledge receipt of this amendment may result in offer rejection. Offeror must acknowledge receipt of this amendment prior to the deadline specified in the solicitation for receipt of offers and by one of the following methods: A. By signing Block 9 and returning this amendment to the District with your Proposal; B. By separate letter or e-mail which includes a reference to this solicitation and amendment numbers. | | |
| 9. OFFEROR'S ACKNOWLEDGEMENT OF AMENDEMENT: Name & Title: _____ Signature: _____ Offeror: _____ Date: ____/____/____ | | |
| 10. DESCRIPTION OF AMENDMENT: The following modifications are hereby made to the solicitation document: A. As indicated in Block 6 above, the Offer Submission Due Date and Time has not changed: B. Attached to this amendment are Questions and Clarification. Responses to questions are provided as a courtesy and do not "modify" the solicitation. C. There are no changes to the solicitation are referenced in paragraph A and B. <p style="text-align: center;">[END]</p> | | |

RFP 14-005 External Auditing Services

Questions and Clarifications

May 28, 2014

1. **Question:** Name of current auditor.

Response: The incumbent is Crowe Horwath.

2. **Question:** Fees for most recent Audit.

Response: The contracted fee scheduled is as follows:

| Service Area | Fee Schedule | | |
|--|---------------------|---------------------|---------------------|
| | 2011 | 2012 | 2013 |
| Audit of Lakeland Area Mass Transit District | \$ 39,000.00 | \$ 40,200.00 | \$ 41,400.00 |
| Audit of Polk Transit Authority | \$ 9,000.00 | \$ 9,270.00 | \$ 9,550.00 |
| NTD Report | \$ 6,000.00 | \$ 6,180.00 | \$ 6,365.00 |
| Total | \$ 54,000.00 | \$ 55,650.00 | \$ 57,315.00 |

3. **Question:** What were the prior 3 years of audit fees paid? Please provide a breakdown, if possible, between LAMTD, PT, preparation of annual audit report and NTD report.

Response: Please refer to the response provided under question 2.

4. **Question:** What accounting system is utilized? Are PT and LAMTD both kept on the same system?

Response: The District currently uses the MCSJ System by Edmunds and Associates for its financial management. The PT utilizes a system called CYMA for their financial management.

5. **Question:** Have there been any negative communications from grantor agencies in the past 3 years regarding non-compliance or questioned costs?

Response: There has not been negative communication from grantor agencies in the past 3 years.

6. **Question:** Is LAMTD/PT expecting and major changes in funding in the next 3 years?

Response: There may be funding changes should the one cent sales tax referendum pass in November; however, the anticipated changes would not take effect for roughly a one year period.

7. **Question:** Have there been any changes in upper management in the last 3 years? If so, what positions?

Response: The District's Executive Director has recently completed his third year with the agency, the CFO, his first month.

8. **Question:** What has been the typical schedule for the auditors to be in the field for LAMTD, PT and the NTD report?

Response: The fiscal year ends September 30 and auditors are normally here for field work by late November.

9. **Question:** Should proof of insurance be provided with the proposal or would it be acceptable to provide once contracted?

Response: Please refer to Section 3.16 and Section 6 Form K of the solicitation.

10. **Question:** Who are the members of the District's Audit Committee so that we can evaluate independence?

Response: The Finance Committee consists of LAMTD Board Members.

RFP 14-005 External Auditing Services

Questions and Clarifications

May 28, 2014

11. Question: Could you advise who the prior auditor was and the current fees. Can we get a copy of the 2013 CAFR or Audited Financial Statements?

Response: Please refer to the response provided under question 1 and 2 for incumbent information and fees. The 2013 audit can be found as Amendment 1 - Exhibit A.

12. Question: Would you please forward your most recent audit along with the fee and/or budget?

Response: Please refer to the response provided under question 2 for the fees. The 2013 audit can be found as Amendment 1 - Exhibit A.

13. Question: What were the fees paid for last three years?

Response: Please refer to the response provided under question 2 for the fees.

14. Question: Were there any additional services provided and if so what were the fees paid for the additional services.

Response: All fees are shown in the response provided under question 2.

Amendment 1 to RFP 14-005 - Exhibit A
2013 Audited Financial Statement

LAKELAND AREA MASS TRANSIT DISTRICT
(A COMPONENT UNIT OF THE
CITY OF LAKELAND, FLORIDA)

FINANCIAL STATEMENTS
September 30, 2012 and 2011

LAKELAND AREA MASS TRANSIT DISTRICT

FINANCIAL STATEMENTS
September 30, 2012 and 2011

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REPORT OF INDEPENDENT AUDITORS

Board of Directors
Lakeland Area Mass Transit District
Lakeland, Florida

We have audited the accompanying financial statements of the business-type activities of the Lakeland Area Mass Transit District (“the District”), a component unit of the City of Lakeland, Florida, as of and for the years ended September 30, 2012 and 2011, which comprise the District’s basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District’s management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the District as of September 30, 2012 and 2011, and the respective changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 9, 2013 on our consideration of the 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* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that Management’s Discussion and Analysis on pages 3 through 8 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audit of the 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.

(Continued)

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 accompanying Schedule of Expenditures of Federal Awards and State Financial Assistance as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and Florida's *Rules of the Auditor General*, Chapter 10.650, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The Schedule of Expenditures of Federal Awards and State Financial Assistance 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 financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards and State Financial Assistance is fairly stated in all material respects in relation to the financial statements as a whole.


Crowe Horwath LLP

Lakeland, Florida
April 9, 2013

LAKELAND AREA MASS TRANSIT DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2012 and 2011

The Lakeland Area Mass Transit District's ("the District") Management's Discussion and Analysis (MD&A) provides a financial performance review that is designed to focus on the financial activities, resulting changes, and currently known facts for the fiscal year ended on September 30, 2012. Please read it in conjunction with the accompanying presented financial statements.

Financial Highlights

- The District is a special taxing district created by Polk County and City of Lakeland ordinances with taxing authority approved through voter referendum. Operation of transit services began in 1982, and has been expanded from its original boundaries several times by voter referendum.
- The District currently operates 13 Fixed Routes, or Regular Routes, Monday through Saturday. Prior to July 25, 2011, the District operated 22 Fixed Routes. The decrease in the number of routes operated was the result of a system-wide restructuring. Additionally, the District decreased the maximum number of Fixed Route buses being operated in simultaneous service from 24 to 20.
- The District operates 13 Handy buses, or Demand Response buses, Monday through Friday, and five buses on Saturday. There were no significant changes made to this service during 2012.
- There is an interlocal agreement between the City of Winter Haven and the Polk County Board of County Commissioners to operate the Winter Haven Area Transit ("WHAT") service. The District has a contract with Polk County to operate Fixed Route buses for this service. No significant changes were made to the Winter Haven Area Transit service levels in fiscal year 2012.
- The District entered into an agreement with the Polk Transit Authority ("the Authority") in fiscal year 2011 to operate one (1) fixed route within the WHAT service area. This service was funded by a Section 5317 Job Access and Reverse Commute Grant that was awarded to the Authority. This service continued in fiscal 2012.
- In April, 2012, the District rolled out a Day Pass, affording riders an unlimited number of rides during a 24 hour period.
- The Fixed Route bus fare is structured as follows:
 - Adults \$1.50
 - Students \$1.25
 - Senior citizens \$.75
 - Handicapped \$.75
 - Children who are under age seven (7) and who are accompanied by an adult ride free.
 - Transfers are issued at no charge to complete a one-way trip.

Prior to May 2, 2011, the fare structure was:

- Adults \$1.25
- Students \$1.00
- Senior citizens \$.60
- Handicapped \$.60
- Children who are under age seven (7) and who are accompanied by an adult ride free.
- Transfers are issued at no charge to complete a one-way trip.

(Continued)

LAKELAND AREA MASS TRANSIT DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2012 and 2011

- Fixed-Route and Paratransit Bus Passes are structured as follows:

| | |
|--------------------------------------|---------|
| • 31 Day Unlimited Ride Pass | \$47.00 |
| • Weekly Unlimited Ride Pass | \$12.00 |
| • Adult Day Pass | \$ 3.00 |
| • Adult Day Pass 10 Pack | \$27.00 |
| • Student Day Pass | \$ 2.50 |
| • Student Day Pass 10 Pack | \$22.00 |
| • Senior / Disabled Day Pass | \$ 1.50 |
| • Senior / Disabled Day Pass 10 Pack | \$15.00 |

Prior to April, 2012, the Fixed-Route and Paratransit Buss Pass structure was:

| | |
|--------------------------------|---------|
| • 31 Day Unlimited Ride Pass | \$47.00 |
| • 20 Ride Adult Pass | \$25.00 |
| • Weekly Unlimited Ride Pass | \$12.00 |
| • 15 Ride Student Pass | \$12.00 |
| • 15 Ride Senior/Disabled Pass | \$12.00 |
| • 10 Ride Paratransit Pass | \$20.00 |

Required Financial Statements

The financial statements of the District offer short and long-term financial information about its activities. The statements of net assets includes all of the District's assets and liabilities, which provides information about the nature and amounts of investments in resources (assets) and obligations to 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 rate of return, evaluating the capital structure of the District and assessing the liquidity and financial flexibility.

All of the current year's revenues and expenses are accounted for in the statement of revenues, expenses, and changes in net assets. This statement measures the performance 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 activities, as well as its profitability and efficiency in providing services.

These two statements report the net assets of the District and changes in them. You can think of the District's net assets – the difference between assets and liabilities – as one way to measure financial health or financial position. Over time, increases or decreases in the District's net assets are one indicator of whether its financial health is improving or deteriorating. However, you will need to consider other nonfinancial factors, such as changes in economic conditions, changes in the District's property tax base, cost of fuel, population growth, regulation, and new or changed government legislation, to assess the overall health of the District.

The statements of net assets and the statement of revenues, expenses and changes in net assets report information about the District as a whole and about its activities. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the method of accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

The final required financial statement is the statements of cash flows. The primary purpose of this statement is to provide information about the District's cash receipts and cash payments during the fiscal year. The statements report cash receipts, cash payments and net changes in cash resulting from operating, investing, non-capital financing activities, and capital and related financial 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.

(Continued)

LAKELAND AREA MASS TRANSIT DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2012 and 2011

Financial Analysis of the District

Net Assets (Balance Sheet)

**Table A - 1
Summary of Net Assets (Balance Sheet)**

| | <u>2012</u> | <u>2011</u> | <u>2010</u> |
|-------------------------------------|----------------------|----------------------|----------------------|
| Current assets | \$ 5,893,785 | \$ 5,211,981 | \$ 5,928,671 |
| Designated assets | 1,240,844 | 1,370,964 | 2,756,568 |
| Noncurrent assets: | | | |
| Capital assets, net | 7,721,788 | 6,517,615 | 6,937,353 |
| Land | <u>1,902,250</u> | <u>1,902,250</u> | <u>1,902,250</u> |
| Total assets | 16,758,667 | 15,002,810 | 17,524,842 |
| Current liabilities | 1,771,212 | 459,197 | 469,659 |
| Noncurrent liabilities | <u>276,324</u> | <u>250,244</u> | <u>262,106</u> |
| Total liabilities | <u>2,047,536</u> | <u>709,441</u> | <u>731,765</u> |
| Net assets: | | | |
| Invested in capital assets | 9,624,038 | 8,419,865 | 8,835,377 |
| Restricted for capital improvements | 1,000 | 1,000 | 15,675 |
| Unrestricted | <u>5,086,093</u> | <u>5,872,504</u> | <u>7,942,025</u> |
| Total net assets | <u>\$ 14,711,131</u> | <u>\$ 14,293,369</u> | <u>\$ 16,793,077</u> |

Our analysis of the District begins with the statements of net assets.

One of the most important questions to ask 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?" Based on the increase in net assets of approximately \$400,000, it is reasonable to conclude that the District is better off as a result of the year's activities.

Capital Assets

The net increase of \$1,204,173 consists of depreciation of \$1,212,467, additions of \$2,416,780 and deletions of \$833,143.

(Continued)

LAKELAND AREA MASS TRANSIT DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2012 and 2011

Revenues, Expenses, and Changes in Net Assets

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

| | <u>2012</u> | <u>2011</u> | <u>2010</u> |
|--|----------------------|----------------------|----------------------|
| Operating Revenues: | | | |
| Passenger fares and contractual revenues for transit service | \$ 1,361,092 | \$ 1,429,503 | \$ 1,379,619 |
| Winter Haven transit service | 1,089,071 | 983,111 | 964,004 |
| Sale of advertising space | <u>63,765</u> | <u>47,199</u> | <u>44,722</u> |
| Total operating revenues | 2,513,928 | 2,459,813 | 2,388,345 |
| Operating Expenses: | | | |
| Salaries and wages | \$ 4,276,238 | 4,821,865 | 5,157,947 |
| Employee benefits | 1,933,613 | 2,241,539 | 2,523,431 |
| Fuel and lubricants | 1,317,442 | 1,349,788 | 1,099,984 |
| Depreciation | 1,212,467 | 1,208,788 | 1,206,245 |
| Materials, supplies, maintenance and contract service | 892,724 | 924,914 | 1,078,769 |
| Insurance | 213,834 | 313,812 | 354,064 |
| Advertising | 57,078 | 123,050 | 157,994 |
| Professional services | 458,957 | 570,281 | 523,526 |
| Repairs and maintenance | 10,589 | 412 | 12,423 |
| Other operating expense | <u>272,938</u> | <u>320,480</u> | <u>386,503</u> |
| Total operating expenses | <u>10,645,880</u> | <u>11,874,929</u> | <u>12,500,886</u> |
| Operating loss | (8,131,952) | (9,415,116) | (10,112,541) |
| Nonoperating Revenues (Expenses): | | | |
| Property taxes | 3,101,271 | 3,209,778 | 3,531,034 |
| Federal and state operating grants | 4,220,196 | 3,420,230 | 5,657,090 |
| Other nonoperating activities, net | <u>48,661</u> | <u>(138,545)</u> | <u>72,482</u> |
| Total nonoperating revenues (expenses) | <u>7,370,128</u> | <u>6,491,463</u> | <u>9,260,606</u> |
| Net Income (Loss) before Capital contributions | (761,824) | (2,923,653) | (851,935) |
| Capital Contributions | <u>1,179,586</u> | <u>423,945</u> | <u>1,747,204</u> |
| Change in Net Assets | 417,762 | (2,499,708) | 895,269 |
| Net assets, beginning of year | <u>14,293,369</u> | <u>16,793,077</u> | <u>15,897,808</u> |
| Net assets, end of year | <u>\$ 14,711,131</u> | <u>\$ 14,293,369</u> | <u>\$ 16,793,077</u> |

(Continued)

LAKELAND AREA MASS TRANSIT DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2012 and 2011

The statement of revenues, expenses and changes in net assets can be thought of as the District's profit and loss statement. As you can see, several changes in activity occurred between 2011 and 2012, and contributed to the net income in fiscal year 2012.

Operating revenues increased in 2012, and operating expenses decreased; which accordingly decreased the operating loss. Non-operating revenues also increased, by approximately \$875,000; and, the capital contribution increased from \$400,000 to \$1.2 million. As a result, the District ended 2012 better off than in the prior year.

Operating Passenger Fares for Transit Service

In fiscal year 2012 ridership decreased 17.9% over fiscal year 2011 and passenger fare revenue for fiscal year 2012 increased 1.1% over fiscal year 2011.

| <u>Ridership</u> | <u>Fixed Route</u> | <u>Demand Response</u> | <u>WHAT Contract</u> | <u>TOTAL</u> |
|------------------|--------------------|------------------------|----------------------|--------------|
| FY 2012 | 1,104,646 | 96,118 | 251,397 | 1,452,161 |
| FY 2011 | 1,453,467 | 104,434 | 210,186 | 1,768,087 |
| FY 2010 | 1,459,416 | 112,984 | 191,211 | 1,763,611 |

Riders Per Hour

| | | | |
|---------|-------|------|-------|
| FY 2012 | 15.88 | 3.27 | 18.49 |
| FY 2011 | 19.54 | 3.30 | 20.15 |
| FY 2010 | 18.44 | 3.15 | 18.95 |

Operational Cost Per Revenue Hour

| | |
|---------|---------|
| FY 2012 | \$83.62 |
| FY 2011 | \$91.26 |
| FY 2010 | \$91.79 |

Winter Haven Area Transit service

A portion of the Winter Haven Area Transit ("WHAT") service is operated by the District under the terms of an operating agreement between the District and the Polk County Board of County Commissioners, and is based upon the District's operating cost per revenue hour. In fiscal year 2011, a Section 5317 Job Access Reverse Commute grant was awarded to the Polk Transit Authority ("the Authority") for the operation of a WHAT route. The District operates this route under the terms of an identical operating agreement between the District and the Authority. The WHAT service revenue recognized for fiscal 2012 is 11% greater than the revenue recognized for fiscal 2011. This net increase is due to the additional service being operated during the year, although at a lower cost per revenue hour.

Operating Expenses

Salaries and wages decreased approximately 11.3% in fiscal year 2012. This decrease was due primarily to the full-year effect of a reduction in staff that occurred mid-year in fiscal 2011.

Employee benefits decreased 13.7%, primarily due to a reduction in staff and a shift to more part-time labor.

(Continued)

LAKELAND AREA MASS TRANSIT DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2012 and 2011

Materials purchases decreased 3.5 % due to the disposal of older vehicles late in fiscal 2011.

Fuel and lubricants expense for fiscal year 2012 decreased from fiscal year 2011 by 2.4%, due to the full-year effect of the decrease in service levels from fiscal 2011, but partially offset by higher fuel (diesel) prices.

The 19.5% decrease in professional services was primarily due to reduction in legal and information technology services rendered during the year.

Utilities expenses decreased 12.2% due to the termination of a lease for additional office space.

Advertising expense decreased 53.6 % due to cost-reduction measures.

Total operational expenses in fiscal year 2012 decreased 5% over fiscal year 2011. Total operating hours in fiscal year 2012 decreased 3.1% from fiscal year 2011. The resulting cost per revenue hour for fiscal year 2012 decreased 8.4% compared to fiscal year 2011; \$83.62 and \$91.26, respectively.

Nonoperating Revenues and Expenses and Capital Contributions

Property tax revenue decreased 3.4% in fiscal year 2012, due to the decrease in taxable property values within the District's taxing area. The millage rate remained constant at .5000 mills for fiscal years 2012 and 2011.

The District recognized \$1,179,586 and \$423,945 as capital contributions for fiscal years 2012 and 2011, respectively, for reimbursement of eligible costs that are capitalized as property and equipment.

Interest Income decreased by 17%, due to a decreased average daily carrying balance in the District's investment accounts.

Fiscal 2013 Outlook

Prior to fiscal 2012, the District had operated at a net operating loss for five of the six previous years. This persistent operating deficit had resulted in the depletion of a majority of the District's operating reserves. As a result of this depletion, the District reduced service levels in fiscal 2011 by approximately 20%. In fiscal 2012, the District presented and operated under a balanced budget. The fiscal 2013 budget was also prepared with the primary goal of presenting a balanced operating budget.

The District is now evaluating the possible future options for increasing revenues in order to add additional service. These options include increasing in the District's millage rate, pursuing partnerships with local schools and businesses to provide transit benefits, augmenting federal and state operational grants, and implementing fare increases.

The District also continues to pursue operational efficiencies through efforts in consolidating its transit operations with those of Polk County Transit Services under the political umbrella of the Polk Transit Authority. The first phase of that consolidation effort, the creation of a joint operational call center, is set to be completed in Q3 of fiscal 2013.

Requests 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, P.O. Box 1687, Lakeland, Florida, 33802.

LAKELAND AREA MASS TRANSIT DISTRICT
 STATEMENTS OF NET ASSETS
 September 30, 2012 and 2011

| | <u>2012</u> | <u>2011</u> |
|--|-------------|-------------|
| ASSETS | | |
| Current assets | | |
| Cash, cash equivalents and investments | \$ 286,144 | \$ 427,200 |
| Receivables | 129,527 | 76,072 |
| Due from other governments | 4,961,585 | 4,202,306 |
| Inventory | 479,868 | 471,725 |
| Prepaid expenses | 36,661 | 34,678 |
| Total current assets | 5,893,785 | 5,211,981 |
| OTHER ASSETS: | | |
| Cash, cash equivalents and investments | 1,240,844 | 1,370,964 |
| PROPERTY AND EQUIPMENT: | | |
| Buildings | 4,679,687 | 4,171,970 |
| Rolling stock | 10,414,165 | 9,309,320 |
| Shop and support equipment | 1,445,704 | 1,354,088 |
| Office furnishings and equipment | 1,379,282 | 1,365,438 |
| Leasehold improvements | - | 58,249 |
| Construction work in progress | 129,741 | 205,876 |
| | 18,048,579 | 16,464,941 |
| Less accumulated depreciation | 10,326,791 | 9,947,326 |
| | 7,721,788 | 6,517,615 |
| Land and land improvements | 1,902,250 | 1,902,250 |
| Net property and equipment | 9,624,038 | 8,419,865 |
| Total assets | 16,758,667 | 15,002,810 |

(Continued)

LAKELAND AREA MASS TRANSIT DISTRICT
STATEMENTS OF NET ASSETS
September 30, 2012 and 2011

| | <u>2012</u> | <u>2011</u> |
|--|--------------------------|--------------------------|
| LIABILITIES | | |
| Current liabilities, payable from current assets | | |
| Accounts payable | 1,572,148 | 268,852 |
| Accrued liabilities | 172,559 | 181,700 |
| Deposits held | <u>26,505</u> | <u>8,645</u> |
| Total current liabilities | 1,771,212 | 459,197 |
| Noncurrent liabilities | | |
| Accrued liabilities, less current portion | <u>276,324</u> | <u>250,244</u> |
| Total noncurrent liabilities | <u>276,324</u> | <u>250,244</u> |
| Total liabilities | 2,047,536 | 709,441 |
| NET ASSETS | | |
| Invested in capital assets | 9,624,038 | 8,419,865 |
| Restricted for capital improvements | 1,000 | 1,000 |
| Unrestricted | <u>5,086,093</u> | <u>5,872,504</u> |
| Total net assets | <u>\$ 14,711,131</u> | <u>\$ 14,293,369</u> |

See accompanying notes to financial statements.

LAKELAND AREA MASS TRANSIT DISTRICT
 STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
 Years Ended September 30, 2012 and 2011

| | <u>2012</u> | <u>2011</u> |
|--|-------------------|-------------------|
| Operating revenues | | |
| Passenger fares and contractual revenues | | |
| for transit service | \$ 1,361,092 | \$ 1,429,503 |
| Winter Haven transit service | 1,089,071 | 983,111 |
| Sale of advertising space | <u>63,765</u> | <u>47,199</u> |
| Total operating revenues | 2,513,928 | 2,459,813 |
| Operating expenses | | |
| Salaries and wages | 4,276,238 | 4,821,865 |
| Employee benefits | 1,933,613 | 2,241,539 |
| Fuel and lubricants | 1,317,442 | 1,349,788 |
| Depreciation | 1,212,467 | 1,208,788 |
| Materials, supplies, maintenance, and contract services | 892,724 | 924,914 |
| Insurance | 213,834 | 313,812 |
| Professional services | 458,957 | 570,281 |
| Utilities | 104,744 | 119,262 |
| Lease expense | 60,430 | 65,262 |
| Office expense | 34,854 | 40,832 |
| Travel and meetings | 35,012 | 42,838 |
| Uniforms | 17,010 | 17,241 |
| Advertising | 57,078 | 123,050 |
| Training and education | 5,777 | 4,449 |
| Interest expense | - | 329 |
| Miscellaneous | 15,111 | 30,267 |
| Repairs and maintenance | <u>10,589</u> | <u>412</u> |
| Total operating expenses | <u>10,645,880</u> | <u>11,874,929</u> |
| Operating loss | (8,131,952) | (9,415,116) |

(Continued)

LAKELAND AREA MASS TRANSIT DISTRICT
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
Years Ended September 30, 2012 and 2011

| | <u>2012</u> | <u>2011</u> |
|--|----------------------|----------------------|
| Nonoperating revenues (expenses) | | |
| Property taxes | 3,101,271 | 3,209,778 |
| Federal and state operating grants | 4,220,196 | 3,420,230 |
| Investment income | 9,082 | 10,938 |
| Unrealized gain/(loss) loss on cash, cash equivalents and investments | 36,820 | 23,005 |
| Gain (Loss) on disposals of equipment | 1,259 | 219 |
| Miscellaneous revenue (expense) | <u>1,500</u> | <u>(172,707)</u> |
| Total nonoperating revenues | 7,370,128 | 6,491,463 |
| | | |
| Net loss before capital contributions | (761,824) | (2,923,653) |
| | | |
| Capital contributions | <u>1,179,586</u> | <u>423,945</u> |
| | | |
| Change in net assets | 417,762 | (2,499,708) |
| | | |
| Net assets at beginning of year | <u>14,293,369</u> | <u>16,793,077</u> |
| | | |
| Net assets at end of year | <u>\$ 14,711,131</u> | <u>\$ 14,293,369</u> |

See accompanying notes to financial statements

LAKELAND AREA MASS TRANSIT DISTRICT
STATEMENTS OF CASH FLOWS
Years Ended September 30, 2012 and 2011

| | <u>2012</u> | <u>2011</u> |
|---|---------------------|---------------------|
| Cash flows from operating activities | | |
| Cash received from customers | \$ 2,489,906 | \$ 2,441,246 |
| Other operating cash receipts (payments) | 1,500 | (172,707) |
| Cash paid for operating goods and services | (1,930,392) | (3,455,891) |
| Cash paid to employees | <u>(6,192,912)</u> | <u>(7,130,701)</u> |
| Net cash used in operating activities | (5,631,898) | (8,318,053) |
| Cash flows from investing activities | | |
| Investment income | 47,161 | 34,162 |
| Cash flows from noncapital financing activities | | |
| Proceeds from federal grants | 2,488,033 | 2,924,516 |
| Proceeds from state grants | 903,640 | 837,290 |
| Property tax revenues received | <u>3,101,271</u> | <u>3,209,778</u> |
| Net cash provided by noncapital financing activities | 6,492,944 | 6,971,584 |
| Cash flows from capital and related financing activities | | |
| Proceeds from federal grants restricted for capital acquisitions | 1,192,421 | 511,071 |
| Proceeds from state grants restricted for capital acquisitions | 43,337 | 7,664 |
| Proceeds from charitable contributions restricted for capital acquisitions | 1,500 | 8,130 |
| Proceeds from sale of equipment | 76,275 | 9,582 |
| Repayments of long-term obligations | - | (4,226) |
| Purchase of property and equipment | <u>(2,492,916)</u> | <u>(798,632)</u> |
| Net cash used in capital and related financing activities | <u>(1,179,383)</u> | <u>(266,411)</u> |
| Net change in cash and cash equivalents | (271,176) | (1,578,718) |
| Cash and cash equivalents at beginning of year | <u>1,798,164</u> | <u>3,376,882</u> |
| Cash and cash equivalents at end of year | <u>\$ 1,526,988</u> | <u>\$ 1,798,164</u> |

(Continued)

LAKELAND AREA MASS TRANSIT DISTRICT
 STATEMENTS OF CASH FLOWS
 Years Ended September 30, 2012 and 2011

| | <u>2012</u> | <u>2011</u> |
|--|-----------------------|-----------------------|
| Classified in statements of net assets as | | |
| Current assets | \$ 286,144 | \$ 427,200 |
| Other assets | <u>1,240,844</u> | <u>1,370,964</u> |
| | <u>\$ 1,526,988</u> | <u>\$ 1,798,164</u> |
| Reconciliation of operating loss to net cash used in operating activities | | |
| Operating loss | \$ (8,131,952) | \$ (9,415,116) |
| Adjustments to reconcile operating loss to net cash used in operating activities | | |
| Depreciation | 1,212,467 | 1,208,788 |
| Increase in receivables | (13,537) | (34,819) |
| Decrease in fuel tax refund receivable | (10,485) | 16,252 |
| Increase in inventory | (8,143) | (40,597) |
| Decrease in prepaid expenses | (1,983) | 146,889 |
| Increase (decrease) in accounts payable | 1,303,296 | 40,553 |
| Decrease in accrued liabilities | 16,939 | (67,296) |
| Non-operating miscellaneous income (expense) | <u>1,500</u> | <u>(172,707)</u> |
| | <u>\$ (5,631,898)</u> | <u>\$ (8,318,053)</u> |
| Noncash investing, capital, or financing transactions | | |
| Capital lease | <u>\$ -</u> | <u>\$ 3,717</u> |

See accompanying notes to financial statements

LAKELAND AREA MASS TRANSIT DISTRICT
NOTES TO FINANCIAL STATEMENTS
Years Ended September 30, 2012 and 2011

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 Ordinance 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 entities. 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. The District is included as a component unit in the financial statements and comprehensive annual financial report of the City of Lakeland, Florida. The District has been included as a component unit of the City of Lakeland pursuant to governmental accounting standards, which requires a government entity to be included as a component unit of a parent entity when a majority of the governing body of the component entity are Board members of the parent entity

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.

The District has elected not to apply the FASB Statements and Interpretations issued after November 30, 1989, however, the District continues to follow GASB Statements and Interpretations.

The significant accounting policies followed are described below.

Cash, Cash Equivalents and Investments: Cash equivalents 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 District’s 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 of Administration (SBA), under the regulatory oversight of the State of Florida, Chapter 19-7 of the Florida Administrative Code.

(Continued)

LAKELAND AREA MASS TRANSIT DISTRICT
NOTES TO FINANCIAL STATEMENTS
Years Ended September 30, 2012 and 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 LGIP pool, consisted of all money market appropriate assets. The LGIP 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.

Pool B, referred to as the Fund B Surplus Funds Trust Fund ("Fund B"), consists of securities originally purchased for the LGIP pool that 1) defaulted in the payment of principal and interest; 2) were extended; 3) were restructured or otherwise subject to workout; 4) experienced elevated market illiquidity; or 5) did not meet the criteria of the nationally recognized statistical rating organization that provides the LGIP pool's AAAM rating. Fund B will be accounted for as a fluctuating net asset value (NAV) pool. These Pool B funds are valued at fair value.

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.

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 are capitalized. Depreciation is computed using the straight-line method over the estimated useful lives of the assets as follows:

| | |
|----------------------------------|--------------|
| Buildings | 40 years |
| Rolling stock | 6 - 12 years |
| Shop and support equipment | 3 - 10 years |
| Office furnishings and equipment | 3 - 15 years |

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.

Net Assets: Net assets present the difference between assets and liabilities in the statements of net assets. Net assets are reported as restricted when there are legal limitations imposed on their use by laws or regulations of other governments or external restrictions by creditors or grantors. Unrestricted net assets may be designated for specific purposes at the option of the Board of Directors. If restricted and unrestricted net assets are available for the same purpose, then restricted assets will be used before unrestricted assets.

Invested 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.

(Continued)

LAKELAND AREA MASS TRANSIT DISTRICT
NOTES TO FINANCIAL STATEMENTS
Years Ended September 30, 2012 and 2011

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, 2012 and 2011, 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 was 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 audits. Such audits could result in claims against the District for disallowed costs or noncompliance with grantor restrictions.

Unearned Revenue: Unearned revenues are the amounts expended on a pre-award grant that have not been formally awarded. Once the grant is awarded the revenues will be recognized.

Accumulated Unpaid Vacation and Sick Pay: 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 50%, is paid based on years of full-time employment, and the maximum amount to be paid to any single employee shall not exceed \$8,000.

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.

(Continued)

LAKELAND AREA MASS TRANSIT DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 Years Ended September 30, 2012 and 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

New Accounting Pronouncements: In June 2010, the GASB issued Statement No. 59, *Financial Instruments Omnibus*. This Statement updates and improves existing standards regarding financial reporting of certain financial instruments and external investment pools. The Statement is effective for financial statements prepared by state and local governments for periods beginning after June 15, 2010, with earlier application encouraged. Adoption of this statement did not have a material impact on the District’s financial statements.

NOTE 2 - CASH, CASH EQUIVALENTS AND INVESTMENTS

As of September 30, 2012 and 2011, the aggregate carrying amounts of the District’s deposits were \$161,350 and \$326,793, respectively, and the aggregate bank balances were \$163,261 and \$346,486, 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, 2012, the District had the following investments and maturities:

| <u>Investment Type</u> | <u>Fair Value</u> | <u>Investment Maturities (in Years)</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) | <u>\$1,365,638</u> | <u>\$1,365,638</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |

(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, 2012 was 0.32 percent. The interest rate on September 30, 2011 was 0.24 percent. The SBA account is divided into two (2) funds. Fund A is accounted for as an SEC 287 like fund. The fair value of the position of this fund is the same as the value of the pooled shares. Fund B is accounted for as a fluctuating net asset value fund. The fair value of the position in fund B as of September 30, 2012 and 2011 was 94.896811 and 75.68386 percent, respectively, of the value of the pooled shares. 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.

(Continued)

LAKELAND AREA MASS TRANSIT DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 Years Ended September 30, 2012 and 2011

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

As of September 30, 2011, the District had the following investments and maturities:

| Investment Type | Fair Value | Investment Maturities (in Years) | | | | |
|---------------------------|-------------|-----------------------------------|-------|-------|--------|---------|
| | | Less than 1 | 1 - 3 | 3 - 5 | 5 - 10 | 10 - 20 |
| State investment pool (1) | \$1,471,371 | \$1,471,371 | \$ - | \$ - | \$ - | \$ - |

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

| Maturity | Maximum Investment |
|---------------------|--------------------|
| 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 assets as of September 30, 2012 and 2011:

| | <u>2012</u> | <u>2011</u> |
|--|---------------------|---------------------|
| Current assets | | |
| Cash, cash equivalents and investments | \$ 286,144 | \$ 427,200 |
| Other assets | | |
| Cash, cash equivalents and investments | <u>1,240,844</u> | <u>1,370,964</u> |
| | <u>\$ 1,526,988</u> | <u>\$ 1,798,164</u> |

| | <u>2012</u> | <u>2011</u> |
|--|---------------------|---------------------|
| The statements of net assets classifications are summarized by investment categories as follows: | | |
| Cash | \$ 161,350 | \$ 326,793 |
| State Board of Administration | <u>1,365,638</u> | <u>1,471,371</u> |
| | <u>\$ 1,526,988</u> | <u>\$ 1,798,164</u> |

(Continued)

LAKELAND AREA MASS TRANSIT DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 Years Ended September 30, 2012 and 2011

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

Credit Risk: At September 30, 2012, 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 | 1,222,694 | AAAm |
| Local Government Surplus Funds Trust Fund B | 142,944 | Unrated |

At September 30, 2011, 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 | 1,332,844 | AAAm |
| Local Government Surplus Funds Trust Fund B | 138,527 | Unrated |

NOTE 3 - 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 bus replacement as of September 30, 2012 and 2011, consist of the following:

| | <u>2012</u> | <u>2011</u> |
|--|---------------------|---------------------|
| Cash, cash equivalents and investments | <u>\$ 1,240,844</u> | <u>\$ 1,370,964</u> |

(Continued)

LAKELAND AREA MASS TRANSIT DISTRICT
NOTES TO FINANCIAL STATEMENTS
Years Ended September 30, 2012 and 2011

NOTE 4 - PROPERTY AND EQUIPMENT

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

| | Balance September 30, <u>2011</u> | <u>Additions</u> | <u>Deletions</u> | Balance September 30, <u>2012</u> |
|----------------------------------|---|---------------------|------------------|---|
| Depreciable Assets | | | | |
| Buildings | \$ 4,171,970 | \$ 744,951 | \$ 237,234 | \$ 4,679,687 |
| Rolling stock | 9,309,320 | 1,642,505 | 537,660 | 10,414,165 |
| Shop and support equipment | 1,354,088 | 91,616 | - | 1,445,704 |
| Office furnishings and equipment | 1,365,438 | 13,844 | - | 1,379,282 |
| Leasehold improvements | <u>58,249</u> | <u>-</u> | <u>58,249</u> | <u>-</u> |
| Total Depreciable Assets | 16,259,065 | 2,492,916 | 833,143 | 17,918,838 |
| Less accumulated depreciation | <u>9,947,326</u> | <u>1,212,467</u> | <u>833,002</u> | <u>10,326,791</u> |
| Total depreciable assets, net | 6,311,739 | 1,280,449 | 141 | 7,592,047 |
| Non-depreciable Assets | | | | |
| Construction work in progress | 205,876 | (76,135) | - | 129,741 |
| Land and land improvements | <u>1,902,250</u> | <u>-</u> | <u>-</u> | <u>1,902,250</u> |
| Total Non-depreciable Assets | <u>2,108,126</u> | <u>(76,135)</u> | <u>-</u> | <u>2,031,991</u> |
| Total capital assets, net | <u>\$ 8,419,865</u> | <u>\$ 1,204,314</u> | <u>\$ 141</u> | <u>\$ 9,624,038</u> |
| | | | | |
| | Balance September 30, <u>2010</u> | <u>Additions</u> | <u>Deletions</u> | Balance September 30, <u>2011</u> |
| Depreciable Assets | | | | |
| Buildings | \$ 3,903,047 | \$ 268,923 | \$ - | \$ 4,171,970 |
| Rolling stock | 11,128,558 | 262,649 | 2,081,887 | 9,309,320 |
| Shop and support equipment | 1,309,510 | 182,259 | 137,681 | 1,354,088 |
| Office furnishings and equipment | 1,326,342 | 125,742 | 86,646 | 1,365,438 |
| Leasehold improvements | <u>58,249</u> | <u>-</u> | <u>-</u> | <u>58,249</u> |
| Total Depreciable Assets | 17,725,706 | 839,573 | 2,306,214 | 16,259,065 |
| Less accumulated depreciation | <u>11,035,170</u> | <u>1,208,788</u> | <u>2,296,632</u> | <u>9,947,326</u> |
| Total depreciable assets, net | 6,690,536 | (369,215) | 9,582 | 6,311,739 |
| Non-depreciable Assets | | | | |
| Construction work in progress | 246,817 | (40,941) | - | 205,876 |
| Land and land improvements | <u>1,902,250</u> | <u>-</u> | <u>-</u> | <u>1,902,250</u> |
| Total Non-depreciable Assets | <u>2,149,067</u> | <u>(40,941)</u> | <u>-</u> | <u>2,108,126</u> |
| Total capital assets, net | <u>\$ 8,839,603</u> | <u>\$ (410,156)</u> | <u>\$ 9,582</u> | <u>\$ 8,419,865</u> |

(Continued)

NOTE 5 - DEFERRED COMPENSATION PLAN

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 also provides for a matching employer contribution of up to 5% of employee wages (the total contribution for employees normally cannot exceed \$16,500 in one year). The amount of this matching contribution was \$98,893 and \$96,843 for the fiscal years 2012 and 2011, respectively. Payments from the deferred compensation plan are not available to employees until termination, retirement, death or unforeseeable emergency. The compensation is not included in the employee's taxable income until such amounts are actually received by the employee.

NOTE 6 - FEDERAL AWARDS, STATE FINANCIAL ASSISTANCE AND LOCAL CONTRIBUTIONS

Operating Grants: For each fiscal year, the District applies for an operating assistance grant from the Federal Transit Administration to assist in defraying the operating costs of the transit system. The maximum amount receivable under this grant 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 \$3,397,634 and \$2,535,081 in fiscal years 2012 and 2011, respectively, under these grants.

During the 2012 and 2011 fiscal years, the District was awarded Operating Assistance Grants from the State of Florida, Department of Transportation. These grants are to assist in defraying the operating costs of the transit system. The amounts awarded under these grants and recognized as non-operating revenue for fiscal years 2012 and 2011 were \$822,562 and \$885,149 respectively.

Capital Grants: The District has recognized \$1,179,586 and \$423,945 as capital grant contributions for fiscal years 2012 and 2011, respectively, relating to the reimbursed portion of eligible costs that are capitalized as property and equipment.

NOTE 7 - COMMITMENTS AND CONTINGENCIES

The District is subject to state and federal audits to determine compliance with grant funding requirements. In the event that expenditures would be disallowed, repayment could be required.

The District had two and four active construction projects as of September 30, 2012 and 2011 respectively. These projects all involve the installation of passenger bus shelters. The amount committed to these projects is \$13,860 and \$6,190 as of September 30, 2012 and 2011 respectively.

NOTE 8 - 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
 Years Ended September 30, 2012 and 2011

NOTE 9 - OTHER POSTEMPLOYMENT BENEFITS

The District has determined that any potential liability for other postemployment benefits would be immaterial. As such, no liability has been recorded pursuant to GASB Statement No. 45.

NOTE 10 - RELATED PARTY

The District has one related party for which transactions occurred during fiscal 2012 and 2011 - 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 2012 and 2011, respectively, was \$1,406 and \$17,565.

Additionally, the District entered into a Transit Operator Agreement in fiscal 2011 to provide fixed-route bus service to the Authority pursuant to a Section 5317 Job Access and Reverse Commute grant that was awarded to the Authority. The District recognized \$215,517 and \$28,951, respectively of operating revenue pursuant to this agreement in 2012 and 2011.

In fiscal 2011 the District paid a one-time amount of \$25,000 to the Authority for start-up costs related to the Authority's master strategic plan and public communications program. This amount was recorded as a non-operating expense.

NOTE 11 - MANAGEMENT'S FUNDING PLAN

In fiscal 2013, the District adopted a balanced operating budget for the second year in a row. However, due to the challenging economic climate, the District continues to monitor revenues and expenses closely to ensure that operational levels are appropriate for its cost structure. Particular attention is being given to fuel costs and employee benefit costs. Additionally, the District continues to seek additional revenue opportunities that would allow an expansion of service levels.

NOTE 12 - LONG TERM LIABILITIES

The District's long-term liabilities consist solely of the non-current portion of accumulated unpaid vacation and sick pay. It is estimated that the non-current portion of this liability will not be paid within one year of the reporting date of the financial statements.

| | Balance September 30, <u>2011</u> | <u>Additions</u> | <u>Deletions</u> | Balance September 30, <u>2012</u> | Due in one <u>Year</u> |
|----------------------------------|---|------------------|------------------|---|---------------------------|
| Accumulated compensated absences | \$ 312,250 | 346,621 | 342,114 | \$ 316,757 | \$ 40,433 |
| | Balance September 30, <u>2010</u> | <u>Additions</u> | <u>Deletions</u> | Balance September 30, <u>2011</u> | |
| Accumulated compensated absences | \$ 335,838 | 314,327 | 337,915 | \$ 312,250 | \$ 62,006 |

SUPPLEMENTARY INFORMATION

LAKELAND AREA MASS TRANSIT DISTRICT
 SCHEDULE OF EXPENDITURES OF
 FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE
 Year Ended September 30, 2012

| <u>Agency/Program</u> | <u>CFDA or CFSA Number</u> | <u>Grant Identifying Number</u> | <u>Expenditures</u> |
|--|------------------------------------|---|----------------------------|
| <u>FEDERAL AGENCY:</u> | | | |
| Department of Transportation/ Federal Transit Administration: | | | |
| Direct Awards: | | | |
| Federal Transit Capital Investment Grant | 20.500 | FL-04-0064-00 | \$ 34,650 |
| Federal Transit Capital Investment Grant | 20.500 | FL-04-0088-00 | 361,135 |
| Federal Transit Capital Investment Grant | 20.500 | FL-04-0108-00 | 85,135 |
| Federal Transit Capital Investment Grant | 20.500 | FL-04-0109-00 | 19,716 |
| Federal Transit Capital Investment Grant | 20.500 | FL-04-0129-00 | <u>81,256</u> |
| Subtotal Capital Investment Grants | | | 581,892 |
| Federal Transit Formula Grants- Operating and Capital Assistance | 20.507 | FL-90-X797-00 | 2,530,153 |
| Federal Transit Formula Grants- Operating and Capital Assistance | 20.507 | FL-90-X632-00 | 5,644 |
| Federal Transit Formula Grants- Operating and Capital Assistance | 20.507 | FL-90-X497-00 | 6,943 |
| Federal Transit Capital Grants- ARRA | 20.507 | FL-96-X021-00 | <u>540,269</u> |
| Subtotal Formula Grants | | | <u>3,083,009</u> |
| Total Federal Transit Cluster | | | 3,664,901 |
| State of Florida Department of Transportation (pass through): | | | |
| New Freedom Program | 20.521 | AQ199 | <u>785,378</u> |
| Total Expenditures of Federal Awards | | | <u>\$ 4,450,279</u> |

(Continued)

LAKELAND AREA MASS TRANSIT DISTRICT
 SCHEDULE OF EXPENDITURES OF
 FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE
 Year Ended September 30, 2012

| <u>Agency/Program</u> | <u>CFSA Number</u> | <u>Identifying Number</u> | <u>Expenditures</u> |
|--|------------------------|-------------------------------|--------------------------|
| <u>STATE AGENCY:</u> | | | |
| State of Florida Department of Transportation: | | | |
| Public Transit Block Grant Program - Operating Assistance | 55.010 | AOW09 | \$ 792,561 |
| Public Transit Block Grant Program - Operating Assistance | 55.010 | AOW09 | 27,099 |
| Transit Corridor Program - Service Enhancement Project | 55.013 | AOW11 | 83,890 |
| State Highway Project Reimbursement - Congestion Management | 55.023 | APS58 | <u>43,338</u> |
| Total State of Florida Department of Transportation | | | <u>946,888</u> |
| Total Expenditures of State Financial Assistance | | | <u>\$ 946,888</u> |

See accompanying notes 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, 2012

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 the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*; and Chapter 10.550, 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.

REPORT OF INDEPENDENT AUDITORS 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 the financial statements of the Lakeland Area Mass Transit District (the "District") as of September 30, 2012, and have issued our report thereon dated April 9, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

(Continued)

We noted certain matters that we reported to management of the District in a separate letter dated April 9, 2013.

This report is intended solely for the information and use of the Board of Directors of the Lakeland Area Mass Transit District, management, federal and state awarding agencies, and the Auditor General of the State of Florida, and is not intended to be and should not be used by anyone other than these specified parties.

Crowe Horwath LLP
Crowe Horwath LLP

Lakeland, Florida
April 9, 2013

REPORT OF INDEPENDENT AUDITORS ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB
CIRCULAR A-133 AND CHAPTER 10.550, RULES OF THE AUDITOR GENERAL

Board of Directors
Lakeland Area Mass Transit District
Lakeland, Florida

Compliance

We have audited the compliance of the Lakeland Area Mass Transit District (the "District") with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement; Chapter 10.550, *Rules of the Auditor General*; 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, 2012. The District's major federal programs and state financial assistance projects are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs and state financial assistance projects is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*; and Chapter 10.550, *Rules of the Auditor General*. Those standards, OMB Circular A-133, 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. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs and state financial assistance projects for the year ended September 30, 2012. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 12-1.

(Continued)

Internal Control Over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal awards programs and state financial assistance projects. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program or state financial assistance project to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133 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.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control over compliance that we consider to be a significant deficiency as described in the accompanying schedule of findings and questioned costs as items 12-1. 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.

The District's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the District's response and, accordingly, we express no opinion on the response.

The purpose of this report is solely to describe the scope of our testing over compliance and internal controls over compliance with the requirements that could have a direct and material effect on each major program or state financial assistance project and the results of that testing, and not to provide a legal determination of compliance with those requirements or an opinion on the effectiveness of internal controls over compliance. Accordingly, this report is not suitable for any other purpose.


Crowe Horwath LLP

Lakeland, Florida
April 9, 2013

LAKELAND AREA MASS TRANSIT DISTRICT
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS –
 FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE
 Year Ended September 30, 2012

SECTION I - SUMMARY OF AUDITORS' RESULTS

FINANCIAL STATEMENTS

| | |
|--|---------------|
| Type of auditors' report issued | Unqualified |
| Internal control over financial reporting: | |
| Material weakness identified | No |
| Significant deficiency identified not considered to be material weakness | None reported |
| Noncompliance material to financial statements noted | No |

FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE

| | |
|---|-------------|
| Internal control over major programs: | |
| Material weakness identified | No |
| Significant deficiency identified not considered to be material weakness | Yes |
| Type of auditors' report issued on compliance for major programs | Unqualified |
| Audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a), and Chapter 10.550, <i>Rules of the Auditor General</i> | Yes |

Identification of major programs:

| <u>CFDA/CSFA Number</u> | <u>Name of Program</u> |
|-------------------------|--|
| <u>Federal:</u> | |
| 20.500/20.507 | Federal Transit/Capital Improvement Grants and Formula Grants Cluster - ARRA |
| 20.521 | Federal Transit Services Cluster – New Freedom |
| <u>State:</u> | |
| 55.010 | State of Florida Department of Transportation: Public Transit Block Grant |

| | |
|--|-----------|
| Dollar threshold used to distinguish between Type A and Type B programs: | |
| Federal | \$300,000 |
| State | \$284,066 |
| Auditee qualified as low-risk | No |

(Continued)

LAKELAND AREA MASS TRANSIT DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS –
FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE
Year Ended September 30, 2012

SECTION II - FINANCIAL STATEMENT FINDINGS

No items noted.

SECTION III - FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARDS PROGRAMS

Significant Deficiency:

Federal Transit Authority
Passed through the Florida Department of Transportation
CFDA #20.521
Federal Transit Services Cluster – New Freedom

| | |
|---------------------------------|---|
| 12-1 | Preparation of the Schedule of Expenditures of Federal Awards and State Financial Assistance |
| Condition: | The District prepares the Schedule of Federal Expenditures and State Financial Assistance (SEFA) that is included in the financial statements. This schedule identifies all expenditures associated with Federal and State grant programs. The first draft of this schedule incorrectly reported the expenditures related to the New Freedom grant as a state award instead of a federal award. |
| Criteria: | All current year recognizable Federal and State grant expenditures should be reported on the SEFA grouped by the appropriate awarding authority. |
| Cause: | The grant as passed through a State department and incorrectly identified as State instead of Federal. |
| Effect: | The Federal expenditures were understated and State expenditures were overstated by \$785,378. |
| Recommendation: | The District should ensure that all grant expenditures are properly classified on the SEFA. |
| Views of Responsible Officials: | The District concurs. The District will ensure that, for all new grants, the expenditures are properly classified. Specifically, all pass-through funds will be verified as State or Federal funds on the SEFA. |

SECTION IV - FINDINGS AND QUESTIONED COSTS – MAJOR STATE FINANCIAL ASSISTANCE PROJECTS

None noted

LAKELAND AREA MASS TRANSIT DISTRICT
SUMMARY OF PRIOR AUDIT FINDINGS
Year ended September 30, 2011

AUDIT REFERENCE

Number 11-1

Inventory Procedures

Recommendation:

The District should consider developing procedures to ensure that inventory invoice documentation is properly filed and maintained. Also, the District should consider developing and implementing procedures to ensure that inventory is valued in accordance with accounting principles general accepted in the United States of America. Also, we recommend the controls over inventory counts be reviewed and revised or implemented as necessary to ensure accurate counts at year end for the proper recording of inventory

Status:

Implemented in the current year.

LAKELAND AREA MASS TRANSIT DISTRICT
CORRECTIVE ACTION PLAN
Year ended September 30, 2012

AUDIT REFERENCE

Finding 12-1: The District will ensure that, for all new grants, the expenditures are properly classified. Specifically, all pass-through funds will be verified as State or Federal funds on the SEFA.

Board of Directors
Lakeland Area Mass Transit District
Lakeland, Florida

In planning and performing our audit of the financial statements of the Lakeland Area Mass Transit District (the "District") as of and for the year ended September 30, 2012, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting ("internal control") as a basis for designing our auditing procedures 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 Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control. Matters communicated in this letter are classified based on Statement on Auditing Standards No. 115, *Communicating Internal Control Related Matters Identified in an Audit*, as follows.

- Best Practice – A matter which you may find of interest.
- 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.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control that we are required to or wish to communicate to you.

We have included in this letter all of the single audit findings as well as additional items defined as "best practices" and "deficiencies".

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; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. We have issued our Report of Independent Auditors on Internal Control over Financial Reporting and Compliance and Other Matters, Report of Independent Auditors on Compliance and Internal Control over Compliance Applicable to each Major Federal Program and State Project, and Schedule of Findings and Questioned Costs. Disclosures in those reports and schedule, which are dated April 9, 2013, should be considered in conjunction with this management letter.

(Continued)

Additionally, our audit was conducted in accordance with Chapter 10.550, Rules of the Auditor General, which govern the conduct of local government entity audits performed in the State of Florida and, unless otherwise required to be reported in the report on compliance and internal controls or schedule of findings and questioned costs, this letter is required to include the following information, which is not included in the aforementioned auditor's report or schedule:

- 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 significant findings and recommendations made in the preceding annual financial audit report. Corrective actions have been taken to address significant findings and recommendations made in the preceding annual financial audit report except as noted below under the heading Comments on the Prior Year.
- Section 10.554(1)(i)2., Rules of the Auditor General, requires our audit to include a review of the provisions of Section 218.415, Florida Statutes, regarding the investment of public funds. In connection with our audit, we determined the District complied with Section 218.415, Florida Statutes.
- Section 10.554(1)(i)3., Rules of the Auditor General, requires that we address in the management letter any recommendations to improve financial management, accounting procedures, and internal controls. In connection with our audit, we have noted our findings and recommendations under the heading Current Year Comments.
- Section 10.554(1)(i)4., Rules of the Auditor General, requires that we address violations of provisions of contracts and grant agreements or abuse that have an effect on the financial statements that is less than material but more than inconsequential. In connection with our audit, we did not have any such findings.
- Section 10.554(1)(i)5., Rules of the Auditor General, provides that the auditor may, based on professional judgment, report the following matters that have an inconsequential effect on financial statements, considering both quantitative and qualitative factors: (1) violations of provisions of contracts or grant agreements, fraud, illegal acts, or abuse, and (2) Deficiencies in internal control that are not significant deficiencies. In connection with our audit, we did not have any such findings, we have noted our findings and recommendations under the heading Current Year Comments.
- Section 10.554(1)(i)7.a., Rules of the Auditor General, requires a statement be included as to whether or not the local governmental entity 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.
- Section 10.554(1)(i)7.b., Rules of the Auditor General, requires that we determine whether the annual financial report for the District for the fiscal year ended September 30, 2012, 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, 2012. In connection with our audit, we determined that these two reports were in agreement. In addition to being included as a component unit with the City of Lakeland's annual financial report, the District has filed a separate annual financial report. This report is in agreement with the annual financial audit report for the fiscal year ended September 30, 2012.

(Continued)

- Sections 10.554(1)(i)7.c. and 10.556(7), Rules of the Auditor General, require that we apply financial condition assessment procedures. In connection with our audit, we applied financial condition assessment procedures. It is management's responsibility to monitor the entity'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.

| <u>COMMENTS ON PRIOR YEAR</u> | <u>CLASSIFICATION</u> | <u>STATUS</u> |
|---------------------------------------|-----------------------|---------------|
| 11-2 Documentation of Payroll Changes | Deficiency | Implemented. |
| 11-3 Accounts Payable Check Mailing | Deficiency | Implemented |

CURRENT YEAR COMMENTS

| 12-2 Dual Signatures on Checks | | Deficiency |
|---------------------------------------|--|-------------------|
| Condition: | There was 1 out of 32 checks tested that did not have dual signatures on the check. | |
| Criteria: | The District requires dual signatures on all checks. | |
| Cause: | In the review process the check was missed. | |
| Effect: | The District did not comply with its policy. | |
| Recommendation: | Crowe recommends that the signer double checks the stack to ensure each check has been signed. | |
| Management's Response: | The District concurs. The District will ensure that the second signer verifies that the existence of the first signature. Additionally, a third person will verify that each check has two signatures. | |

| 12-3 Non-compliance with the Prompt Payment Act | | Deficiency |
|--|---|-------------------|
| Condition: | We observed 1 out of 38 payments tested that was not made within the 45 day threshold required by the Prompt Payment act and that no interest was accrued and paid on the invoice. | |
| Criteria: | Florida's prompt payment act (Sections 218.70-218.80, Florida Statutes) requires that non-construction purchases should be paid within 45 days of receipt of the invoice or interest should be accrued and paid along with the invoice amount. | |
| Cause: | The District's controls did not operate effectively. | |
| Effect: | An invoice was not paid in the required time frame and interest was not accrued and paid to the vendor for related to the late payment. | |
| Recommendation: | We recommend that the Authority make payments in accordance with the requirements of the Florida Prompt Payment Act. | |
| Management's Response: | The District concurs. The District will ensure that all payments are made in accordance with the Prompt Payment Act. Specifically, the District will, on a weekly basis, review a list of all invoices that have been received. The review will be conducted to ensure that payment is made for valid invoices within the timeline specified in the Prompt Payment Act. | |

(Continued)

| 12-4 Property Tax Revenue | | Deficiency |
|----------------------------------|---|-------------------|
| Condition: | In accordance with accounting standards, property tax revenue should be recognized in the period in which the taxes are levied. The District did not accrue the amount of property taxes receivable from delinquent taxes as of year-end causing revenue and accounts receivable to be understated. | |
| Criteria: | The District is required to follow all applicable accounting principles in the preparation of their financial statements. | |
| Cause: | With the continued declining financial condition of the economy, the unpaid property tax from prior years continues to increase, causing the receivable to become more significant. | |
| Effect: | The net receivable for current and delinquent property taxes was understated by \$18,705. | |
| Recommendation: | We recommend that management performs an analysis of delinquent property taxes receivable at the end of each year as well as prior year and record an appropriate allowance in order to be in compliance with GASB 33. | |
| Management's Response: | The District concurs. The District will accrue for any delinquent tax revenues in the year in which the taxes are levied. Additionally, the District will record an appropriate allowance for the uncollected revenues in accordance with GASB 33. | |

| 12-5 Prior Year Grant Receivable | | Deficiency |
|---|--|-------------------|
| Condition: | Management had identified that two prior year receivable amounts that were not recorded properly. The State operating grant was understated by \$27,099 and the South Florida Avenue Corridor Transit grant was overstated by \$8,698, which resulted in a net understatement of \$18,401. | |
| Criteria: | Grant revenue should not be recognized in excess of the grant award. | |
| Cause: | Management used the wrong grant year threshold and the State revenue confirmation contained incorrect information. | |
| Effect: | Grant revenues and receivables were understated by a net amount of \$18,401. | |
| Recommendation: | We recommend the District review their grant policies and procedures to ensure that controls in place address review of grant agreements and external confirmations during their year end accrual process. | |
| Management's Response: | The District concurs. The District will include a year-end procedure to verify that the recognition of grant revenues occurs in the proper fiscal period. This procedure will include a manual verification of any external confirmation. | |

(Continued)

| 12-6 Inventory Valuation | | Deficiency |
|-------------------------------|---|------------|
| Condition: | Inventory items selected for price testing varied from the lower of cost or market supporting documentation | |
| Criteria: | Inventory should be recorded at the lower of cost or market value. | |
| Cause: | The District does not have consistent procedures in place to track the ongoing valuation of inventory. | |
| Effect: | Inventory was overvalued by \$18,000. | |
| Recommendation: | The District should develop and implement procedures to ensure inventory is recorded at the lower of cost or market. | |
| Management's Response: | The District concurs. The District will continue to refine its procedures for ensuring that inventory is valued at the lower of cost or market value. Currently, an annual analysis is performed of price changes. The District will strive to update its inventory valuation quarterly to ensure that mark-downs are realized in a more timely manner. | |

| 12-7 Cost Per Revenue Hour Calculation | | Deficiency |
|--|--|------------|
| Condition: | Amount billed under contractual revenue agreements did not agree with the recalculate cost per hour calculation. | |
| Criteria: | Contracts should be billed at the previous year's audited cost per revenue hour rate and "trued-up" at year end to the current year's actual audited rate. | |
| Cause: | There were numerous yearend adjustments that created a fluctuation in the rate calculation that was not discovered until after the revenue accrual was posted. | |
| Effect: | Contract revenues and receivables are overstated by approximately \$20,000. | |
| Recommendation: | The District should considered waiting to perform the cost per revenue hour true up until all other year end entries have made to ensure an accurate calculation. | |
| Management's Response: | The District concurs. The District will amend its year-end procedures to ensure that the contract revenue true-up is performed subsequent to all other year-end entries. | |

* * *

The above comments and recommendations do not include all possible matters which a detailed review directed exclusively to such purposes might develop. Also, the comments and recommendations are for the purposes previously mentioned and in no way are intended to reflect upon the integrity of any employee. We have discussed the above comments and recommendations with the District as required by the Rules of the Auditor General.

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.

(Continued)

Board of Directors
Lakeland Area Mass Transit District

This management letter is intended solely for the information of the District and management, and the State of Florida Office of the Auditor General and is not intended to be and should not be used by anyone other than these specified parties.

We would like to take this opportunity to thank the District for the many courtesies and cooperation extended to our representatives during the course of our audit.

Crowe Horwath LLP
Crowe Horwath LLP

Lakeland, Florida
April 9, 2013