PINELLAS SUNCOAST TRANSIT AUTHORITY

Financial Statements and Schedules and Reports Required by
OMB Circular A-133 and *Rules of the Auditor General*, State of Florida, Chapter 10.550

September 30, 2008

(With Independent Auditors' Report Thereon)

PINELLAS SUNCOAST TRANSIT AUTHORITY

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Dear Honorable Chairman, Distinguished Members
Pinellas Suncoast Transit Authority Board of Directors, and
Citizens of Pinellas County, Florida:

It is with great pleasure that the annual financial report for the Pinellas Suncoast Transit Authority (the Authority) for the fiscal year ended September 30, 2008 is hereby submitted. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the Authority. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of the operations of the Authority. All disclosures necessary to enable the reader to gain an understanding of the Authority's financial activities have been included.

The Authority's financial statements have been audited by KPMG LLP, a firm of certified public accountants licensed to practice in the State of Florida. The audit was conducted to provide reasonable assurance that the Authority's financial statements for the fiscal year ended September 30, 2008 are free of material misstatements. The audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the Authority's financial statements for the fiscal year ended September 30, 2008 are presented fairly in conformity with accounting principles generally accepted in the United States of America. The auditor's report is presented as the first component of the financial section of this report.

Profile of the Authority

The Pinellas Suncoast Transit Authority was created in 1984 via a merger of the St. Petersburg Municipal Transit System and the Central Pinellas Transit Authority to provide Pinellas County with a cohesive public transit system. Today, a fleet of 189 buses and 16 trolleys serve 37 regular routes and six commuter routes throughout Pinellas County. The Route 100X provides express service between St. Petersburg and downtown Tampa 16 times a day, the Route 300X provides express service between Largo and downtown Tampa 15 times a day, and the popular Suncoast Beach Trolley[SM] connects the Gulf beaches from Clearwater Beach to Pass-a-Grille.

Pinellas County is 280 square miles with approximately 938,000 residents. The Authority serves most of the unincorporated area and 19 of the County's 24 municipalities. This accounts for 98% of the county's population and 97% of its land area. The cities of St. Pete Beach, Treasure Island, Kenneth City, Belleair Beach, and Belleair Shore are not members of the Authority; however, St. Pete Beach and Treasure Island do contract for trolley service.

During the 2007/2008 service year, Authority vehicles traveled a total of 9.8 million miles, providing approximately 641,000 hours of service, and 12.9 million passenger trips.

The Authority is governed by a board of directors comprised of 13 elected officials, and two nonelected officials, one of which is appointed by Pinellas County Board of Commissioners and the other by the St. Petersburg City Council. Operating expenses are covered through state and federal funds, passenger fares, and ad valorem taxes.

3201 Scherer Drive St. Petersburg, FL 33716
www.PSTA.net 727.540.1800 fax 727.540.1913

The Authority offers a host of programs and services to make using public transit an easy and attractive alternative to driving. Printable route schedules and maps are available on www.psta.net, making bus information more accessible than ever. The Web site also offers details about how to ride, fares and reduced fare programs, Bikes on Buses, employment opportunities, and much more. These materials are also all available by mail. Trip planning assistance is available by calling the Customer Service Department's InfoLine, visiting a Customer Service Center, or through the online trip planner. The Authority strives to assist companies with special corporate needs and employee transportation problems. The Employer's Choice Program allows companies to offer their employees a transit benefit that can be deducted as a business expense. Passengers enjoy the added convenience of loading a bicycle onto special racks on the front of every bus and trolley. A special slide presentation is available on the Authority's Web site to teach riders how to use the rack. Organizations interested in the role of public transportation in Pinellas County are invited to call and request a speaker for meetings and/or events. First-time riders can use the Show Me Program to get schedules, route maps, fare information, and more brought right to their door by an Authority representative who will train them in the basics of transit and take them on the first bus trip. Three convenient Park N Ride lots are provided for passengers who do not live near a bus route.

Disabled persons unable to use regular bus service may be eligible for specialized service called Demand Response. Since Demand Response offers vehicles that are equipped with wheelchair lifts they are accessible to passengers in both wheelchairs and electric carts. Demand Response service is a complement to the Authority's fixed routes with service available to certified customers during the same days and hours as the fixed route bus service which operates closest to the customer's home at a fare of not more than twice the regular bus fare.

Local Economy

Pinellas County is located along the west coat of Florida and includes a very extensive corridor of smaller beach communities along the Gulf of Mexico. Pinellas County is the second smallest county in the state of Florida; however, it is the most densely populated county in the state and is nearly three times more densely populated than the next closest county.

Significant infill and redevelopment activity is underway as less than 7% of the land area is currently vacant and suitable for development. Total employment is approximately 550,000 currently, or 60% of total population. The largest employment sectors are services, commercial, and industrial. The service industry is the largest employment sector with slightly more than 300,000 employees, and projected growth to almost 350,000 by the year 2025. Commercial employment is 130,000 and projected to grow to 140,000 through the 2025 horizon. Industrial employment is over 90,000 and will grow to almost 96,000 by 2025, according to current projections.

Long-Term Financial Planning

Every year, the Authority prepares a strategic Transit Development Plan (TDP) which provides an assessment of current transit service levels, milestones, and proposed service enhancements over a five-year horizon. Proposed service enhancements, which improve or expand transit service, are "programmed" annually in the TDP and presented to the Authority's Board of Directors (the Board) for adoption. Each enhancement project includes capital and operating expenses for the proposed service.

Capital expenses for new or expanded services are then incorporated into a consolidated Program of Projects. The Authority programs approximately $12 million per year in federal formula funds for bus purchases (replacement and expansion) and other capital projects. When necessary, the Authority has utilized the TDP to help secure special appropriations for capital expenses in excess of what is available in the formula program. Associated operating costs for transit service enhancements are included in the Authority's operating budget proposal for the upcoming fiscal year.

The TDP also includes systemwide capital and operating budget summaries by fiscal year and revenue estimates by revenue source. In this way, the Board considers costs and revenues for the current system and the "added" costs for an enhanced system. To accomplish major projects, the Board may establish reserve accounts that accumulate funds over a period of years. This is especially important for more costly projects such as Bus Rapid Transit, which require significant local funding for both capital and operating expenses.

Cash Management

The primary objective of the Authority's investment program is the preservation of capital. Investment transactions are conducted in such a manner as to avoid loss. Accordingly, the Authority's deposits were either insured by federal depository insurance and/or by collateral pledged with the State Treasurer pursuant to *Florida Statutes*. The Authority maintains an interest-bearing account that functions as a master account for zero balance checking accounts. Interest earnings are indexed to the Federal Reserve funds rate. All other funds are invested with the State Board of Administration Local Government Investment Pool, Local Government Investment Pool – Fund B, and Commingled Asset Management Program Fixed Income Fund. Please see note 3 for additional information related to these investments.

Risk Management

The Authority is self-insured for vehicle, general liability, property, and for workers' compensation. Policies are purchased to cover excessive loss.

Employee life and health benefits are provided through purchased policies administered by the Human Resources Department.

Property Tax Reform

On June 14, 2007, the Florida Legislature passed sweeping property tax reforms designed to reduce the average property tax bill for homeowners and businesses. Effective for the 2007–2008 fiscal year, most local governmental entities had to reduce their 2007–2008 mileage rates to the 2006–2007 revenue levels. Once the rate was determined, the legislature mandated an additional cut of 3% to 9% based on the compound annual growth in per capita property taxes levied from fiscal year 2001–2002 to 2006–2007. Based on the Authority's compound annual growth during the five year period, the additional cut required to the mileage rate was 3%. The Authority's mileage rate as a result of this legislation dropped from 0.6074 mills in fiscal year 2006–2007 to 0.5601 mills in fiscal year 2007–2008.

In addition, an amendment to the Florida Constitution was placed on the ballot for January 29, 2008 which passed with 64% of the vote. The amendment increased the current $25,000 homestead exemption by an additional $25,000 and made the Save Our Homes benefit portable, allowing qualified home owners to transfer up to $500,000 of the benefit to a new homestead. The amendment also caps the annual increase in assessed value for nonhomestead property to 10% and provides a $25,000 exemption for tangible personal property. School district taxes were exempted from the changes mandated by the amendment. The amendment became effective on October 1, 2008 except for the 10% assessment increase cap on nonhomestead property which becomes effective January 1, 2009.

Major Initiatives

- The Authority enjoyed record ridership of 12.9 million passengers, an increase of 10.3% over the prior year.
- The Bikes on Buses program realized growth of 23.5% over the prior year bringing the total to 398,438 bike trips.

- Twelve new Gillig buses were ordered to replace some 1997 model year vehicles. The new buses will be delivered in fiscal year 2009 and ten of them will be hybrids. All of the buses are low floor and have the "quiet pack" which allows them to accelerate with reduced noise and without visible exhaust. Seven of the buses are being fitted with a "look-a-like" conversion and will be used as trolleys.

Awards and Acknowledgements

Several Authority projects earned awards and recognition from local and national entities. The American Public Transportation Association (APTA) awarded the Authority with a First Place AdWheel Award for the "Pick Up the Phone" animated television commercial. The South West Transit Association (SWTA) also recognized the commercial with a Third Place honor, as well as a First Place award for the Lost & Found Interior Bus Poster, and a Second Place for the Retiring Executive Director's Tribute PowerPoint presentation. The "Pick Up the Phone" commercial was also bestowed an Award of Excellence from the Florida Public Transportation Association (FPTA). The annual FPTA awards program also recognized the annual Bus Roadeo Communications Materials and the GO Card Self-Promotion Back Attack Bus Posters with Awards of Merit, and the campaign promoting Rollin the Trip Planner with an Honorable Mention. The Tampa Bay Regional Planning Council's annual Future of the Region Awards recognized the Authority with Certificates of Excellence for these efforts: New Scherer Drive Operating Facility, Area in Motion lobby art, Rollin the Trip Planner, and the Community Care Package for the Troops.

Mr. Tim Garling assumed the roll of Executive Director on November 13, 2007, replacing Roger Sweeney who retired after 16 years of service on July 1, 2007.

The Authority's accounting and finance staff deserve special recognition for their dedication and perseverance in producing this financial statement. I would also like to thank the individual department directors for their contribution to its preparation.

Respectfully submitted,

Steven K Smith

Steven K. Smith
Director of Finance

KPMG LLP
Suite 1700
100 North Tampa Street
Tampa, FL 33602

Independent Auditors' Report

The Members of the Board
Pinellas Suncoast Transit Authority:

We have audited the accompanying balance sheet of the Pinellas Suncoast Transit Authority (the Authority) as of September 30, 2008, and the related statements of revenues, expenses and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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. 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides 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 Authority as of September 30, 2008, and the changes in financial position and cash flows thereof for the year then ended, in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 15, 2009, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 7 through 10 is not a required part of the basic financial statements but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements. The introductory section is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards and state financial assistance is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and Chapter 10.550, *Rules of the Auditor General*, and is not a required part of the basic 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 basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

KPMG LLP

June 15, 2009
Certified Public Accountants

Pinellas Suncoast Transit Authority (the Authority) offers readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Authority for the fiscal year ended September 30, 2008. The information presented here should be considered in conjunction with the letter of transmittal and the financial statements.

Financial Highlights

- The Authority's assets exceeded its liabilities at the close of fiscal year 2008 by $113.1 million (net assets) which is an increase over the prior period of $2.5 million. Of the net asset amount, $27.5 million is unrestricted and may be used to meet the Authority's ongoing obligations.
- The revenues and capital grants totaled $67.6 million, a decrease of 2.3% from the prior year. Expenses totaled $65.1 million, an increase of 4.2% over the prior year. The results of these activities produced an increase in net assets of $2.5 million.

Overview of the Financial Statements

The Authority is structured as a single fund enterprise and the financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board.

The financial statements have three sections: Introductory Section, Financial Section which includes the Financial Statements along with the Notes to the Financial Statements, and the Regulatory Section.

Included in the financial statements are the balance sheet; the statement of revenues, expenses and changes in net assets; the statement of cash flows; and the related notes.

The balance sheet presents information on all of the Authority's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in the net assets may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating. The balance sheet can be found on page 11 of this report.

The statement of revenues, expenses, and changes in net assets presents information showing how the Authority's net assets changed during the fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flow. That is to say revenues are recognized when they are earned and measurable, not when cash is received, and expenses are recognized when they are incurred, not when they are paid. The statement of revenues, expenses, and changes in net assets can be found on page 12 of this report.

The statement of cash flows presents the cash activities of the Authority segregated into the following four major categories: operating, noncapital financing, capital and related financing, and investing. The statement of cash flows can be found on page 13 of this report.

The notes to the financial statements provide required disclosures and other information that is essential to a full understanding of the data provided in the financial statements. The notes begin on page 14 of this report.

Financial Analysis

The following table reflects the condensed balance sheet compared to the prior year:

		2008	2007
Assets:			
Current and other assets	$	35,265,565	34,182,139
Capital assets		85,356,072	85,020,852
Total assets	$	120,621,637	119,202,991
Liabilities:			
Current liabilities	$	7,489,554	8,594,875
Net assets:			
Investments in capital assets		85,356,072	85,020,852
Unrestricted		27,549,762	25,587,264
Restricted		226,249	—
Total net assets		113,132,083	110,608,116
Total liabilities and net assets	$	120,621,637	119,202,991

As depicted above, the largest portion of the Authority's net assets, 75.4%, reflects its investment in capital assets. The Authority uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. The Authority's board of directors has chosen to designate how the unrestricted portion of the net assets can be used (see note 5 to the financial statements). As was the case in the prior years, the Authority has no debt and is able to report positive balances in all categories of net assets.

The following schedule reflects the condensed statement of revenues and expenses and changes in net assets compared with the prior year. Total revenue decreased by $1.7 million or 2.4%. The decrease was primarily due to reduced interest earnings, reduced property tax revenues, and the one-time nonrecurring waiver in fiscal year 2007 of a claim by the Federal Transit Administration made in fiscal year 2006. Total operating expenses increased by $2.5 million or 4.0% as compared with the prior year.

		2008	**2007**
Operating revenues	$	11,405,242	10,847,632
Operating expenses:			
Operations		30,562,932	27,549,595
Purchased transportation		4,445,330	4,737,036
Maintenance		7,011,017	7,764,003
Administration and finance		11,283,296	10,992,624
Marketing		2,123,776	2,111,843
Depreciation		9,630,848	9,381,743
Total operating expense		65,057,199	62,536,844
Operating loss		(53,651,957)	(51,689,212)
Nonoperating revenues:			
Federal, state, and local operating assistance grants		6,021,856	6,452,699
Property tax revenue		37,231,077	37,972,265
Other nonoperating revenue, net		2,055,801	4,785,730
Capital grants		10,867,190	9,179,938
Total nonoperating revenue		56,175,924	58,390,632
Change in net assets		2,523,967	6,701,420
Net assets, October 1		110,608,116	103,906,696
Net assets, September 30	$	113,132,083	110,608,116

The Authority provided services are a direct benefit to the users and an indirect benefit to the public at large. Accordingly, only a portion of the cost to provide the service is intended to be recovered through user charges with the remainder to be covered by ad valorem taxes and state and federal funding.

The operating revenue continues to show improvement due to increased ridership. The operating revenues increased by $557,610 or 5.2%. Operating expenses before depreciation increased by $2.3 million or 4.3%. The largest portion of the increase was due to a $1.4 million increase in salaries and benefits.

The nonoperating revenues, excluding capital grants, decreased by $3.9 million or 7.9%. The decrease in the property tax revenue of $741,188 or 2.0% was the result property tax reform. The mileage for fiscal years 2008 and 2007 was 0.5601 and 0.6074, respectively. See note 2(n) for additional information on ad valorem taxes.

Capital Assets

At September 30, 2008, the Authority had invested $85.4 million in capital assets (net of accumulated depreciation). 43.2% of the investment represents revenue generating equipment and 39.8% represents the Scherer Drive Administration and Maintenance facility. At September 30, 2007, the Authority had invested $85.0 million in capital assets (net of accumulated depreciation). Approximately 41.1% of capital assets represents revenue generating equipment and approximately 42.8% represents the Scherer Drive Administration and maintenance facility.

Capital Assets, Net of Accumulated Depreciation

		2008	2007
Land	$	6,961,677	6,961,677
Buildings and improvements		38,272,618	39,622,931
Revenue equipment		36,849,476	34,980,636
Furniture and other equipment		2,754,502	3,420,233
Capital assets in progress		517,799	35,375
Total	$	85,356,072	85,020,852

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

Long-Term Debt Administration

The Authority has no long-term debt.

Economic Factors and Next Years Budgets and Rates

The adopted fiscal year 2009 budget was based on a rate of 0.5601 mills which is unchanged from fiscal year 2008. The board of directors adopted an across the board passenger fare increase which took effect on October 1, 2008. No increase is anticipated for fiscal year 2009.

Requests for Information

This financial report is designed to provide a general overview of the Pinellas Suncoast Transit Authority's finances for all those with an interest in the authority's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Finance Director, Pinellas Suncoast Transit Authority, 3201 Scherer Drive, St. Petersburg, FL 33716.

PINELLAS SUNCOAST TRANSIT AUTHORITY

Balance Sheet

September 30, 2008

Assets

Current assets:		
Cash and cash equivalents (including restricted cash of $226,249)	$	24,312,034
Investments		7,044,581
Accounts receivable, net of allowance of $523,278		1,923,808
Grants receivable		488,962
Inventories		1,166,769
Prepaid expenses		329,411
Total current assets		35,265,565
Capital assets:		
Land		6,961,677
Buildings and improvements		45,648,587
Revenue equipment		68,255,310
Furniture and other equipment		7,380,780
Capital assets in progress		517,799
		128,764,153
Less accumulated depreciation		43,408,081
Total capital assets		85,356,072
Total assets	$	120,621,637

Liabilities and Net Assets

Current liabilities:		
Accounts payable	$	940,333
Accrued expenses		6,549,221
Total current liabilities		7,489,554
Net assets:		
Invested in capital assets		85,356,072
Unrestricted		27,549,762
Restricted		226,249
Total net assets		113,132,083
Total liabilities and net assets	$	120,621,637

See accompanying notes to financial statements.

PINELLAS SUNCOAST TRANSIT AUTHORITY

Statement of Revenues, Expenses, and Changes in Net Assets

Year ended September 30, 2008

Operating revenues:	
Passenger fares	$ 11,298,758
Demand response	106,484
Total operating revenues	11,405,242
Operating expenses:	
Operations	30,562,932
Purchased transportation	4,445,330
Maintenance	7,011,017
Administration and finance	11,283,296
Marketing	2,123,776
Total operating expenses, before depreciation	55,426,351
Operating loss before depreciation	(44,021,109)
Depreciation	9,630,848
Operating loss	(53,651,957)
Nonoperating revenues:	
Federal maintenance assistance grants	1,067,390
State operating assistance grants	3,320,386
Other federal grants	80,000
Special project assistance – state grants	994,792
Special project assistance – local grants	559,288
Property tax revenues	37,231,077
Investment return	1,059,625
Advertising revenue	132,634
Fuel tax refunds	600,775
Other, net	262,767
Total nonoperating revenues	45,308,734
Loss before capital grants	(8,343,223)
Capital grants	10,867,190
Increase in net assets	2,523,967
Net assets, beginning of year	110,608,116
Net assets, end of year	$ 113,132,083

See accompanying notes to financial statements.

PINELLAS SUNCOAST TRANSIT AUTHORITY

Statement of Cash Flows

Year ended September 30, 2008

Cash flows from operating activities:		
Receipts from customers	$	10,613,815
Payments to suppliers		(23,820,337)
Payments to and on behalf of employees		(33,038,900)
Net cash used in operating activities		(46,245,422)
Cash flows from capital financing activities:		
Purchases of capital assets		(10,404,857)
Capital grants		10,867,190
Proceeds from sale of capital assets		253,730
Net cash provided by capital financing activities		716,063
Cash flows from noncapital financing activities:		
Property tax revenues		37,154,793
Operating and special project assistance grants		5,849,230
Other		1,249,095
Net cash provided by noncapital financing activities		44,253,118
Cash flows from investing activities:		
Purchased securities		(7,217,606)
Interest received		1,232,650
Net cash used in investing activities		(5,984,956)
Net decrease in cash and cash equivalents		(7,261,197)
Cash and cash equivalents, beginning of year		31,573,231
Cash and cash equivalents, end of year	$	24,312,034
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	$	(53,651,957)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation		9,630,848
Increase in accounts receivable		(791,427)
Increase in inventories		(96,807)
Increase in prepaid expenses		(162,898)
Decrease in accounts payable		(1,906,841)
Increase in accrued expenses		733,660
Net cash used in operating activities	$	(46,245,422)
Noncapital financing activities:		
Increase in accounts payables for capital assets in progress purchases	$	67,860

See accompanying notes to financial statements

(1) Description of Business

The Pinellas Suncoast Transit Authority (the Authority) was formed by an act of the Florida Legislature in 1984, and became effective by majority vote of the electorate in a referendum election of the transit area in Pinellas County, Florida. The Authority is an independent taxing authority whose purpose is to provide effective, modern mass transit service to Pinellas County, Florida. The Authority is governed by a 15-member board of directors made up of elected officials and citizens. The board members are appointed by the county and member cities in accordance with a formula provided by the enabling legislation and serve a three-year term.

(2) Summary of Significant Accounting Policies

The accounting policies and practices of the Authority have been designed to conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to a government enterprise fund. The Authority follows the provisions of Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, with regard to the application of Financial Accounting Standards Board (FASB) Pronouncements. In accordance with the provisions of GASB Statement No. 20, the Authority elected not to apply those FASB statements and interpretations issued after November 30, 1989. The following is a summary of the more significant accounting policies:

(a) Measurement Focus and Basis of Accounting

The accompanying financial statements are reported using the flow of economic resources measurement focus and the accrual basis of accounting. Revenues are recognized in the period in which they are earned and expenses are recognized in the period incurred, regardless of when the related cash flows take place. Property taxes are recognized as revenue in the year for which they are levied and grants are recognized as revenue as soon as all eligibility requirements have been met.

(b) Cash Equivalents and Investments

Cash equivalents are defined as short-term highly liquid debt investments that are both readily convertible to known amounts of cash and have original maturities of three months or less.

The Authority participates in the Local Government Surplus Funds Investment Pool Trust Fund (State Board of Administration (SBA)), an external 2a7-like investment pool, in which the fair value of the Authority's position in the pool is the same as the value of the pool shares (LGIP). The Authority also participates in a Commingled Asset Management Program, Fixed Income Fund (CAMPFI) and Fund B Surplus Funds Trust Fund (Fund B). The CAMPFI and Fund B are both a fluctuating net asset (NAV) external investment pool. With a fluctuating NAV pool, the NAV approximates fair value.

(c) Restricted Cash

Restricted cash represents proceeds received but not yet spent from the sale of capital assets originally purchased with federal funds.

(d) Accounts Receivable

All trade and other receivables are shown net of an allowance for uncollectibles. The receivables are analyzed by management at the end of the year to estimate the amount of the allowance.

(e) Grants Receivable

Grants receivable represent expenditures for grant eligible items for which reimbursement has not yet been received.

(f) Inventories and Prepaid Expenses

Inventories, principally fuel and maintenance parts, are stated at the lower of cost (using the moving weighted average cost method) or market.

Certain payments to vendors reflect cost for contracts or services applicable to future accounting periods and are recorded as prepaid expenses.

(g) Capital Assets

Capital assets are recorded at cost. Capital assets which include property and equipment, are defined as assets with an initial, individual cost of $1,000 or more with an estimated useful life greater than one year. Major renewals and betterments are treated as capital additions. Expenses for maintenances, repairs, and minor renewals are expensed as incurred. Donated assets are stated at estimated fair value at the date of receipt.

Depreciation is calculated using the straight-line method over the estimated useful life of the asset as follows:

Property classification	Estimated useful life range
Buildings	5 – 40 years
Improvements	5 – 20 years
Revenue equipment	3 – 12 years
Furniture and other equipment	3 – 10 years

(h) Compensated Absences

The Authority’s policy permits substantially all employees to accumulate a limited amount of earned but unused vacation, sick-pay benefits, and certain other qualifying absences which will be paid to the employee upon separation from service. Vacation, eligible sick-pay, and other qualifying absences, which has been earned but not paid, have been accrued in the accompanying financial statements.

(Continued)

(i) Net Assets

Net assets are classified and displayed in three components:

Invested in capital assets – Consists of capital assets including restricted capital assets, net of accumulated depreciation.

Restricted net assets – Consists of net assets with constraints placed on the use either by (1) external groups, such as creditors, grantors, contributors, or laws or regulations of other governments or (2) law through constitutional provisions or enabling legislation.

Unrestricted net assets – All other net assets that do not meet the definition of "restricted" or "invested in capital assets."

(j) Grants

The federal government, State of Florida and the Pinellas Metropolitan Planning Organization have made available grants to the Authority related to the development of public transit facilities, which are restricted to acquiring qualifying capital assets and funding certain operating expenses.

Capital grants are reported in a separate line item in the statement of revenues, expenses, and changes in net assets. Proceeds from the sale of capital assets originally purchased with funds from federal grants must be reinvested in capital asset purchases approved by the Florida Department of Transportation (FDOT) and the Federal Transit Administration (FTA).

(k) Use of Estimates

The preparation of the financial statements, in accordance with GAAP, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Significant items subject to estimates and assumptions include the reserve for workers' compensation and general liability claims. Actual amounts could differ from those estimates.

(l) Operating Revenues and Expenses

Operating revenues and expenses generally result from providing services in connection with the Authority's principal ongoing operations. The principal operating revenues are fare box revenues which are fees for public transportation. Operating expenses include the cost of providing the services and depreciation expense on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenue and expense.

(m) Fare Revenues

Passenger fares are recorded as revenue at the time services are performed.

(n) Property Tax Revenue

The Authority is a special taxing district which is authorized to levy an ad valorem tax on the taxable real and personal property in the transit area not to exceed 0.7500 mills. The approved ad valorem tax rate for fiscal year 2008 was 0.5601 mills.

Property tax collections are governed by Chapter 197, *Florida Statues*. The Pinellas County Tax Collector bills and collects all property taxes levied within the County. Discounts are allowed for early payment of 4% in November, 3% in December, 2% in January, and 1% in February. If property taxes are not paid by April 1, the county adds a 3% penalty on real estate taxes and 1½% penalty on personal property taxes.

The Pinellas County Tax Collector advertises and sells tax certificates on all real property for delinquent taxes. The Pinellas County Tax Collector must receive payment before the certificates are issued. Any person owning land on which a tax certificate has been sold may redeem the tax certificate by paying the Pinellas County Tax Collector the face amount of the tax certificate plus interest and other costs. The owner of the tax certificate may, at any time after taxes have been delinquent (April 1), for two years, file an application for tax deed sale. The County, as a certificate owner, may exercise similar procedures two years after taxes have been delinquent. Tax deeds are issued to the highest bidder for the property which is sold at public auction.

The Pinellas County Tax Collector remits current taxes collected through four distributions to the Authority in the first two months of the tax year and at least one distribution each month thereafter.

Property tax calendar:

January 1, 2007 – Property taxes are based on assessed property value at this date as determined by the Pinellas County Property Appraiser.

May 23, 2007 – Property assessment roll and certificates of value provided to the Authority by the Pinellas County Property Appraiser.

July 25, 2007 – Proposed mileage rate is approved by the board of directors and provided to the Pinellas County Property Appraiser who mails notices to the taxpayers.

September 12, 2007 – Property tax mileage rate resolution approved by the board of directors.

October 1, 2007 – Beginning of the year for which property taxes have been levied.

November 1, 2007 – Property taxes are due and payable.

April 1, 2008 – Unpaid property taxes become delinquent.

June 1, 2008 – Tax certificates are sold by the Pinellas County Tax Collector.

(o) Implementation of New Accounting Standards

In April 2004, the GASB issued Statement No. 43 (GASB 43) for financial reporting for postemployment benefit (OPEB) plans other than pension plans. GASB 43 applies to state and local governmental employers that have plans to fund OPEB costs such as healthcare and life insurance. There was no financial statement impact to the Authority.

In June 2004, the GASB issued Statement No. 45 (GASB 45) for OPEB, which is effective for the Authority beginning with fiscal year ended September 30, 2009. This statement requires that the Authority accrue the cost of the Authority's retiree health subsidy and OPEB during the period of employees' active employment as the benefits are being earned. It requires the unfunded actuarial accrued liability be disclosed in order to accurately account for the total future cost of OPEB and the financial impact on the Authority. As of the date of these financial statements, the amount of liability has not been determined.

(3) Cash, Cash Equivalents, and Investments

At September 30, 2008, the carrying value of the Authority's cash, cash equivalents, and investments was as follows:

Type		Carrying value	Credit rating
Petty cash	$	16,587	N/A
Demand deposits		15,804,221	N/A
LGIP (SBA)		8,491,226	AAAm
Total cash and cash equivalents		24,312,034	
Investments (SBA):			
CAMPFI (SBA)		6,359,413	N/A
Fund B		685,168	N/A
Total investments		7,044,581	
	$	31,356,615	

(a) Custodial Credit Risk

At September 30, 2008, the Authority's deposits were entirely covered by federal depository insurance or by collateral pledged with the State Treasurer pursuant to Chapter 280, *Florida Statutes*. Under this Chapter, in the event of default by a participating financial institution (a qualified public depository), all participating institutions are obligated to reimburse the governmental entity for the loss.

(b) Credit Risk

Florida Statute 218.415 and the Authority's Investment Policy authorize the investment of surplus funds in the following:

- Up to 100% of the surplus funds in the State Board of Administration Local Government Surplus Funds Trust Fund under the management of the State Board of Administration.

- Up to 20% of the surplus funds in the State Board of Administration Commingled Asset Management Program, Fixed Income Fund (CAMPFI) under the management of the State Board of Administration.
- Up to 100% of the surplus funds in time deposits and savings accounts in banks located in Florida and authorized to hold Florida public deposit accounts and designated as an "Active Qualified Public Depository."

At September 30, 2008, the Authority's investments were with the State Board of Administration (SBA). SBA consists of the Local Government Surplus Funds Trust Fund (LGIP), Fund B Surplus Funds Trust Fund (Fund B), and CAMPFI.

The Authority invested funds throughout the year with the LGIP and the CAMPFI which are administered by the State Board of Administration of Florida (SBA). Chapter 19-7 of the Florida Administrative Code provides guidance and establishes the general operating procedures for the administration of the funds and they are audited by the State of Florida Auditor General.

The LGIP is an external investment pool that is not registered with the Securities Exchange Commission (SEC), but does operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. Rule 2a7 allows funds to use amortized cost to maintain a constant net asset value (NAV) of $1.00 per share. Accordingly, the Authority's investment in the LGIP is reported at the account balance which is considered fair value.

The Fund B is accounted for as a fluctuating NAV pool, where the fluctuating NAV pool approximates market value. The SBA provides a fair value factor to use on the Fund B account balance to determine market value or fair value. As of September 30, 2008 the fair value factor was 79.84%. Fund B is not rated by a nationally recognized statistical rating agency.

The Authority is currently unable to withdraw funds from Fund B. Rather, as cash becomes available in Fund B from interest receipts, maturities, or sales, it is distributed to participant accounts in the LGIP according to each participant's pro rata share of Fund B. All such distributions from Fund B to LGIP will be 100% available for withdrawal upon transfer.

The CAMPFI invests in bonds with intermediate and long maturities. Changes in interest rates will cause volatility in the net asset value of the portfolio. Securities purchased by CAMPFI are consistent with Section 215.47, *Florida Statutes*. See note 10 for additional information on CAMPFI.

The investments are not classified as to credit risk because they are not evidenced by securities that exist in book or entry form. The components of investment return includes $1,018,688 of interest income on cash and cash equivalents, $213,962 in unrealized gain in the net asset value of CAMPFI, offset by an unrealized loss of $173,025 in the net asset value of Fund B for the year ended September 30, 2008.

(c) Interest Rate Risk

The Authority has no specific investment policy regarding interest rate risk.

(d) Concentration of Credit Risk

The Authority places no limit on the amount the Authority may invest in any one issuer. The Authority had $15,535,807 with the SBA at September 30, 2008 or 49.5% of its cash, cash equivalents, and investments.

(4) Capital Assets

Capital asset activity for the year ended September 30, 2008 was as follows:

	October 1, 2007	Additions	Transfers and disposals	September 30, 2008
Nondepreciable assets:				
Land	$ 6,961,677	—	—	6,961,677
Capital assets in progress	35,375	610,894	128,470	517,799
Total nondepreciable assets	6,997,052	610,894	128,470	7,479,476
Depreciable assets:				
Buildings and improvements	45,324,682	334,564	10,659	45,648,587
Revenue equipment	65,730,500	9,170,057	6,645,247	68,255,310
Furniture and other equipment	7,073,849	417,812	110,881	7,380,780
Total depreciable assets	118,129,031	9,922,433	6,766,787	121,284,677
Total at historical cost	125,126,083	10,533,327	6,895,257	128,764,153
Less accumulated depreciation for:				
Buildings and improvements	5,701,751	1,684,876	10,658	7,375,969
Revenue equipment	30,749,864	6,862,429	6,206,459	31,405,834
Furniture and other equipment	3,653,616	1,083,543	110,881	4,626,278
	40,105,231	9,630,848	6,327,998	43,408,081
Capital assets, net	$ 85,020,852	902,479	567,259	85,356,072

(5) Board-Designated Net Assets

Unrestricted net assets includes reserves which have been designated by the Board for capital asset replacement in the amount of $11,524,207, catastrophic event claims in the amount of $2,000,000, and operating contingencies in the amount of $14,025,555.

(6) Risk Management

The Authority maintains self-insured programs for damage to vehicles and general liability claims for amounts up to $100,000 and workers' compensation claims for amounts up to $250,000. The Authority carries insurance coverage for excess liability limited to $2,000,000 per occurrence for vehicle and general liability claims. The Authority's excess workers' compensation program provides protection consistent

(Continued)

with *Florida Statutes*. Provision has been made for claims filed and for estimated losses resulting from claims incurred but not reported as of the close of the fiscal year based upon the judgment of management and plan administrators. For the past three years, insurance settlements have not exceeded insurance coverage and there were no significant reductions in insurance coverage from the previous year.

The liabilities for self-insurance programs currently recorded as accrued expenses are based upon the Authority's best estimates after considering all available facts. The claims estimation process involves substantial uncertainties, including the ultimate outcome of certain legal actions that may affect the adequacy of amounts provided; however, management feels the amounts provided are appropriate.

		Workers' compensation	General liability
Claims reserve – September 30, 2006	$	1,385,043	1,145,851
Current year claims incurred and changes in prior year estimates		1,351,448	1,053,734
Claim payments		(478,462)	(979,187)
Claims reserve – September 30, 2007		2,258,029	1,220,398
Current year claims incurred and changes in prior year estimates		457,768	1,471,814
Claim payments		(981,797)	(752,212)
Claims reserve – September 30, 2008	$	1,734,000	1,940,000

(7) Retirement Plan

Substantially all full-time employees of the Authority are participants in the Florida Retirement System (FRS), a multiple-employer, cost-sharing public retirement system administered by the State of Florida, Department of Management Services, Division of Retirement. FRS has two retirement plans from which eligible employees can choose, the Pension Plan (a defined benefit plan) and the Investment Plan (a defined contribution plan).

Membership is compulsory for all full-time and part-time Authority employees working in regularly established positions. Contribution rates are established statewide for all participating governmental units. Accordingly, the actuarial information and related disclosures attributable to the Authority's employees are not determinable. Employees in the Pension Plan are vested with six years of service and once vested are eligible to retire upon reaching the age of 62 or with the completion of 30 years of service. Retirement benefits for the Pension Plan are based upon age, average compensation of an individual's five highest years of earnings and years of service credit. Employees in the Investment Plan are vested after one year of service with no age or service requirement to be eligible for retirement.

The Deferred Retirement Option Program (DROP) is a program that provides an alternative method for payment of retirement benefits for a specified and limited period for members of the FRS, effective July 1, 1998. Under DROP, an employee may retire and have their benefits accumulate in the Florida Retirement System Trust Fund, earning interest, while continuing to work for an FRS employer. The participation in the program does not change conditions of employment. When the DROP period ends, a maximum of

60 months, employment must be terminated. At the time of termination of employment, the employee will receive payment of the accumulated DROP benefits and begin receiving their monthly retirement benefit.

The Authority is required to contribute to FRS at an actuarially determined rate. The rate was 9.85% of covered payroll from October 2007 through September 2008 with the exception of DROP participants whose rate was 10.91%. The contribution requirements of the Authority are established and may be amended by the State of Florida. The Authority's contributions to the plan for the years ending September 30, 2008, 2007, and 2006 were $2,383,148, $2,248,227, and $1,723,016, respectively, and were equal to the required contributions for each year.

The FRS publishes an unaudited annual report that provides 10-year historical trend information about progress made in accumulating sufficient assets to pay benefits when due. That report may be obtained by writing to the Division of Retirement, Research Education and Policy Section P.O. Box 9000, Tallahassee, FL. 32315.

(8) Postemployment Benefits Other than Pension

The Authority provides post retirement healthcare benefits in accordance with Section 100.123, *Florida Statutes*, to all employees who retire from the employ of the Authority. The retiree pays 100% of the premium cost for the retiree to participate in the Authority's insurance program. The GASB has issued Statement No. 45 which will require an actuarially computed liability for these benefits to be reported in fiscal 2009. The Authority has not yet determined the potential impact of this accounting pronouncement on its financial statements.

(9) Commitments and Contingencies

(a) Grant Expenditures Subject to Audit

The Authority receives funding through capital grants and operating assistance grants from the FTA and from FDOT. Expenditures financed by capital and operating assistance grants are subject to audit and acceptance by the granting agency. Any disallowed expenditure may need to be repaid to the granting agency; however, it is management's opinion that no material liabilities will result from any such audits.

(b) Litigation

The Authority is a defendant in various lawsuits occurring in the normal course of business. The Authority continues to vigorously contest these claims. Management has recorded the estimated liability associated with these claims and believes the actual settlement of these claims will not have a material adverse effect on the financial condition of the Authority.

(c) Software Settlement

The Authority entered into an agreement with a vendor to install a new fully integrated software package that would handle the tracking and reporting needs of a public transportation entity. The system went live in August 2005 but it was determined that the system would not meet the Authority's needs and was abandoned. The total capital cost of the system was $2,140,483 plus $100,589 in peripheral capital costs for a total of $2,241,072, all of which was written off during the fiscal year ended September 30, 2006. In addition, a corresponding amount due to the federal government of $2,061,848 was recorded as the system was purchased with grant funds. The Authority was notified that the FTA waived any claim for repayment of funds awarded for the procurement of the system. Accordingly, the Authority reduced the amount due to the federal government and recognized the $2,061,848 in nonoperating revenue, other, net, in the statement of revenues, expenses, and changes in net assets in fiscal year 2007. In fiscal year 2008, the Authority reached a settlement with the vendor whereby the vendor paid to the Authority $600,000 and in return the Authority paid to the vendor $200,000 for a net settlement to the Authority of $400,000, which is recorded in other nonoperating revenues for the year ended September 30, 2008.

(10) Subsequent Events

The State Board of Administration of Florida notified the Authority that on April 30, 2009, the Commingled Asset Management Pool – Fixed Income (CAMPFI) would be closed and the assets held by the pool would be invested in a privately managed fixed income fund. Investment by the Authority in private funds is not permitted under the investment policy. Accordingly, as instructed by the Authority, the State Board of Administration of Florida liquidated the Authority's position as of April 30, 2009 and deposited $6,626,026 into the State Board of Administration of Florida Local Government Surplus Funds Trust Fund Investment Pool (LGIP) and $57,283 in the Commingled Asset Management Pool, Money Market.

KPMG

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Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

The Members of the Board
Pinellas Suncoast Transit Authority:

We have audited the financial statements of the Pinellas Suncoast Transit Authority (the Authority) as of and for the year ended September 30, 2008, and have issued our report thereon dated June 15, 2009. 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

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

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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be 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 Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Authority in a separate letter dated June 15, 2009.

This report is intended solely for the information and use of the Members of the Board, management, others within the organization, and federal and state awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

June 15, 2009
Certified Public Accountants

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Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133 and *Rules of the Auditor General*, State of Florida, Chapter 10.550

The Members of the Board
Pinellas Suncoast Transit Authority:

Compliance

We have audited the compliance of the Pinellas Suncoast Transit Authority (the Authority) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* and the requirements described in the Executive Office of the Governor's *State Projects Compliance Supplement* that are applicable to each of its major federal programs and state financial assistance projects for the year ended September 30, 2008. The Authority'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 Authority's management. Our responsibility is to express an opinion on the Authority'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* (OMB Circular A-133) and Chapter 10.550, *Rules of the Auditor General* (Chapter 10.550). Those standards, OMB Circular A-133, and Chapter 10.550 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 Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Authority's compliance with those requirements.

In our opinion, the Authority complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs and state financial assistance projects for the year ended September 30, 2008. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and Chapter 10.550 and which are described in the accompanying schedule of findings and questioned costs as items 2008-01 and 2008-02.

Internal Control over Compliance

The management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs and state financial assistance projects. In planning and performing our audit, we considered the Authority's internal control over compliance with the requirements that could have a direct and material effect on a major federal program or state financial assistance project in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program or state financial assistance project on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program or state financial assistance project such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program or state financial assistance project that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program or state financial assistance project will not be prevented or detected by the entity's internal control.

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

The Authority's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Authority's responses and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Members of the Board, management, others within the organization, and federal and state awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

June 15, 2009
Certified Public Accountants

PINELLAS SUNCOAST TRANSIT AUTHORITY

Schedule of Expenditures of Federal Awards
and State Financial Assistance

Year ended September 30, 2008

Federal or state grantor/pass-through grantor/program title	CFDA/CSFA number	Grant or contract number		Expenditures
U.S. Department of Transportation:				
Direct programs:				
Federal Transit Formula Grant	20.507	FL-90-0377	$	99
Federal Transit Formula Grant	20.507	FL-90-0435		2,062
Federal Transit Formula Grant	20.507	FL-90-0470		44,522
Federal Transit Formula Grant	20.507	FL-90-0535		904,038
Federal Transit Formula Grant	20.507	FL-90-0562		1,321,405
Federal Transit Formula Grant	20.507	FL-90-0605		8,239,956
Federal Transit Formula Grant	20.507	FL-90-0617		1,397,482
Federal Transit Formula Grant	20.507	FL-90-0648		25,016
Total program				11,934,580
Passed through Pinellas County Metropolitan Planning Organization:				
Federal Transit Formula Grant	20.505	WP-17816685		80,000
Total expenditures of federal awards			$	12,014,580
Florida Department of Transportation:				
Direct programs:				
Public Transit Block Grant Program	55.010	402513-1-84-08	$	3,320,386
Public Transit Service Development Program (Route 18)	55.012	411923-l-84-05		347,204
Public Transit Service Development Program (Routes 59 &74)	55.012	422380-1-84-01		266,698
Public Transit Service Development Program (Route 78)	55.012	420738-1-84-01		34,377
Public Transit Service Development Program (Route 19 Existing Service)	55.012	411923-1-94-04		31,513
Total program				679,792
Transit Corridor Program (Route 100X)	55.013	410695-1-84-08		150,000
Transit Corridor Program (Route 300X)	55.013	418695-1-84-03		165,000
Total program				315,000
Total expenditures of state financial assistance			$	4,315,178

See accompanying note to schedule of expenditures of federal awards and state financial assistance.

PINELLAS SUNCOAST TRANSIT AUTHORITY

Note to Schedule of Expenditures of Federal Awards
and State Financial Assistance

Year ended September 30, 2008

Basis of Presentation

The accompanying schedule of expenditures of federal awards and state financial assistance includes all federal and state grant activity of the Authority and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and Chapter 10.550 of the *Rules of Auditor General*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

PINELLAS SUNCOAST TRANSIT AUTHORITY

Schedule of Findings and Questioned Costs

Year ended September 30, 2008

Section I – Summary of Auditors' Results

Type of auditors' report issued:	Unqualified			
Internal control over financial reporting:				
• Material weakness(es) identified?	_____	Yes	__X__	No
• Significant deficiency(ies) identified that are not considered to be material weaknesses?	_____	Yes	__X__	None reported
Noncompliance material to financial statements noted?	_____	Yes	__X__	No
Federal Awards:				
Internal control over major programs:				
• Material weakness(es) identified?	_____	Yes	__X__	No
• Significant deficiency(ies) identified that are not considered to be material weaknesses?	_____	Yes	__X__	None reported
Type of auditors' report issued on compliance for major programs:	Unqualified			
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) Circular A-133?	__X__	Yes	_____	No

Identification of major programs/projects:

Federal programs	CFDA number
U.S. Department of Transportation: Federal Transit Formula Grant	20.507

The threshold for distinguishing Type A and Type B programs was $360,437 for federal programs.

Auditee qualified as low-risk auditee?	_____	Yes	__X__	No
State projects:				
Internal control over major projects:				
• Material weakness(es) identified?	_____	Yes	__X__	No
• Significant deficiency(ies) identified that are not considered to be material weaknesses?	_____	Yes	__X__	No

PINELLAS SUNCOAST TRANSIT AUTHORITY

Schedule of Findings and Questioned Costs

Year ended September 30, 2008

Type of auditors' report issued on compliance for major projects:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with Chapter 10.550?	______ Yes __X__ No

Identification of major programs/projects:

Identification of major programs/projects:

State programs	CSFA number
Florida Department of Transportation:	
Public Transit Block Grant Program	55.010
Public Transit Service Development	55.012

The threshold for distinguishing Type A and Type B projects was $300,000 for major state projects.

PINELLAS SUNCOAST TRANSIT AUTHORITY

Schedule of Findings and Questioned Costs

Year ended September 30, 2008

Section II – Financial Statement Findings

None

Section III – Federal Award Program Findings and Questioned Costs

Finding 2008-01

Federal Agency	Federal Transit Authority
Program:	Federal Transit Formula Grant
CFDA number:	20.507
Award numbers:	FL-90-0377; FL-90-0435; FL-90-0470; FL-90-0535; FL-03-0562; FL-90-0605; FL-90-0617; FL-90-0648
Award years:	July 29, 2002 – July 1, 2009; September 27, 2003 – December 31, 2006; July 1, 2007 – July 1, 2010; July 1, 2006 – July 1, 2009; July 1, 2006 – July 1, 2009; July 1, 2007 – July 1, 2010; July 1, 2007 – July 1, 2010; July 1, 2008 – July 1, 2011

Criteria – Equipment and Real Property Management

Federal Transit Authority, Circular 5010.1C, Grants Management Guidelines – management of real property, equipment and supplies stipulate that a control system must be developed to ensure adequate safeguards to prevent loss, damage, or theft of property. A minimum requirement to meet this guideline is that a physical inventory of equipment must be taken and the results reconciled with equipment records at least once every two years. Any difference must be investigated to determine the cause of the difference.

44 CFR Part 13 stipulated that procedures for managing equipment, until disposition takes place, at a minimum include a physical inventory of equipment must be taken and results reconciled with equipment records at least once every two years.

Condition Found

Although an inventory was performed, we noted that the inventory was not reconciled to the equipment records in a timely manner. The reconciliation of annual inventory to equipment records was not performed until 9 months after the fiscal year-end.

Questioned Costs

None

Perspective

This finding is considered systemic in nature.

Cause

Adequate internal control procedures are not in place at the Authority to ensure compliance with federal regulations.

Effect

The lack of proper and timely reconciliation of inventory results to property records could result in the lack of compliance with federal requirements and could impact future funding from the grantor.

Recommendation

Management should establish policies and procedures to ensure that the actual inventory results are reconciled to equipment records in a timely manner.

Management's Response

We concur with the auditors' recommendation and will perform the inventory of fixed assets and reconciliation to the books and records on a timely basis.

Finding 2008-02

Federal Agency	Federal Transit Authority
Program:	Federal Transit Formula Grant
CFDA number:	20.507
Award numbers:	FL-90-0377; FL-90-0435; FL-90-0470; FL-90-0535; FL-03-0562; FL-90-0605; FL-90-0617; FL-90-0648
Award years:	July 29, 2002 – July 1, 2009; September 27, 2003 – December 31, 2006; July 1, 2007 – July 1, 2010; July 1, 2006 – July 1, 2009; July 1, 2006 – July 1, 2009; July 1, 2007 – July 1, 2010; July 1, 2007 – July 1, 2010; July 1, 2008 – July 1, 2011

Criteria – Equipment and Real Property Management

Federal Transit Authority, Circular 5010.1C, Grants Management Guidelines – management of real property, equipment and supplies stipulate that with prior FTA approval, the grantee may sell equipment or supplies and use the proceeds to reduce the gross project cost of other FTA eligible capital transit projects. The grantee is expected to record the receipt of the proceeds in the grantee's accounting system, showing that the funds are restricted for use in a subsequent capital project.

Condition Found

During fiscal year 2008, the Authority sold certain assets with the permission of the FTA. However, the Authority did not segregate the unspent proceeds in the amount $226,249 as restricted in the Authority's accounting records.

Questioned Costs

None

Perspective

This finding is considered systemic in nature.

Cause

The Authority did not have adequate policies and procedures in place to show the funds as restricted for use in a subsequent capital project.

Effect

The lack of adequate policies and procedures related to restricted cash could lead to misappropriation of federal funds restricted for subsequent capital projects.

Recommendation

We recommend that the Authority establish and implement policies and procedures regarding the sale and use of proceeds for subsequent capital projects.

Management's Response

We concur with the auditors' findings and have implemented policies and procedures for the control and expenditure of proceeds from the sale of assets funded by grants.

PINELLAS SUNCOAST TRANSIT AUTHORITY

Schedule of Findings and Questioned Costs

Year ended September 30, 2008

Section IV – State Financial Assistance Program Findings and Questioned Costs

None

KPMG LLP
Suite 1700
100 North Tampa Street
Tampa, FL 33602

Management Letter

The Members of the Board
Pinellas Suncoast Transit Authority:

We have audited the financial statements of the Pinellas Suncoast Transit Authority (the Authority) as of and for the year ended September 30, 2008, and have issued our report thereon dated June 15, 2009.

We conducted our audit in accordance with U.S. generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. We have issued our report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with *Government Auditing Standards*; report on compliance with the requirements applicable to each major program and on internal control over compliance in accordance with OMB Circular A-133 and *Rules of the Auditor General*, Chapter 10.550; and the related schedule of findings and questioned costs. Disclosures in those reports and schedule, which are dated June 15, 2009, should be considered in conjunction with this management letter.

Additionally, our audit was conducted in accordance with the provisions of Chapter 10.550, *Rules of the Auditor General*, which govern the conduct of local governmental entity audits performed in the State of Florida, unless otherwise required to be reported in our report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with *Government Auditing Standards*; report on compliance with the requirements applicable to each major program and on internal control over compliance in accordance with OMB Circular A-133 and *Rules of the Auditor General*, Chapter 10.550, this letter is required to include the following information.

The *Rules of the Auditor General* Section 10.554(1)(i)(1) require 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 under the heading summary of prior year recommendations).

The *Rules of the Auditor General* Section 10.554(1)(i)(2) require that we determine whether or not the Authority complied with Section 218.415, *Florida Statutes*, regarding the investment of public funds. In connection with our audit, nothing came to our attention that caused us to believe the Authority was not in compliance with Section 218.415, *Florida Statutes*.

The *Rules of the Auditor General* Section 10.554(1)(i)(3) require that we address in the management letter any recommendations to improve the Authority's financial management. See Exhibit A for current year recommendations not already discussed in the report on internal control over financial reporting and on compliance and other matters.

The *Rules of the Auditor General* Section 10.554(1)(i)(4) require that we address in the management letter any violations of laws, regulations, contracts, or 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.

The *Rules of the Auditor General* Section 10.554(1)(i)(5) provide for disclosure in the management letter based on the auditor's professional judgment, the following in consequential matters if not already addressed in the auditors' report on internal control over financial reporting and compliance and other matters:

(a) Violations of laws, regulations, contracts, or grant agreements or abuse that have occurred, or were likely to have occurred, and would have an immaterial effect on the financial statements.

(b) Control deficiencies that are not significant deficiencies in internal control, including, but not limited to:

    (1) Improper or inadequate accounting procedures (i.e., the omission of required disclosures from the annual financial statements);

    (2) Failures to properly record financial transactions; and

    (3) Other inaccuracies, shortages, defalcations, and instances of fraud discovered by, or that come to the attention of, the auditor.

The results of our audit disclosed no violations of laws, rules, regulations, contracts, or grant agreements or abuse or other control deficiencies which are not otherwise reported.

The Rules of the Auditor General Section 10.554(1)(i)(6) require that the name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed in the management letter unless disclosed in the notes to the financial statements. In that regard, the Authority was established by Legislature through Chapter 23.483 Special Acts of 1945, and codified in the Laws of Florida Chapter 2003-320. There are no component units related to the Authority.

The Rules of the Auditor General Section 10.554(1)(i)(7)(a) state that a management letter shall include a statement as to whether or not a local governmental entity is in a state of financial emergency as a consequence of conditions described in Section 218.503(1), *Florida Statutes*. Section 218.503(1) states that a local governmental entity is in a state of financial emergency when any of the following conditions occur:

(a) Failure, within the same fiscal year in which due, to pay short-term loans from banks or failure to make bond debt service payments when due;

(b) Failure to transfer at the appropriate time, due to lack of funds: (1) taxes withheld on the income of employees or (2) employer and employee contributions for (a) federal social security or (b) any pension, retirement or benefit plan of an employee;

(c) Failure for any one pay period to pay, due to lack of funds: (1) wages and salaries owed to employees or (2) retirement benefits owed to former employees;

(d) An unreserved or total fund balance or retained earnings deficit for which sufficient resources of the local government entity are not available to cover the deficit for two successive years; and

(e) Noncompliance of the local government retirement system with actuarial conditions provided by law.

Management of the Authority has determined that the Authority is not in a state of financial emergency as defined in Section 2180.503(1), *Florida Statutes*. In connection with our audit of the financial statements of the Authority, the results of our tests did not indicate that the Authority is in a state of financial emergency as a consequence of the conditions in Section 218.503(1), *Florida Statutes*.

The *Rules of the Auditor General* Section 10.554(1)(i)(7)(b) require that we determine whether the annual financial report for the Authority for the fiscal year ended September 30, 2008, 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, 2008. This report has not yet been filed.

The Rules of the Auditor General Sections 10.554(i)(7)(c) and 10.556(7) 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 Authority'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.

* * * * * * *

This management letter is intended solely for the information and use of the Members of the Board, management, others within the organization, 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.

KPMG LLP

June 15, 2009
Certified Public Accountants

Exhibit A

PINELLAS SUNCOAST TRANSIT AUTHORITY

Current Year Observations and Recommendations

Year ended September 30, 2008

None.

Exhibit B

PINELLAS SUNCOAST TRANSIT AUTHORITY

Summary of Prior Year Recommendations

Year ended September 30, 2008

Description	Comment still relevant	Comment cleared and removed
User controls related to vehicle and general liability claim payments		X
Financial reporting (2007-01)		X
Bank reconciliations (2007-02)		X
Statement of cash flows (2007-03)		X
Manual Journal Entries (2007-04)		X
Information technology (2007-05):		
General controls		X
Policies/procedures	X	
Password policy not enforced		X
Physical access to FleetNet server room		X
FleetNet new user access		X
Periodic review of FleetNet new user access	X	
Documentation of authorizing changes		X
Documentation of testing changes		X
Access to migrate changes into production		X
Evidence that configuration changes are tracked, reviewed, and approved		X
Formal procedures for FleetNet backup		X
Periodic testing of backup media		X
Incident handling procedures and documentation		X

PINELLAS SUNCOAST TRANSIT AUTHORITY

Summary of Prior Year Recommendations

Year ended September 30, 2008

Information Technology

Information Technology Policies/Procedures

Observation

Specific policies regarding the organization's information security are not provided to users or reviewed by management on a regular basis. The information within the IT Orientation Information is not sufficiently detailed in regard to specific areas of Information Security, such as acceptable use, password parameters, change management policies, and problem management.

During 2008, while Pinellas Suncoast Transit Authority (the Authority) has established policies relating to information security, the organization does not follow these policies consistently. Specifically, the Authority does not follow the process for documenting when new users are added to the FleetNet application. Furthermore, user access reviews were not formally conducted or documented during fiscal year 2008, as is defined in the policy.

Recommendation

The Authority's IT policies include specific details pertaining to the FleetNet application. Change management policies, password parameters, problem management, acceptable use, etc., should be included in the IT Orientation handout given to new users.

The Authority should consistently follow the policies and procedures that have been developed for IT. If the Authority does not wish to follow the current procedures that are documented, they should revise the procedures so that they accurately follow the actions of the organization.

2007 Management's Response

The IT Orientation Handout is general information provided to all levels of administration and bus operators. Not all the recipients of this handout are FleetNet users. An addendum to the existing handout will be developed which will address the issues presented in the auditors' recommendation. Currently requested changes, user setup, problem management, and password security are approved via e-mail to and from the user's management/director to the System Administrator and Director. Information via e-mail is provided back to the user and management acknowledging the request and completion.

2008 Management's Response

The Authority's policies and procedures were reviewed by new executive management during this timeframe. The outcome was change the way processes (business process improvement) were done in the past and to move away from paper to generate and communicate information electronically. IT was asked to develop and test processes that could be implemented to meet that change. One of the policies affected was how information security was being setup, approved and, monitored. IT went from a paper format to an electronic format using HelpDesk e-mail systems to track change request. To comply with the above recommendation, the procedures will be rewritten to reflect the approved change.

PINELLAS SUNCOAST TRANSIT AUTHORITY

Summary of Prior Year Recommendations

Year ended September 30, 2008

Periodic Review of FleetNet User Access is Not Performed

Observation

A periodic system access review is not performed for the FleetNet application which can result in unauthorized access. The Authority did not formally document a review of users' access rights in the FleetNet application during fiscal year 2008.

Recommendation

The Authority management (department directors along with IT) should perform a review of user access privileges on at least a semiannual basis. A system access listing should be generated by the application security administrators and distributed to the directors in each department to review and formally approve whether system access is appropriately assigned. Evidence of management review should be maintained, including sign-off on the system access report(s) reviewed, management response of inappropriate rights that need to be removed, and confirmation from IT confirming the removal of any inappropriate user access rights identified.

2007 Management's Response

IT will periodically check and review the system access rights. This will consist of a user's access report to be reviewed by the Department directors including sign off of the current approved FleetNet users and their required modules.

2008 Management's Response

During fiscal year 2008, the Authority had a hiring freeze in place; and, there was no employee turnover and only one person was hired in an established position (HR Director). Thus, no FleetNet access changes were performed that changed position functions. No other access right changes were done with any employees during fiscal year 2008 and as a result no documents could be provided to our audit firm. To comply with the above, IT will provide a semiannual FleetNet access list for each department director to review and approve even if there are not position changes in the department.