
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, 2012

(With Independent Auditors' Report Thereon)

**PINELLAS SUNCOAST TRANSIT AUTHORITY**

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**Transmittal Letter**

February 27, 2013

Mr. Jeff Danner, Board Chair and
Members of the Board of Directors of the Pinellas Suncoast Transit Authority and
Citizens of our Service Area

Dear Board Chair, Board Members and Citizens:

State law requires that all independent special districts publish each fiscal year a complete set of financial statements presented in conformity with accounting principles generally accepted in the United States of America (GAAP) and audited in accordance with auditing standards generally accepted in the United States of America by a firm of licensed certified public accountants. Pursuant to that requirement, we hereby issue the Annual Financial Report of the Pinellas Suncoast Transit Authority ("the Authority"), for the fiscal year ended September 30, 2012.

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

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

The Authority's basic financial statements have been audited by Mayer Hoffman McCann P.C., a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the Authority for the fiscal year ended September 30, 2012, are free of material misstatement. The independent 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 independent auditor concluded, based upon the audit, that there was reasonable basis for rendering an unqualified, "clean" opinion that the Authority's financial statements for the fiscal year ended September 30, 2012, are fairly presented in conformity with GAAP. The independent auditors' report is located at the front of the financial section of this report.

The independent audit of the financial statements of the Authority was part of a broader, mandated “Single Audit” designed to meet the special needs of federal and state grantor agencies. The standards governing Single Audit engagements require the independent auditors to report not only on the fair presentation of the financial statements, but also on the audited government’s internal controls over financial reporting and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal and state awards. These reports are included in the Regulatory section of this report.

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

**Profile of the 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 170 buses and 16 trolleys serve 37 regular routes and four commuter routes throughout Pinellas County. The Route 100X provides express service between St. Petersburg and downtown Tampa 13 times a day, the Route 300X provides express service between Largo and downtown Tampa 15 times a day, and the popular Suncoast Beach Trolley connects the Gulf beaches from downtown Clearwater to Pass-a-Grille.

Pinellas County is 280 square miles with approximately 916,542 residents (2010 Census). Pinellas County is located along the west coast of Florida and includes a 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.

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 fiscal year 2012, Authority vehicles traveled a total of 8.5 million miles, providing approximately 593,000 hours of service, and 14.0 million passenger trips.

**Officials**

The Authority is governed by a board of directors comprised of thirteen elected officials, and two non-elected officials, one of which is appointed by the 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.

**Services and Service Delivery**

The Authority provides virtually all public transportation services in this area. These services include fixed route, demand response, and specialized services. The Authority maintains over 5,034 bus stops, 704 shelters, 14 transfer centers, 3 transit centers, and a fleet of 186 fixed route vehicles. For FY 2012, the total passenger trips were 14.0 million.

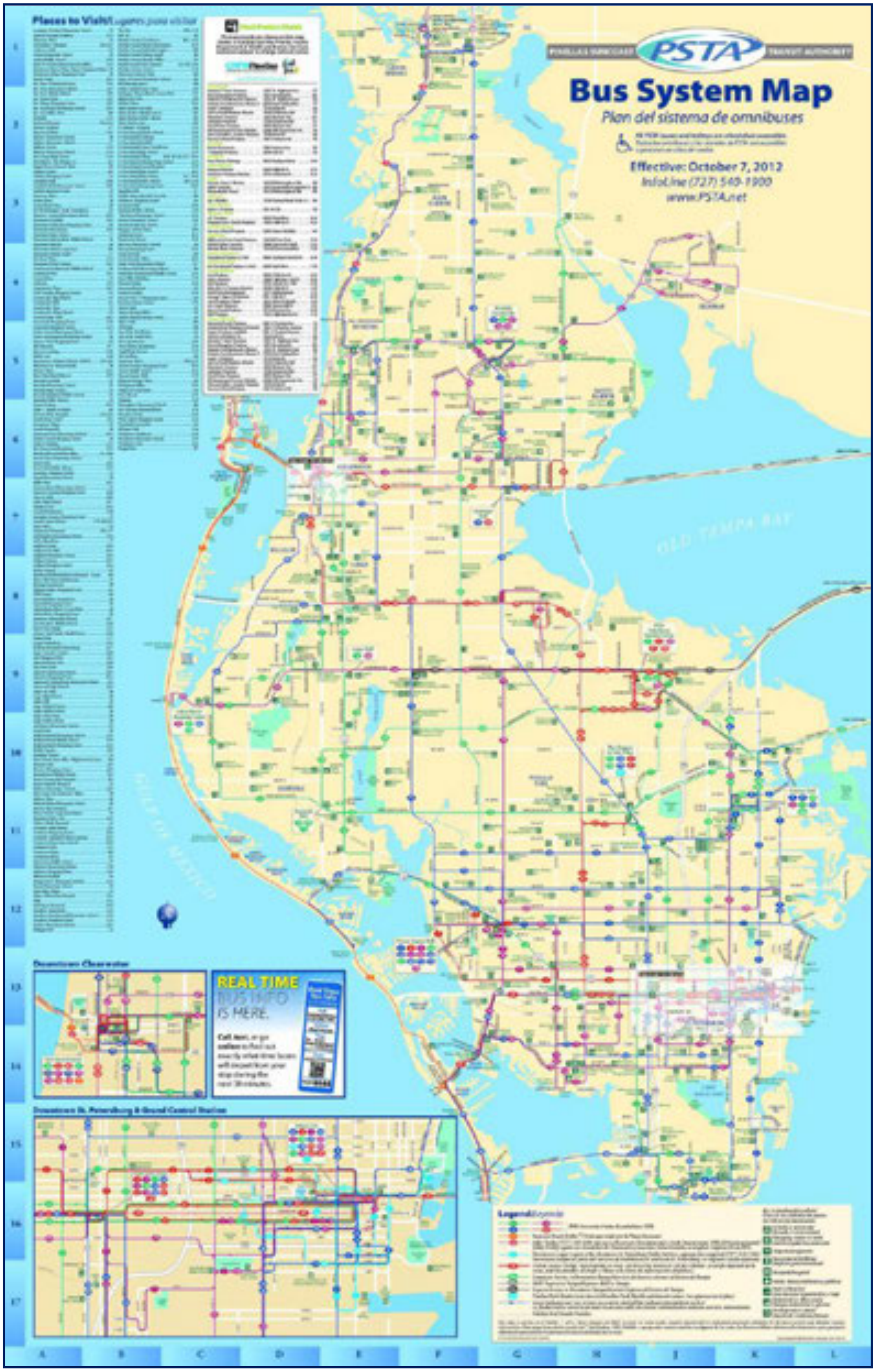
The Authority offers a host of programs and services to make using public transit an easy and attractive alternative to driving. Printable route schedules and maps are available on www.psta.net, making bus information more accessible than ever. The website also offers details out how to ride, fares and 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 Marketing Department's Info Line, 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 website 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 (one not being used now) are provided for intermodal connections to local and commuter express bus routes. PSTA has entered into an agreement with the City of St. Petersburg and St. Petersburg Trolley to provide circulator service in downtown St. Petersburg. PSTA has also entered into an agreement with Jolley Trolley, Inc. to provide circulator service from Clearwater Beach to downtown Clearwater and north to Tarpon Springs.

Persons with disabilities who are unable to use regular bus service may be eligible for an ADA paratransit specialized service or Demand Response Transportation (DART). Since DART offers vehicles that are equipped with wheelchair lifts they are accessible to passengers in both wheelchairs and electric carts. DART 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 at a fare of not more than twice the regular bus fare.

The FY 2012 ridership for each mode compared to FY 2011 is presented below:

| Mode | September 30, 2012 | September 30, 2011 | Percent of Change |
|---|---|---|---|
| **Bus Operations** | 13,713,646 | 12,832,216 | 6.9% |
| **DART** | 304,684 | 270,990 | 12.4% |
| **Total** | 14,018,330 | 13,103,206 | 7.0% |

**Pinellas Suncoast Transit Authority**
**2012 Local Routes**



**Budget**

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

The PSTA Board adopted FY 2012-13 fiscal year operating and capital budget totaling $95 million. This financial plan allows the Authority to continue to provide the same level of transit service in FY 2013 consistent with the FY 2012. The passage of the FY 2013 budget totaling $95 million, which is $4.5 million or 4.9% over the FY 2012 budget, is attributed to an increase in fuel costs, insurance costs, personnel costs, and a decrease in DART costs.

**Factors Affecting Financial Condition**

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the Authority operates.

**Local economy.** The regional economy currently enjoys a slightly favorable economic environment compared with other cities in Florida and local indicators point to continued stability. The regional economy has a diverse economic base that includes tourism, agriculture, construction, finance, health care, technology, and the Port of Tampa. Major industries with headquarters or divisions located within the regional area's boundaries or in close proximity include telephone and electric service companies, computer hardware and electrical controls manufacturers, tourist attractions, fertilizer manufacturers, MacDill Air Force Base, and the Port of Tampa. Institutions of higher learning located in the regional area include the University of South Florida, the University of Tampa, St. Petersburg College, Eckerd College, and the Stetson University College of Law.

The area's Metropolitan Statistical Area unemployment rate is currently 8.9%, slightly higher than the national rate of 8.1% and slightly lower than the statewide rate of 9.3%. The region's growth and economic diversity are expected to be the basis for continued health of the local economy in coming years.

The Authority's ability to fund its operations is heavily dependent on a millage levy generated from property taxes. The property tax revenues have declined by $4.9 million or 12.9% since 2007. The millage rate for 2007 was .6074 compared to the 2012 millage rate of .7305. For FY 2012 and 2013, the PSTA Board approved a millage rate of .7305 with a statutory limit of .7500 mil.

As with the global economy, local fuel prices continue to rise above historical highs. This occurrence has a two-sided affect on public transportation providers. Higher fuel prices at the pump tend to encourage higher utilization of public transportation by citizens. However, these same rising costs also impact the Authority's ability to afford fuel. Rising fuel costs ultimately impacts the cost of maintenance materials and energy costs associated with the Authority's fleet and customer amenities. Management believes that higher fuel prices will decrease the amount of disposable income in the area, which would decrease consumer spending thereby affecting the local economy and increasing ridership.

Even in light of these challenges, the Authority remains steadfast in its commitment to provide public transportation to its riders while meeting its fiscal challenges by purchasing fuel prices at a lower rate in the futures market.

## Long-Range Financial Planning

Due to the significant investment in buses and bus facilities used for service delivery and the necessary funding required to refurbish and to replace those assets when needed, the Authority has been building up resources. As of September 30, 2012, the Authority's unrestricted net assets totals $37.6 million. Long- term financial projections are maintained and updated when significant events occur that warrant changes to the underlying assumptions.

**Cash management policies and practices**. Cash temporarily idle during the year was invested in the Florida State Board of Administration (SBA) Florida PRIME Account. The investment returns through fiscal year end September 30, 2012, totaled an average of 31 basis points compared to an average of 26 basis points for FY 2011. The SBA investment pool allocation consists of U.S. Treasury Bills/Bonds, Federal Agency Obligations, REPO Agreements, Commercial Paper, Certificates of Deposit, and Asset-Backed Securities. This mix of asset allocation provides a strong diversity for a balanced portfolio.

**Risk management.** Commercial insurance is carried for damage to buildings with a deductible that varies with the cause of loss. The Authority is self-insured for worker's compensation and general liability. Additional information regarding the Authority's risk management activity can be found in Note 6 of the notes to the financial statements.

**Pension and other post-employment benefits.** Substantially, all full-time Authority employees are participants in the Florida Retirement System ("the System"), a multiple-employer, cost-sharing public retirement system. The System, which is controlled by the State Legislature, covers approximately 1,097,450 (as of June 30, 2011) full-time employees of various governmental units within the State of Florida.

For employees who were hired before July 1, 2011, the System provides for vesting benefits after six years of creditable service. Normal retirement benefits are available to employees who retire at or after 62 years with six or more years of service. Early retirement is available after six years of service with a 5% reduction of benefits for each year prior to the normal retirement age. Retirement benefits are based on age, average compensation and years of service credit where the average compensation is computed as the average of an individual's highest five years of earnings.

For employees who were hired on or after July 1, 2011, the System provides for vesting benefits after eight years of creditable service. Normal retirement benefits are available to employees who retire at or after 65 years with eight or more years of service. Early retirement is available after eight years of service with a 5% reduction of benefits for each year prior to the normal retirement age. Retirement benefits are based on age, average compensation and years of service credit where the average compensation is computed as the average of an individual's highest eight years of earnings.

The most recent Florida Retirement System (FRS) Annual Report published is for FY 2011 (July 1, 2010 through June 30, 2011). According to this report, the FRS actuarial value of assets totaled $126.1 billion with an actuarial accrued liability of $145.0 billion resulting in a funded ratio of 86.9%.

The Authority has no responsibility to the System other than to make the periodic payments required by State Statutes through June 30, 2011. However, effective July 1, 2011 with the passage of Senate Bill 2100, the bill made a number of substantial changes to the Florida Retirement System (FRS) including requiring 3% employee contributions on all compensation. The Florida Division of Retirement issues a publicly available financial report that includes financial statements and required supplementary information for the System.

Participating employer contributions are based upon statewide rates established by the State of Florida.

**Acknowledgements**

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

Respectfully Submitted,

David Persaud, MPA, CGFM, CPE
Director of Finance

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**Independent Auditors' Report**

The Members of the Board
Pinellas Suncoast Transit Authority:

We have audited the accompanying statements of net position of the Pinellas Suncoast Transit Authority (the Authority) as of September 30, 2012 and 2011, and the related statements of revenues, expenses, and changes in fund net position and cash flows for the years 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 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 audits 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net position of the Authority as of September 30, 2012 and 2011, and the changes in its net position and its cash flows 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 February 27, 2013, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 and schedule of funding progress on pages 10 through 15 and page 36, respectively, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. 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 the United States Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and Chapter 10.550, *Rules of the Florida Auditor General*, and is not a required part of the basic financial statements. The schedule of expenditures of federal awards and state financial assistance 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 information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 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 information is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and the Summary Schedule of Prior Audit Findings have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion or provide any assurance on them.

Mayer Hoffman McCann P.C.

February 27, 2013
Clearwater, Florida

**PINELLAS SUNCOAST TRANSIT AUTHORITY**

Management's Discussion and Analysis

September 30, 2012
(Unaudited)

## INTRODUCTION:

This document is part of Pinellas Suncoast Transit Authority's (PSTA or Authority) Management Discussion and Analysis (MD&A) of financial activities and performance for the fiscal years (FY) ended September 30, 2012 and 2011. It introduces the Authority's FY 2012 financial statements. Information contained in this MD&A has been prepared by the Authority's management and should be considered in conjunction with the financial statements and the notes to the financial statements.

The notes are essential to a full understanding of the data contained in the financial statements. This report also presents certain required supplementary information regarding capital assets and long-term debt activity during the year, including commitments made for capital expenditures.

## OVERVIEW OF THE FINANCIAL STATEMENTS:

The financial section of this annual report consists of three parts: MD&A, the basic financial statements, and the notes to the financial statements. The basic financial statements include The Statements of Net Position, the Statements of Revenues, Expenses and Changes in Fund Net Position, and the Statements of Cash Flows.

Analysis of the Statements of Net Position and the Statements of Revenues, Expenses and Changes in Fund Net Position illustrate whether the Authority's financial position has improved as a result of the year's activities. The Statements of Net Position presents information on all of the Authority's assets and liabilities, with the difference between the two reported as net position. Over time, the increases and decreases in net position may serve as an indicator of whether the financial position of the Authority is improving or deteriorating. The Statements of Revenues, Expenses and Changes in Fund Net Position reflect how the operating and non-operating activities of the Authority affected changes in the net position of the Authority. These activities are recorded under the accrual basis of accounting reflecting the timing of the underlying event regardless of the timing of related cash flows.

Although the financial statements provide useful information in assessing the financial health of the Authority, consideration of other factors not shown on the financial reports should be evaluated to assess the Authority's true financial condition. Factors such as changes in the Authority's tax base and the condition of the Authority's asset base are also important when assessing the overall financial condition of the Authority.

Government entities typically account for activities by utilizing "fund" accounting. A fund is a grouping of related accounts that is used to maintain control or restrict the use of resources that have been segregated for specific activities or objectives. The Authority uses only one fund, an enterprise fund, which reports all business type activities of the Authority.

## FINANCIAL ANALYSIS OF THE AUTHORITY:

- For FY 2012 the assets of the Authority exceeded its liabilities by $114.0 million. Of this amount, $37.6 million is depicted as unrestricted and may be used to meet the Authority's ongoing obligations. The PSTA Board of Directors committed $3.6 million for catastrophic event claims, $10.1 million for two months of operating reserves, and $23.9 million for capital asset replacement and other projects.
- Total assets increased by $5.5 million or 4.7% in FY 2012. Current assets increased by $7.3 million or 18.0% and capital assets decreased by $1.8 million or 2.3%. More details on the increases and decreases are reflected in the Statements of Cash Flows in this report.
- The Authority's total net position increased by $4.5 million or 4.1% from FY 2011. The increases are attributable to a decrease of $1.8 million in depreciated and capitalized assets, and an increase of $6.1 million in revenues from property taxes and increases in other revenues.
- The change in liabilities at the close of the fiscal year reflects an increase of $1.0 million or 11.3%. This change in liabilities is a result of an increase in accounts payable due to larger accruals for purchased transportation costs, costs related to the capital projects and expenditures related to new grants for bus parts.
- Based on the most recent actuarial valuation as of September 30, 2012, prepared by the Authority's independent actuary, PSTA risk management liabilities for general liability and workers' compensation declined by approximately $420,000 or 10.4%.

## THE AUTHORITY'S CONDENSED STATEMENTS OF NET POSITION:

| | 2012 | 2011 | Dollar Increase (Decrease) | Percentage Change | 2010 |
|---|---|---|---|---|---|
| Assets: | | | | | |
| Current and other assets | $ 47,598,565 | $ 40,323,382 | $ 7,275,183 | 18.04% | $ 35,927,603 |
| Capital assets | 76,411,608 | 78,170,420 | (1,758,812) | (2.25%) | 88,538,927 |
| Total assets | $ 124,010,173 | $ 118,493,802 | $ 5,516,371 | 4.66% | $ 124,466,530 |
| Liabilities: | | | | | |
| Current liabilities | $ 9,993,027 | $ 8,977,913 | $ 1,015,114 | 11.31% | $ 9,531,102 |
| Net position: | | | | | |
| Invested in capital assets | 76,411,608 | 78,170,420 | (1,758,812) | (2.25%) | 88,538,927 |
| Unrestricted | 37,605,538 | 31,345,469 | 6,260,069 | 19.97% | 26,396,501 |
| Total net position | 114,017,146 | 109,515,889 | 4,501,257 | 4.11% | 114,935,428 |

## THE AUTHORITY'S OPERATING FINANCIAL ACTIVITY:

As noted earlier, PSTA uses only one fund, an enterprise fund, to comply with General Accepted Accounting Principles (GAAP) and Governmental Accounting Standards Board (GASB) mandated reporting requirements. The Authority's operations consist of providing virtually all public transportation services in Pinellas County, Florida. These services include fixed route, demand response, and specialized services.

The Statements of Revenues, Expenses and Changes in Fund Net Position show how the Authority's net assets changed during the current and previous fiscal year as a result of operations. These changes are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, some revenues and expenses reported in this statement will only affect future cash flows.

The following summary represents the FY 2012 operating results compared to FY 2011:

**Revenues**:

- Total operating and non-operating revenues for FY 2012 totaled $63.7 million or $9.2 million and 16.9% over FY 2011.
- Passenger fares, including demand response fares, were $1.5 million or 11.6% over FY 2011. This increase is attributable to an increase in ridership of 7.0%.
- Federal maintenance assistance increased $85,000 or 3.4% primarily due to preventative maintenance expenses.
- State operating assistance increased $280,000 or 7.9%. This increase is attributable to new route reimbursements for route 35.
- Other Federal grants increased $693,000 or 11.8% for preventative maintenance expenses.
- Special projects assistance state grants increased $347,000 or 44.6% due to an increase in transportation disadvantage revenues. Special projects local grants increased $34,000 or 5.4% due to local reimbursement for the Route 35.
- Property tax revenues increased $6.1 million due to an increase in the millage rate from .5601 to .7305 to address the operating budget deficit in FY 2012 and FY 2013 and an offsetting 5.2% decrease in property values from FY 2011 to FY 2012.
- Investment income increased $94,000 or 74.1% due to the capital budget cash that increased from the concrete project settlement by $6.1 million.
- Advertising income increased $44,000 or 11.0% due to an increase in advertisement sales on buses.
- Fuel tax refunds increased $51,000 or 9.1% due to the increased costs of fuel and taxes paid that were reimbursed.
- Other revenues decreased $50,000 or 13.4% due to a combination of miscellaneous revenues that decreased from FY 2011.

**Expenses:**

- Total operating expenses increased $178,000 or 0.3% over FY 2011.
- Operations expenses increased $2.2 million or 7.2% due to increases for bus operator wages, fringe benefits and fuel over FY 2011.
- Purchased transportation decreased $557,000 or 9.9% due to new contracts for the DART program due to new solicitation in FY 2011 resulting in reduced costs.

- Maintenance expenses decreased $348,000 or 4.6% due to a decrease in wages and benefits.
- Administration and finance expenses decreased $965,000 or 9.4% due to a decrease in general liability claims of $725,000 and self-insured recoveries increasing by $382,000.
- Marketing expenses decreased $124,000 or 6.8% due to a decrease in fringe benefits and marketing supplies and services.

**Capital Grants:**

Capital grants increased $424,000 or 10.8% due to capital acquisitions for vehicles and building improvements.

## OVERALL

The Authority experienced favorable operating results for FY 2012 with an increase of net position of $4.5 million. The Authority has balanced budgets for FY 2013 through FY 2015.

## THE AUTHORITY'S CONDENSED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION

| | 2012 | 2011 | Dollar Increase (Decrease) | Percentage Change | 2010 |
|---|---|---|---|---|---|
| Operating revenues: | | | | | |
| Passenger fares | $ 14,088,340 | $ 12,572,896 | $ 1,515,444 | 12.05% | $ 10,845,845 |
| Demand response | 245,620 | 267,176 | (21,556) | (8.07%) | 218,147 |
| Total operating revenues | 14,333,960 | 12,840,072 | 1,493,888 | 11.63% | 11,063,992 |
| Nonoperating revenues: | | | | | |
| Federal maintenance assistance | 2,538,836 | 2,453,338 | 85,498 | 3.48% | 2,033,508 |
| State operating assistance | 3,847,388 | 3,567,209 | 280,179 | 7.85% | 3,521,850 |
| Other federal grants | 6,591,806 | 5,898,891 | 692,915 | 11.75% | 5,835,531 |
| Special project assistance - state grants | 1,124,795 | 777,813 | 346,982 | 44.61% | 469,226 |
| Special project assistance - local grants | 672,877 | 638,668 | 34,209 | 5.36% | 631,817 |
| Property tax revenues | 33,009,275 | 26,868,560 | 6,140,715 | 22.85% | 29,893,863 |
| Investment income | 221,905 | 127,470 | 94,435 | 74.08% | 271,233 |
| Advertising revenue | 439,557 | 395,847 | 43,710 | 11.04% | 247,725 |
| Fuel tax refunds | 610,910 | 560,059 | 50,851 | 9.08% | 580,860 |
| Other, net | 321,745 | 371,339 | (49,594) | (13.36%) | 109,777 |
| Total nonoperating revenues | 49,379,094 | 41,659,194 | 7,719,900 | 18.53% | 43,595,390 |
| Total operating and nonoperating revenues | 63,713,054 | 54,499,266 | 9,213,788 | 16.91% | 54,659,382 |
| Operating expenses: | | | | | |
| Operations | 32,524,451 | 30,351,762 | 2,172,689 | 7.16% | 30,500,001 |
| Purchased transportation | 5,043,284 | 5,600,078 | (556,794) | (9.94%) | 5,228,768 |
| Maintenance | 7,256,709 | 7,604,823 | (348,114) | (4.58%) | 6,791,680 |
| Administration and finance | 9,333,777 | 10,299,271 | (965,494) | (9.37%) | 10,980,462 |
| Marketing | 1,702,420 | 1,826,406 | (123,986) | (6.79%) | 1,750,723 |
| Total operating expenses | 55,860,641 | 55,682,340 | 178,301 | 0.32% | 55,251,634 |
| Depreciation | 7,694,806 | 8,156,263 | (461,457) | (5.66%) | 7,366,225 |
| Total operating expenses and depreciation | 63,555,447 | 63,838,603 | (283,156) | (0.44%) | 62,617,859 |
| Income (Loss) before capital grants | 157,607 | (9,339,337) | 9,496,944 | (101.69%) | (7,958,477) |
| Capital grants | 4,343,650 | 3,919,798 | 423,852 | 10.81% | 12,583,561 |
| Increase (decrease) in net position | 4,501,257 | (5,419,539) | 9,920,796 | (183.06%) | 4,625,084 |
| Net position, beginning of year | 109,515,889 | 114,935,428 | (5,419,539) | (4.72%) | 110,310,344 |
| Net position, end of year | $ 114,017,146 | $ 109,515,889 | 4,501,257 | 4.11% | $ 114,935,428 |

## CAPITAL ASSETS:

The Authority has invested $76.4 million in capital assets (net of accumulated depreciation). Approximately 49% of the investment represents revenue-generating equipment and 37% represents the building and improvements at the close of fiscal year September 30, 2012.

### Capital Assets, Net of Accumulated Depreciation

| | | | Percent of Total | | |
|---|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 | 2010 |
| Land | $ 6,961,677 | 6,961,677 | 9% | 9% | 6,961,677 |
| Buildings and improvements | 27,947,267 | 29,173,251 | 37% | 37% | 36,219,724 |
| Revenue equipment | 37,293,082 | 37,717,567 | 49% | 48% | 40,631,774 |
| Furniture and other equipment | 1,663,343 | 1,338,054 | 2% | 2% | 1,359,004 |
| Capital assets in progress | 2,546,239 | 2,979,871 | 3% | 4% | 3,366,748 |
| Total | $ 76,411,608 | 78,170,420 | 100% | 100% | 88,538,927 |

Two significant projects in fiscal year 2012 were the completion of Real Time Bus Project and the embarkation of the Concrete Replacement Project. Other related capital projects and capital asset acquisitions were the replacement of administrative vehicles, computer replacements and bus pads improvements.

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 Year's Budget and Rates:

The adopted fiscal year 2013 budget was based on a rate of 0.7305 mills which is unchanged from fiscal year 2012. The millage rate was increased by 30.4% to 0.7305 for fiscal year 2012.

## FY 2013 BUDGET

The PSTA Board approved the FY 2013 budget on September 12, 2012. The FY 2013 budget totaled $94,933,880 compared to the FY 2012 amended budget of $90,465,180 or $4,468,700 (4.9%) more than the FY 2012 budget. Operating budget totaled $60,578,410 and Capital budget totaled $34,355,470 in FY 2013. In FY 2013, operating revenues are estimated to grow 4.7%, consistent with growth in operating expenses. The FY 2013 millage remained at .7305 which will generate $32.1 million of property tax revenues in FY 2013.

The Authority also developed a multi-year budget covering FY 2013 through 2015 three-year forecast. With moderate revenue assumptions and controlled expenses, FY 2013 through 2015 is balanced using an estimated $9.0 million in reserves. The FY 2016 projected budget based on similar assumptions with an estimated deficit of $7.6 million that will require careful analysis and review for FY 2016 and future fiscal years.

In addition, the Authority developed a five-year Capital Improvement Program Budget covering FY 2013 through 2018 with available funding for capital acquisition vehicle and equipment.

**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, Florida 33716.

## PINELLAS SUNCOAST TRANSIT AUTHORITY

### Statements of Net Position

### September 30, 2012 and 2011

| | | 2012 | | 2011 |
|---|---|---|---|---|
| **Assets** | | | | |
| Current assets: | | | | |
| Cash and cash equivalents | $ | 40,540,643 | $ | 33,042,527 |
| Investments | | 378,252 | | 365,027 |
| Accounts receivable, net of allowance of $79,832 and $193,214 | | 1,700,113 | | 1,540,592 |
| Grants receivable | | 2,226,606 | | 2,018,979 |
| Inventories | | 1,175,155 | | 1,096,141 |
| Prepaid expenses | | 1,577,796 | | 2,260,116 |
| Total current assets | | 47,598,565 | | 40,323,382 |
| Capital assets: | | | | |
| Land | | 6,961,677 | | 6,961,677 |
| Buildings and improvements | | 42,025,163 | | 41,604,454 |
| Revenue equipment | | 77,002,510 | | 74,048,549 |
| Furniture and other equipment | | 7,765,218 | | 7,155,475 |
| Capital assets in progress | | 2,546,239 | | 2,979,871 |
| | | 136,300,807 | | 132,750,026 |
| Less accumulated depreciation | | 59,889,199 | | 54,579,606 |
| Total capital assets | | 76,411,608 | | 78,170,420 |
| Total assets | $ | 124,010,173 | $ | 118,493,802 |
| **Liabilities** | | | | |
| Current liabilities: | | | | |
| Accounts payable | $ | 2,877,148 | $ | 1,797,770 |
| Accrued expenses | | 7,100,879 | | 7,180,143 |
| Unearned revenue | | 15,000 | | - |
| Total current liabilities | | 9,993,027 | | 8,977,913 |
| **Net Position** | | | | |
| Invested in capital assets | | 76,411,608 | | 78,170,420 |
| Unrestricted | | 37,605,538 | | 31,345,469 |
| Total net position | $ | 114,017,146 | $ | 109,515,889 |

See accompanying notes to financial statements.

## PINELLAS SUNCOAST TRANSIT AUTHORITY

### Statements of Revenues, Expenses and Changes in Fund Net Position

### For the Years Ended September 30, 2012 and 2011

| | 2012 | 2011 |
|---|---|---|
| Operating revenues: | | |
| Passenger fares | $ 14,088,340 | $ 12,572,896 |
| Demand response | 245,620 | 267,176 |
| Total operating revenues | 14,333,960 | 12,840,072 |
| Operating expenses: | | |
| Operations | 32,524,451 | 30,351,762 |
| Purchased transportation | 5,043,284 | 5,600,078 |
| Maintenance | 7,256,709 | 7,604,823 |
| Administration and finance | 9,333,777 | 10,299,271 |
| Marketing | 1,702,420 | 1,826,406 |
| Total operating expenses, before depreciation | 55,860,641 | 55,682,340 |
| Operating loss before depreciation | (41,526,681) | (42,842,268) |
| Depreciation | 7,694,806 | 8,156,263 |
| Operating loss | (49,221,487) | (50,998,531) |
| Nonoperating revenues: | | |
| Federal maintenance assistance grants | 2,538,836 | 2,453,338 |
| State operating assistance grants | 3,847,388 | 3,567,209 |
| Other federal grants | 6,591,806 | 5,898,891 |
| Special project assistance – state grants | 1,124,795 | 777,813 |
| Special project assistance – local grants | 672,877 | 638,668 |
| Property tax revenues | 33,009,275 | 26,868,560 |
| Investment income | 221,905 | 127,470 |
| Advertising revenue | 439,557 | 395,847 |
| Fuel tax refunds | 610,910 | 560,059 |
| Other, net | 321,745 | 371,339 |
| Total nonoperating revenues | 49,379,094 | 41,659,194 |
| Income (loss) before capital grants | 157,607 | (9,339,337) |
| Capital grants | 4,343,650 | 3,919,798 |
| Increase (decrease) in net position | 4,501,257 | (5,419,539) |
| Net position, beginning of year | 109,515,889 | 114,935,428 |
| Net position, end of year | $ 114,017,146 | $ 109,515,889 |

See accompanying notes to financial statements.

**PINELLAS SUNCOAST TRANSIT AUTHORITY**

**Statements of Cash Flows**

**For the Years Ended September 30, 2012 and 2011**

| | 2012 | 2011 |
|---|---|---|
| Cash flows from operating activities: | | |
| Receipts from customers | $ 14,174,439 | $ 12,648,422 |
| Payments to suppliers | (20,662,498) | (20,765,432) |
| Payments to and on behalf of employees | (33,594,723) | (34,980,889) |
| Net cash used in operating activities | (40,082,782) | (43,097,899) |
| Cash flows from capital financing activities: | | |
| Purchases of capital assets | (5,935,994) | (3,887,881) |
| Capital grants | 4,343,650 | 3,919,798 |
| Proceeds from sale of capital assets | 68,122 | 67,086 |
| Litigation settlement | - | 6,100,000 |
| Net cash (used in) provided by capital financing activities | (1,524,222) | 6,199,003 |
| Cash flows from noncapital financing activities: | | |
| Property tax revenues | 33,009,275 | 26,868,560 |
| Operating and special project assistance grants | 14,568,075 | 12,385,222 |
| Other | 1,319,090 | 1,260,284 |
| Net cash provided by noncapital financing activities | 48,896,440 | 40,514,066 |
| Cash flows from investing activities: | | |
| Purchase, sale and maturities of investments, net | (13,225) | 64,513 |
| Investment income | 221,905 | 127,470 |
| Net cash provided by investing activities | 208,680 | 191,983 |
| Net increase in cash and cash equivalents | 7,498,116 | 3,807,153 |
| Cash and cash equivalents, beginning of year | 33,042,527 | 29,235,374 |
| Cash and cash equivalents, end of year | $ 40,540,643 | $ 33,042,527 |
| Reconciliation of operating loss to net cash used in operating activities: | | |
| Operating loss | $ (49,221,487) | $ (50,998,531) |
| Adjustments to reconcile operating loss to net cash used in operating activities: | | |
| Depreciation | 7,694,806 | 8,156,263 |
| Increase in accounts receivable | (159,521) | (191,650) |
| Increase in inventories | (79,014) | 92,811 |
| Decrease in prepaid expenses | 682,320 | 396,397 |
| Increase in accounts payable | 1,079,378 | 12,668 |
| Decrease in accrued expenses | (79,264) | (565,857) |
| Net cash used in operating activities | $ (40,082,782) | $ (43,097,899) |

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, Basis of Accounting and Financial Statement Presentation

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.

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. The requirements of this statement will improve financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their effects on a government’s net position. Deferred outlfows and deferred inflows are transactions that have occurred in the current or prior periods but are actually related to future periods, but are not assets or liabilities. This standard was adopted for fiscal year ended September 30, 2012.

### (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 at the date of purchase. Funds are held at the State Board of Administration of Florida (SBA) in their Florida PRIME account. The Florida PRIME (previously known as the Local Government Surplus Funds Investment Pool Trust Fund) is 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.

## (2) Summary of Significant Accounting Policies – Continued

### (b) Cash Equivalents and Investments – Continued

The Authority's investments are with the State Board of Administration of Florida (SBA). SBA investments consist of the Fund B Surplus Funds Trust Fund (Fund B), and Commingled Asset Management Programs, Money Market (CAMPMM). CAMPMM and Fund B are both a fluctuating net asset value (NAV) external investment pool. With a fluctuating NAV pool, the NAV approximates fair value.

### (c) 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, as applicable.

### (d) Grants Receivable

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

### (e) 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 or other parties reflect cost for contracts or services applicable to future accounting periods and are recorded as prepaid expenses.

### (f) 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 maintenance, repairs, and minor renewals are expensed as incurred. Contributed 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 |

## (2) Summary of Significant Accounting Policies – Continued

### (g) 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 have been earned but not paid, have been accrued in the accompanying financial statements.

### (h) Comparative Data/Reclassifications

Comparative total data for the prior year data have been presented in the financial statements in order to provide an understanding of the changes in net position and operations of these funds. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation. These reclassifications did not have an effect on total assets, total liabilities, or net position.

### (i) Net Position

Net Position is classified and displayed in three components (see Note 2 (a)):

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

**Restricted net position** – Consists of net position 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. There was no restricted net position at September 30, 2012 and 2011, respectively.

**Unrestricted net position** – All other components of net position 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 statements of revenues, expenses, and changes in net position. 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).

## (2) Summary of Significant Accounting Policies – Continued

### (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 depreciation, the reserve for workers' compensation, general liability claims, and post-employment benefits other than pensions. 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 non-operating 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 that is authorized to levy an ad valorem tax on the taxable real property in the transit area not to exceed 0.7500 mills. The approved ad valorem tax rates for fiscal years 2012 and 2011 were 0.7305 and 0.5601 mills, respectively.

Property tax collections are governed by Chapter 197, *Florida Statutes*. The Pinellas County Tax Collector bills and collects all property taxes levied within the county. Discounts are allowed for early payment of 4.0% in November, 3.0% in December, 2.0% in January, and 1.0% in February. If property taxes are not paid by April 1, the county adds a 3.0% penalty on real estate taxes and 1.5% 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 that 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.

## (2) Summary of Significant Accounting Policies – Continued

### (n) Property Tax Revenue - Continued

- **Property tax calendar:**

  January 1, 2011 – Property taxes are based on assessed property value at this date as determined by the Pinellas County Property Appraiser.

  July 1, 2011 – Property assessment roll and certificates of value provided to the Authority by the Pinellas County Property Appraiser.

  July 27, 2011 – Proposed millage rate is approved by the Board of Directors and provided to the Pinellas County Property Appraiser who mails notices to the taxpayers.

  September 14, 2011 – Property tax millage rate resolution approved by the Board of Directors.

  October 1, 2011 – Beginning of the year for which property taxes have been levied.

  November 1, 2011 – Property taxes are due and payable.

  April 1, 2012 – Unpaid property taxes become delinquent.

  June 1, 2012 – Tax certificates are sold by the Pinellas County Tax Collector.

## (3) Cash, Cash Equivalents, and Investments

At September 30, 2012 and 2011, the carrying value of the Authority's cash, cash equivalents, and investments was as follows:

| Type | 2012 | 2011 |
|---|---|---|
| Petty cash | $ 26,800 | 35,818 |
| Demand deposits | 1,869,720 | 6,847,905 |
| Florida PRIME | 38,644,123 | 26,158,804 |
| Total cash and cash equivalents | 40,540,643 | 33,042,527 |
| Investments: | | |
| CAMP MM | 37,914 | 35,206 |
| Fund B | 340,338 | 329,821 |
| Total investments | 378,252 | 365,027 |
| Total cash, cash equivalents and investments | $ 40,918,895 | 33,407,554 |

### (a) Custodial Credit Risk

At September 30, 2012 and 2011, 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 Florida PRIME under the management of the SBA.
- Up to 20% of the surplus funds in CAMPMM under the management of the SBA.
- 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, 2012 and 2011, the Authority's investments were with the SBA. SBA investments consist of the Florida PRIME, Fund B, and CAMPMM.

## (3) Cash, Cash Equivalents, and Investments - Continued

### (b) Credit Risk - Continued

The Authority invested funds throughout fiscal years 2012 and 2011 with Florida PRIME and the CAMPMM, which are administered by the SBA. Chapter 19-7 of the Florida Administrative Code provides guidance and establishes the general operating procedures for the administration of the funds, which are audited by the State of Florida Auditor General.

Florida PRIME is an external investment pool that is not a registrant with the Securities and Exchange Commission (SEC), but does operate in a manner consistent with the SEC's Rule 2a-7 of the Investment Company Act of 1940. Rule 2a-7 allows funds to use amortized cost to maintain a constant NAV of $1.00 per share. Accordingly, the Authority's investment in Florida PRIME is reported at the account balance, which is considered fair value. The fund is rated "AAAm" by Standard and Poor's.

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, 2012 and 2011, the fair value factor was 94.9% and 75.7%, respectively. Fund B is not rated by a nationally recognized statistical rating agency.

The CAMPMM invests in short-term, high-quality money market instruments issued by financial institutions, nonfinancial corporations, the U.S. government, and federal agencies. Changes in interest rates will cause volatility in the net asset value of the portfolio.

The investments as defined in Note 3 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 include $127,415 and $74,056 of interest income on cash and cash equivalents and $6,826 and ($1,360) in unrealized gain (loss) in the net asset value of CAMPMM, plus an unrealized gain of $87,665 and $54,774 in the net asset value of Fund B for the years ended September 30, 2012 and 2011, respectively.

### (c) Interest Rate Risk

The weighted average days to maturity (WAM) of the Florida PRIME at September 30, 2012 and 2011 were 39 and 38 days, respectively. Next interest rate reset dates for floating rate securities are used in the calculation of the WAM.

### (d) Concentration of Credit Risk

The Authority places no limit on the amount the Authority may invest in any one issuer. The Authority had $39,022,375 and $26,523,831 with the SBA at September 30, 2012 and 2011, respectively, or 95% and 79% of its cash, cash equivalents, and investments.

## (4) Capital Assets

Capital asset activity for the years ended September 30, 2012 and 2011 were as follows:

| | | October 1, 2011 | Additions | Transfers, disposals and impairments | September 30, 2012 |
|---|---|---|---|---|---|
| Nondepreciable assets: | | | | | |
| Land | $ | 6,961,677 | - | - | 6,961,677 |
| Capital assets in progress | | 2,979,871 | 4,950,621 | 5,384,253 | 2,546,239 |
| Total nondepreciable assets | | 9,941,548 | 4,950,621 | 5,384,253 | 9,507,916 |
| Depreciable assets: | | | | | |
| Buildings and improvements | | 41,604,454 | 420,709 | - | 42,025,163 |
| Revenue equipment | | 74,048,549 | 5,205,187 | 2,251,226 | 77,002,510 |
| Furniture and other equipment | | 7,155,475 | 743,730 | 133,987 | 7,765,218 |
| Total depreciable assets | | 122,808,478 | 6,369,626 | 2,385,213 | 126,792,891 |
| Total at historical cost | | 132,750,026 | 11,320,247 | 7,769,466 | 136,300,807 |
| Less accumulated depreciation for: | | | | | |
| Buildings and improvements | | 12,431,203 | 1,646,693 | - | 14,077,896 |
| Revenue equipment | | 36,330,982 | 5,629,672 | 2,251,226 | 39,709,428 |
| Furniture and other equipment | | 5,817,421 | 418,441 | 133,987 | 6,101,875 |
| | | 54,579,606 | 7,694,806 | 2,385,213 | 59,889,199 |
| Capital assets, net | $ | 78,170,420 | 3,625,441 | 5,384,253 | 76,411,608 |

## (4) Capital Assets - Continued

| | | October 1, 2010 | Additions | Transfers, disposals and impairments | September 30, 2011 |
|---|---|---|---|---|---|
| Nondepreciable assets: | | | | | |
| Land | $ | 6,961,677 | - | - | 6,961,677 |
| Capital assets in progress | | 3,366,748 | 1,903,749 | 2,290,626 | 2,979,871 |
| Total nondepreciable assets | | 10,328,425 | 1,903,749 | 2,290,626 | 9,941,548 |
| Depreciable assets: | | | | | |
| Buildings and improvements | | 46,829,582 | 876,401 | 6,101,529 | 41,604,454 |
| Revenue equipment | | 76,064,828 | 2,858,278 | 4,874,557 | 74,048,549 |
| Furniture and other equipment | | 6,838,513 | 540,079 | 223,117 | 7,155,475 |
| Total depreciable assets | | 129,732,923 | 4,274,758 | 11,199,203 | 122,808,478 |
| Total at historical cost | | 140,061,348 | 6,178,507 | 13,489,829 | 132,750,026 |
| Less accumulated depreciation for: | | | | | |
| Buildings and improvements | | 10,609,858 | 1,822,797 | 1,452 | 12,431,203 |
| Revenue equipment | | 35,433,054 | 5,772,485 | 4,874,557 | 36,330,982 |
| Furniture and other equipment | | 5,479,509 | 560,979 | 223,067 | 5,817,421 |
| | | 51,522,421 | 8,156,261 | 5,099,076 | 54,579,606 |
| Capital assets, net | $ | 88,538,927 | (1,977,754) | 8,390,753 | 78,170,420 |

See Note 10 related to asset impairment.

## (5) Board-Designated Net Position

Unrestricted net position includes reserves that have been designated by the Board of Directors. The Board's designated net position at September 30, 2012 and 2011 consists of the following:

| | | 2012 | 2011 |
|---|---|---|---|
| Catastrophic event claims | $ | 3,591,975 | 4,008,000 |
| Operating reserves | | 10,096,402 | 9,558,979 |
| Capital asset replacement and other projects | | 23,917,161 | 17,778,490 |
| | $ | 37,605,538 | 31,345,469 |

## (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 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, 2010 | $ | 1,311,000 | 2,483,000 |
| Current year claims incurred and changes in prior year estimates | | 715,524 | 1,213,734 |
| Claim payments | | (787,524) | (927,734) |
| Claims reserve - September 30, 2011 | | 1,239,000 | 2,769,000 |
| Current year claims incurred and changes in prior year estimates | | 307,351 | 231,619 |
| Claim payments | | (593,302) | (361,693) |
| Claims reserve - September 30, 2012 | $ | 953,049 | 2,638,926 |

## (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).

## (7) Retirement Plan - Continued

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 who were hired before July 1, 2011, 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. Employees who were hired on or after July 1, 2011, in the Pension Plan are vested with eight years of service and once vested are eligible to retire upon reaching the age of 65 or with the completion of 33 years of service. Retirement benefits for the Pension Plan are based upon age, years of service credit, and for members initially enrolled before July 1, 2011, the average compensation of an individual's five highest years of earnings; for members initially enrolled on or after July 1, 2011, the average compensation of an individual's eight highest years of earnings.

Employees in the Investment Plan are vested after one year of service with no age or service requirement to be eligible for retirement. The FRS Investment Plan is a defined contribution plan, in which employers and employees contributions are defined by law, but the ultimate benefit depends in part on the performance of the investment funds. The FRS Investment Plan is funded by employer and employee contributions that are based on employee salary and FRS membership class (Regular Class, Special Risk Class, etc.). The Investment Plan directs contributions to individual member accounts and allocates contributions and account balance among various investment funds. The Investment Plan retirement benefit is the value of the employee account at termination. Unlike the Pension Plan, there is no fixed benefit level at retirement. However, a guaranteed lifetime cost of living payment option (based on the benefit to be distributed) can be purchased and is available with annual 3% cost of living increases, like the Pension Plan.

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.

## (7) Retirement Plan - Continued

The Authority is required to contribute to FRS at an actuarially determined rate. The rate was 10.77% of covered payroll from October 2010 through June 2011, with the exception of DROP participants whose rate was 12.25%. The rate was 4.91% of covered payroll from July 2011 to September 30, 2011, with the exception of DROP participants whose rate was 4.42% for that period. The rate was 4.91% of covered payroll from October 2011 through June 2012, with the exception of DROP participants whose rate was 4.42%. The rate was 5.18% of covered payroll from July 2012 to September 30, 2012, with the exception of DROP participants whose rate was 5.44% for that period. In addition starting in July 2011 employees not in the DROP program were required to contribute 3% of their covered wages; there was no employee contribution for those in the DROP program. 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 ended September 30, 2012, 2011, and 2010 were $1,237,779, $2,337,707, and $2,473,801 respectively, and were equal to the required contributions for each year. The employee's contributions were withheld by PSTA and paid on their behalf in the amount of $710,406, and $186,079 for fiscal years 2012 and 2011, respectively.

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 Pensions (OPEB)

The Authority has adopted the provisions of Government Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* (GASB 45). The Authority provides postretirement healthcare benefits in accordance with *Florida Statutes* to all employees who retire from the employ of the Authority. The retiree pays 100% of the premium cost (rate) for the retiree to participate in the Authority's insurance program. These rates provide an implicit rate subsidy for retirees because, on an actuarial basis, their current and future claims are expected to result in higher costs to the plan on average than those of active employees. The difference in the rate a retiree would pay if in a plan separate from active employees is considered the rate differential. GASB 45 requires the Authority to accrue the cost of the rate differential and OPEB during the period the cost (annual OPEB cost) and future obligations related to those benefits are earned by the employee (net OPEB obligation). GASB 45 also requires the Authority to disclose the unfunded actuarial accrued liability in order to accurately account for the total future cost of OPEB and the financial impact to the Authority.

### (a) Plan Description

The authority administers an employer defined benefit healthcare plan which provides medical insurance benefits to its employees and their eligible dependents. In accordance with Section 112.0801 of the Florida Statutes, because the Authority provides a medical plan to active employees of the Authority and their eligible dependents, the Authority is also required to provide retirees with the opportunity to participate in the plan. Retirees and their dependents are charged the full premium for coverage through the Plan. Retiree's and retiree and spouse's monthly premiums for the plan are $717 and $1,097, respectively.

## (8) Postemployment Benefits Other Than Pensions (OPEB) - Continued

### (a) Plan Description - Continued

To be eligible to receive retiree medical benefits, participants must be eligible for normal retirement benefits under the FRS and pay the required contributions. The requirements for eligibility for benefits are age 62 with 6 years of service, or 30 years of service with no age requirement for persons hired before July 1, 2011. The requirements for eligibility for benefits are age 65 with 8 years of service, or 33 years of service with no age requirement for persons hired on or after July 1, 2011.

The benefits are provided through the United Healthcare Choice Florida Plan and provide hospital, medical, and prescription coverage.

### (b) Funding Policy

Contribution rates for the Plan are established on an annual basis by the Board of Directors. Eligible retirees and their covered dependents receiving benefits contribute 100% of their premium cost for the plan. The postretirement hospital, medical, and prescription coverage are currently funded on a cash basis (pay-as-you-go) as benefits are paid. No assets have been segregated and restricted to provide postretirement benefits.

### (c) Annual OPEB Cost and Net OPEB Obligation

The Authority's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial accrued liabilities (UAAL) over a period not to exceed 30 years.

## (8) Postemployment Benefits Other Than Pensions (OPEB) - Continued

### (c) Annual OPEB Cost and Net OPEB Obligation

The Authority's annual OPEB cost for fiscal years 2012 and 2011 and the related information for the plan are as follows:

| | 2012 | 2011 |
|---|---|---|
| Annual required contribution | $ 342,228 | $ 338,747 |
| Interest on net OPEB obligation | 29,624 | 21,613 |
| Adjustment to annual required contribution | (43,635) | (30,046) |
| Annual OPEB cost | 328,217 | 330,314 |
| Contributions made | (215,402) | (130,044) |
| Increase in net OPEB obligation | 112,815 | 200,270 |
| Net OPEB obligation - beginning of year | 740,600 | 540,330 |
| Net OPEB obligation - end of year | $ 853,415 | $ 740,600 |

The Authority's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal years 2012, 2011 and 2010 are as follows:

| Fiscal year ended | Annual OPEB cost | Percentage of annual OPEB cost contributed | Net OPEB obligation |
|---|---|---|---|
| September 30, 2012 | $ 328,217 | 65.6% | $ 853,415 |
| September 30, 2011 | 330,314 | 39.4% | 740,600 |
| September 30, 2010 | 357,366 | 22.8% | 540,330 |

## (8) Postemployment Benefits Other Than Pensions (OPEB) - Continued

### (d) Funded Status and Funding Progress

As of September 30, 2012 and 2011, actuarial accrued liability for benefits were $2,623,118 and $2,244,923, and the actuarial value of assets was zero, resulting in an unfunded actuarial accrued liability (UAAL) of $2,623,118 and $2,244,923, respectively.

This actuarial valuation involves estimates of the value of reported amounts and assumptions about the probability of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to constant revisions as actual experience is compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial liabilities for benefits.

Calculations are based upon the types of benefits provided under the terms of the plan at the time of the valuation and on the pattern of sharing of costs between the employer and plan members to that point. Calculations reflect a long-term prospective, so methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

### (e) Actuarial Methods and Assumptions

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Examples include assumptions made relative to rate of expected investment earnings by the fund, rates of mortality among active and retired employees, rates of termination from employment, and retirement rates. Amounts determined regarding the funded status of the Plan and the ARC by the Authority are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The required schedule of funding progress presented as required supplementary information provides multi-year trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the AAL for benefits.

Projection of benefits is based on the substantive plan (the Plan as understood by the employer and plan members) and includes the types of benefits in force at the valuation date and the pattern of sharing benefit costs between the Authority and the plan members to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in AALs and the actuarial value of assets. The actuarial cost method used on the valuation to determine the AAL and ARC was the unit credit actuarial cost (unit credit) method.

## (8) Postemployment Benefits Other Than Pensions (OPEB) - Continued

### (e) Actuarial Methods and Assumptions - Continued

In the current valuation, the actuarial assumptions used for the calculation of costs and liabilities include a discount rate of 4% per annum compounded annually, preretirement and postretirement mortality rates using the Sex-Distinct RP-2000 Generational Mortality Table and withdrawal rates, retirement rates, disability rates, marriage assumption, medical cost trend rate, participation, retiree claim costs, and administrative costs included in claims.

## (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) Fuel Contract Commitment

The Authority periodically enters into fuel purchase contracts to help mitigate against the possibility of fluctuating fuel prices throughout the year. At September 30, 2012, the Authority has committed to buy approximately $6.1 million in fuel over the next 12 months. The Authority has not yet entered into a fuel contract commitment for the months of February and April 2013.

### (d) Construction and Service Contract Commitments

The Authority has active construction projects as of September 30, 2012. The major projects and contracts include; Scherer Drive concrete replacement, revenue room addition, messaging and branding, Pinellas County bus plan, and real time bus information.

## (9) Commitments and Contingencies - Continued

### (d) Construction and Service Contract Commitments - Continued

The Scherer Drive concrete project is funded with capital grants and PSTA funding. The remaining projects are all funded with capital grants. At year-end the Authority's commitments with contractors are as follows:

| Project / Contracts | | Spent to Date | | Remaining Commitment |
|---|---|---|---|---|
| Scherer Drive Concrete Replacement | $ | 478,964 | $ | 8,584,406 |
| Messaging and Branding | | 118,060 | | 181,940 |
| Pinellas County Bus Plan | | 51,814 | | 648,186 |
| Real Time Bus Information | | 5,178,837 | | 665,399 |
| Total | $ | 5,827,675 | $ | 10,079,931 |

## (10) Pollution Remediation Liability and Asset Impairment and Related Settlement

### (a) Pollution Remediation

In 2005 the Authority sold one of its facilities to a private party. The Authority was notified in fiscal year 2012 of a demand for remediation cost associated with petroleum contamination. As of September 30, 2012 little information is known as to the liability or damages at this time.

### (b) Asset Impairment and Related Settlement

On August 24, 2011 the PSTA Board executed a settlement agreement to resolve the 2005 construction claim related to deficient concrete at the PSTA Administration and Maintenance Facility. The settlement is for $6.1 million related to the engineering, design and construction of the concrete surrounding the facility. Based on the settlement agreement and the estimated cost to repair and restore the concrete, it was determined during the year that the capital asset (concrete) was impaired by approximately $6.1 million. As such, the related capital assets have been reduced by $6.1 million for the year ended September 30, 2011. Since the settlement monies were received during the same year the amount of impairment was determined, the amount of $6.1 million was netted with the impairment loss in accordance with GASB statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*.

Payment from the settlement agreement was received during the year ended September 30, 2011. The concrete replacement project is in progress with an estimated 5% completion as of September 30, 2012.

## PINELLAS SUNCOAST TRANSIT AUTHORITY

### Other Postemployment Benefits

### Required Supplementary Information

### September 30, 2012 and 2011
### (Unaudited)

The schedule of funding progress for the last three years is as follows:

| Actuarial valuation date | Actuarial value of assets (a) | AAL (b) | UAAL (b-a) | Funded ratio (a/b) | Estimated covered (c) | UAAL as percentage of covered payroll ([b-a}/c) |
|---|---|---|---|---|---|---|
| October 1, 2011 | $ - | 2,623,118 | 2,623,118 | 0% | N/A | N/A |
| October 1, 2010 | - | 2,244,923 | 2,244,923 | 0% | N/A | N/A |
| October 1, 2009 | - | 2,177,517 | 2,177,517 | 0% | N/A | N/A |

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**Independent Auditors' 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, 2012, and have issued our report thereon dated February 27, 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 Authority is responsible for establishing and maintaining effective 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting 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. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified a deficiency in internal controls over financial reporting that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as Finding 2012-01 to be a material weakness.

**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 other matters that we reported to management of the Authority in a separate letter dated February 27, 2013.

The Authority'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 Authority's response 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.

Mayer Hoffman McCann P.C.

February 27, 2013
Clearwater, Florida

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**Independent Auditors' Report 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 *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 could have a direct and material effect on each of the Authority's major federal programs and state financial assistance projects for the year ended September 30, 2012. The Authority's major federal programs and state financial assistance projects are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. 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 Florida 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 of the Authority's compliance with those requirements.

In our opinion, the Authority complied, in all material respects, with the 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.

**Internal Control Over Compliance**

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 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, 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.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies or material weaknesses have been identified. However, as discussed below, we identified a deficiency in internal control over compliance that we consider to be a material weakness.

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 or state financial assistance project 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 or state financial assistance project will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as Finding 2012-01 to be a material weakness.

The Authority's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the Authority's response, and accordingly, we express no opinion on the response.

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.

Mayer Hoffman McCann P.C.

February 27, 2013
Clearwater, Florida

# PINELLAS SUNCOAST TRANSIT AUTHORITY

## Schedule of Expenditures of Federal Awards and State Financial Assistance

## Year Ended September 30, 2012

| Federal or state grantor/pass-through grantor/program title | CFDA/CSFA number | Grant or contract number | Expenditures | Subrecipient |
|---|---|---|---|---|
| U.S. Department of Transportation: | | | | |
| Direct program: | | | | |
| Federal Transit Capital Investments Grant | 20.500 | FL 17-0001 | $ 814,092 | - |
| Federal Transit Formula Grant | 20.507 | FL 90-0783 | 75 | - |
| Federal Transit Formula Grant | 20.507 | FL 90-0758 | 7,324,316 | - |
| Federal Transit Formula Grant | 20.507 | FL 90-0648 | 169,776 | - |
| Federal Transit Formula Grant | 20.507 | FL 90-0689 | 834,737 | - |
| Federal Transit Formula Grant | 20.507 | FL 90-0723 | 703,797 | - |
| | | | 9,846,793 | - |
| American Recovery and Reinvestment Act of 2009 | | | | |
| Federal Transit Formula Grant | ARRA20.507 | FL 96-X004 | 3,243,983 | - |
| Passed through Pinellas County Metropolitan Planning Organization: | | | | |
| Federal Transit Formula Grant | 20.505 | WPI7816685 | 80,000 | - |
| New Freedom - Mobility Management | 20.521 | FL57-X009-04 | 86,848 | - |
| Total U.S. Department of Transportation | | | 13,257,624 | - |
| U.S. Department of Homeland Security: | | | | |
| Passed through Federal Emergency Management Agency | | | | |
| Transit Security Grant Program | 97.075 | 2010-RA-TO-0030 | 36,805 | - |
| U.S. Department of Homeland Security: | | | | |
| Passed through State of Florida, Division of Emergency Management: | | | | |
| Division of Emergency Management | 97.075 | 08DS-83-13-00-20-384 | 104,111 | - |
| Division of Emergency Management | 97.075 | 10DS-43-08-62-20-199 | 75,358 | - |
| Division of Emergency Management | 97.075 | 10DS-52-13-00-20-251 | 394 | - |
| Total U.S. Department of Homeland Security: | | | 216,668 | - |
| Total expenditures of federal awards | | | $ 13,474,292 | - |
| Florida Department of Transportation: | | | | |
| Direct programs: | | | | |
| Public Transit Block Grant Program | 55.010 | 402513-1-84-11 | $ 3,847,388 | - |
| Commission of Transportation Disadvantaged | | | | |
| Trip & Equipment | 55.001 | AQP31 | 496,128 | - |
| Public Transit Service Department Program (Route 35) | 55.012 | 428051-1-84-01 | 164,588 | - |
| Public Transit Service Department Program (Jolley Trolley) | 55.012 | 428051-1-84-01 | 91,238 | - |
| Transit Corridor Program (Route 100X) | 55.013 | 410695-1-84-11 | 167,000 | - |
| Transit Corridor Program (Route 300X) | 55.013 | 418695-1-84-07 | 190,000 | - |
| Total program | | | 357,000 | - |
| Maintenance Training Grant | 55.020 | 418671-2-93-02 | 15,841 | - |
| Total expenditures of state financial assistance | | | $ 4,972,183 | - |

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

## (1) 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 U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and Chapter 10.550 of the *Rules of Florida Auditor General*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

## (2) Capital Assets

Approximately $6.2 million in capital assets was purchased using federal grant awards during the fiscal year ending September 30, 2012. These amounts have been capitalized for financial statement purposes and reflected as Capital Assets on the Statement of Net Position.

## Section I – Summary of Auditors' Results

### *Financial Statement Section*

| | | |
|---|---|---|
| Type of auditors' report issued: | Unqualified | |
| Internal control over financial reporting: | | |
| • Material weakness(es) identified? | __X__ Yes | _____ 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 and State Projects Section*

| | | |
|---|---|---|
| Internal control over major programs: | | |
| • Material weakness(es) identified? | __X__ Yes | _____ 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 | |



(Continued)

**Section I – Summary of Auditors' Results (continued)**

***Federal Awards and State Projects Section (continued)***

| | | |
|---|---|---|
| Any audit findings disclosed that are required to be reported in accordance with Section 510(a) Circular A-133 and/or Chapter 10.550? | _____ Yes | X No |

Identification of major federal programs and state projects:

| Federal Programs | CFDA number |
|---|---|
| U.S. Department of Transportation: | |
| Federal Transit Cluster – ARRA | 20.500/20.507 |

| State Programs | CSFA number |
|---|---|
| Florida Department of Transportation: | |
| Public Transit Block Grant Program | 55.010 |
| Commission of Transportation Disadvantaged | 55.001 |
| Transit Corridor Program | 55.013 |

The threshold for distinguishing Type A programs was $404,229 for federal programs and $300,000 for state projects.

| | | |
|---|---|---|
| • Auditee qualified as low-risk auditee? | X Yes | _____ No |

**Section II – Financial Statement Findings**

This section identifies the significant deficiencies, material weaknesses, fraud, illegal acts, violations of provisions of contracts and grant agreements, and abuse related to the financial statements that are required to be reported in accordance with *Government Auditing Standards*.

**Finding 2012-01: Grant reconciliation, Schedule of Federal Expenditures and State Financial Assistance (SEFA) report and year-end cut off.**

**Observation:** During the year-end audit procedures, it was noted that certain grant programs were not fully reconciled with the general ledger balances. In addition, during our cutoff testing of accounts payable and accrued expenses, we found invoices that were not reported in the proper period that effected grant expenditures. Finally, we found one grant that had been recorded as passenger fare revenue rather than grant revenue. As a result, there were several audit adjustments made to properly record this activity. Due to these journal entries the preliminary SEFA report was not correct.

**Recommendation:** We recommend the Authority review the controls in place over the reconciliation and tracking process related to all grants. There should also be a designated process in place to ensure all new grants are identified and properly included as grant revenue and identified during the preparation of the SEFA at year end.

**Section II – Financial Statement Findings - Continued**

**Authority's Response:**

The Finance Director has reviewed the findings and will address the Auditor's recommendations. All general ledger accounts assets, liabilities, revenues and expenses will be reconciled monthly, and reviewed and approved by management staff in the Finance Department. The year-end closing will be monitored very closely to ensure that the accounts payable transactions are recorded in the appropriate accounting period.

Several changes in staffing and accounting procedures were made during FY 2012, however, additional procedures will be implemented in FY 2013.

A reconciliation of all grants will be conducted during the fiscal year to identify all grant revenues and expenses.

**Section III – Federal and State Award Findings and Questioned Costs**

This section identifies the significant deficiencies, material weaknesses, and material instances of noncompliance, including questioned costs, as well as any material abuse findings, related to the audit of major federal programs or state projects.

**Finding 2012-01: Grant reconciliation, Schedule of Federal Expenditures and State Financial Assistance (SEFA) report and year-end cut off.**

See detail of finding noted above in Section II.

## Summary of Prior Year Audit Findings

### Finding 2011-01: Financial Reporting and Year End Close

This finding was substantially resolved during the current year other than in relation to grants. See Finding 2012-01 above.

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## 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, 2012 and have issued our report thereon dated February 27, 2013.

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 U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and Chapter 10.550, *Rules of the Florida Auditor General*. We have issued our Independent Auditors' 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*; Independent Auditors' Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Federal Program and State Project and on Internal Control Over Compliance in Accordance with OMB Circular A-133 and *Rules of the Florida Auditor General*, Chapter 10.550; and the related Schedule of Findings and Questioned Costs. Disclosures in those reports and schedule, which are dated February 27, 2013, should be considered in conjunction with this management letter.

Additionally, our audit was conducted in accordance with Chapter 10.550, *Rules of the Auditor General* which governs the conduct of local governmental entity audits performed in the State of Florida. This letter includes the following information, which is not included in the aforementioned auditors' reports 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 findings and recommendations made in the preceding annual financial audit report. Corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report as noted under the heading Summary of Prior Year Audit Findings in the Schedule of Findings and Questioned Costs and in Exhibit B to this management letter.

- Section 10.554(1)(i)(2), *Rules of the Auditor General*, requires our audit include a review of the provisions of 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*.

- 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. In connection with our audit, such recommendations are disclosed in Exhibit A of this management letter.

- Section 10.554(1)(i)(4), *Rules of the Auditor General*, requires that we address violations of provisions of contracts or grant agreements, or abuse that may have occurred or are likely to have occurred, 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 the 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, such matters are disclosed in Exhibit A of this Management Letter.

- Section 10.554(1)(i)(6), *Rules of the Auditor General*, 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. This information has been disclosed in the notes to the financial statements.

- 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 Authority 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 Authority 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.

- Pursuant to Sections 10.554(1)(i)(7)(c) and 10.556(7), *Rules of the Auditor General*, 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 the financial information provided by same.

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

Mayer Hoffman McCann P.C.

February 27, 2013
Clearwater, Florida

**PINELLAS SUNCOAST TRANSIT AUTHORITY**

Current Year Recommendations

Year Ended September 30, 2012

***Other Recommendation***

**2012-02: Employee User Access**

**Observation:** During the current year, we noted that an active user access report was provided to the department supervisors as recommended in the prior year. However, during the current year testing of the information systems controls, there were four terminated employees who had active user access to Authority systems. For these four terminated employees, notification was not provided to the information technology department to identify these employees as terminated to initiate procedures to deactivate the user access. Additionally, of the four terminated employees with active user access, one terminated employee was included on the report distributed to departmental supervisors for review. The reviewer of the report failed to recognize that the employee had been terminated and should no longer have user access rights.

**Recommendation:** We recommend the human resources department communicate immediately with the information technology department to inform them of any employee terminations. Removal of terminated employee access to Authority systems on a timely basis is critical to maintain proper safeguards of the Authority's documents and information. Additionally, we recommend management review the employee's user access at a minimum on an annual basis to confirm user access in each department is appropriate based on the employees job description. This review and approval should be documented and provided to the Systems Manager.

**Authority's Response:**

Staff concurs with the auditor in that the user accesses verifications were not adequately documented. Corrective action has been taken to ensure that the user access will be confirmed annually with each department with management's approval and documented.

**Exhibit B**

**PINELLAS SUNCOAST TRANSIT AUTHORITY**

Summary of Prior Year Recommendations

Year Ended September 30, 2012

**2011-02: Employee User Access Approval**

It is the Authority's policy to provide departmental supervisors with an employee user access listing for all employees in their department on an annual basis. The departmental supervisors then review the access for accuracy based on the employee's job description. During our testing of information system controls, we noted this procedure had not been performed during the year ended September 30, 2011.

We recommend that management review their employee's user access at a minimum on an annual basis to confirm user access in each department is appropriate based on employee job description and unauthorized access is properly enforced based on management approval. This review and approval should be documented and provided to the Systems Manager.

**Status – During the September 30, 2012 audit, we noted this control was fully implemented.**