

LAKELAND AREA MASS TRANSIT DISTRICT

FINANCIAL STATEMENTS
September 30, 2013 and 2012

LAKELAND AREA MASS TRANSIT DISTRICT

Lakeland, Florida

FINANCIAL STATEMENTS
September 30, 2013 and 2012

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Lakeland Area Mass Transit District
Lakeland, Florida

Report on the Financial Statements

We have audited the accompanying financial statements of the Lakeland Area Mass Transit District (the District), as of and for the years ended September 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

(Continued)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the District, as of September 30, 2013 and 2012, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, in June 2011, the GASB issued GASB Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position". Statement 63 is effective for the District's fiscal year ending September 30, 2013. This Statement provides a new statement of net position format to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position (which is the net residual amount of the other elements). This Statement requires that deferred outflows of resources and deferred inflows of resources be reported separately from assets and liabilities. This Statement also amends certain provisions of GASB Statement No. 34, "Basic Financial Statements -- and Management's Discussion and Analysis -- for State and Local Governments," and related pronouncements to reflect the residual measure in the statement of financial position as net position, rather than net assets. Our opinion is not modified with respect to this matter.

As discussed in Note 1 to the financial statements, in March 2012, the GASB issued GASB Statement 65, "Items Previously Reported as Assets and Liabilities." The provisions of this Statement are effective for the District's fiscal year ended September 30, 2014, with earlier application being encouraged. The District has implemented this Statement retroactively as of October 1, 2011. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term deferred in financial statement presentations. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

(Continued)

Report on Other Legal and Regulatory Requirements

In accordance with Government Auditing Standards, we have also issued our report dated June 30, 2014 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the District's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Crowe Horwath LLP". The signature is written in a cursive, flowing style.

Crowe Horwath LLP

Lakeland, Florida
June 30, 2014

LAKELAND AREA MASS TRANSIT DISTRICT
MANAGEMENTS'S DISCUSSION AND ANALYSIS
September 30, 2013 and 2012

The Lakeland Area Mass Transit District's ("The District") Management Discussion and Analysis (MD&A) provides a financial performance review that is designed to focus on the financial activities, resulting changes, and currently known facts for the fiscal year ended on September 30, 2013. Please read it in conjunction with the accompanying presented financial statements.

Financial Highlights

- The District is a special taxing district created by Polk County and City of Lakeland ordinances with a taxing authority approved through voter referendum. Operation of transit services began in 1982, and has been expanded from its original boundaries several times by voter referendum.
- The District currently operates 13 Fixed Routes, or Regular Routes, Monday through Saturday. Prior to July 25, 2011, the District operated 22 Fixed Routes. The decrease in the number of routes operated was the result of a system-wide restructuring. Additionally, the District decreased the maximum number of Fixed Route buses being operated in simultaneous service from 24 to 20.
- The District operates 13 Handy Buses, or Demand Response buses, Monday through Friday, and five buses on Saturday. There were no significant changes made to this service during 2013.
- There is an interlocal agreement between the City of Winter Haven and the Polk County Board of County Commissioners to operate the Winter Haven Area Transit ("WHAT") service. The District has a contract with Polk County to operate fixed route buses for this service. No significant changes were made to the Winter Haven Area Transit service levels in fiscal 2013.
- The District entered into an agreement with the Polk Transit Authority ("Authority") in fiscal 2011 to operate one (1) fixed-route within the WHAT service area. This service was funded by a Section 5317 Job Access and Reverse Commute that was awarded to the Authority. This service continued in fiscal 2013.
- The current Fixed-Route bus fare is structured as follows:
 - Adults \$1.50
 - Students \$1.25
 - Senior citizens \$.75
 - Handicapped \$.75
 - Children who are under age seven (7) and who are accompanied by an adult ride free.
 - Transfers are issued at no charge to complete a one-way trip

Prior to May, 2012, the fare structure was:

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

(Continued)

LAKELAND AREA MASS TRANSIT DISTRICT
MANAGEMENTS'S DISCUSSION AND ANALYSIS
September 30, 2013 and 2012

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

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

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

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

Required Financial Statements

The financial statements of the District offer short and long-term financial information about its activities. The statements of net position includes all of the District's assets and liabilities, which provides information about the nature and amounts of investments in resources (assets) and obligations to creditors (liabilities). The assets and liabilities are presented in a classified format, which distinguishes between current and long-term assets and liabilities. It also provides the basis for computing rate of return, evaluating the capital structure of the District and assessing the liquidity and financial flexibility.

All of the current year's revenues and expenses are accounted for in the statement of revenues, expenses, and changes in net position. This statement measures the performance of the District's operations over the past year and can be used to determine whether the District has successfully recovered all its costs through its activities, as well as its profitability and efficiency in providing services.

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

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

The final required financial statement is the statements of cash flows. The primary purpose of this statement is to provide information about the District's cash receipts and cash payments during the fiscal year. The statements report cash receipts, cash payments and net changes in cash resulting from operating, investing, non-capital financing activities, and capital and related financial activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

(Continued)

LAKELAND AREA MASS TRANSIT DISTRICT
MANAGEMENTS'S DISCUSSION AND ANALYSIS
September 30, 2013 and 2012

Financial Analysis of the District

Net Position (Balance Sheet)

Table A - 1
Summary of Net Position (Balance Sheet)

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Current assets	\$ 6,409,161	\$ 5,893,782	\$ 5,211,981
Designated assets	379,989	1,240,843	1,370,964
Noncurrent assets:			
Capital assets, net	7,272,697	7,721,787	6,517,615
Land	<u>1,902,250</u>	<u>1,902,250</u>	<u>1,902,250</u>
Total assets	<u>15,964,097</u>	<u>16,758,662</u>	<u>15,002,810</u>
Current liabilities	890,684	1,771,209	459,198
Noncurrent liabilities	<u>270,233</u>	<u>276,324</u>	<u>250,244</u>
Total liabilities	<u>1,160,917</u>	<u>2,047,533</u>	<u>709,441</u>
Net position:			
Invested in capital assets	9,174,947	9,624,038	8,419,865
Restricted for capital improvements	1,000	1,000	1,000
Unrestricted	<u>5,627,233</u>	<u>5,086,095</u>	<u>5,872,504</u>
Total net position	<u>\$ 14,803,180</u>	<u>\$ 14,711,133</u>	<u>\$ 14,293,369</u>

Our analysis of the District begins with the statement of net position.

One of the most important questions to ask about the District's finances is, "Is the District as a whole better off or worse off as a result of the year's activities?" Based on the increase in net position of approximately \$92,000, it is reasonable to conclude that the District is better off as a result of the year's activities.

Capital Assets

Capital assets decreased \$449,090 due to addition of \$1,176,239; depreciation of \$1,360,981 and deletions of \$264,347.

(Continued)

LAKELAND AREA MASS TRANSIT DISTRICT
MANAGEMENTS'S DISCUSSION AND ANALYSIS
September 30, 2013 and 2012

Revenues, Expenses, and Changes in Net Assets

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

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Operating revenues			
Passenger fares and contractual revenues for transit service	\$ 1,369,496	\$ 1,361,092	\$ 1,429,503
Winter Haven transit service	1,383,225	1,089,071	983,111
Sale of advertising space	<u>62,800</u>	<u>63,765</u>	<u>47,199</u>
Total operating revenues	2,815,521	2,513,928	2,459,813
Operating expenses:			
Salaries and wages	4,498,220	4,276,238	4,821,865
Employee benefits (Note 5)	1,889,095	1,933,613	2,241,539
Fuel and lubricants	1,367,289	1,317,442	1,349,788
Depreciation (Note 4)	1,360,981	1,212,467	1,208,788
Materials, supplies, maintenance, and contract services	967,553	892,724	924,914
Insurance	253,020	213,834	313,812
Professional services	309,505	458,957	570,281
Utilities	108,899	104,744	119,262
Lease expense	2,920	60,430	65,262
Office expense	41,920	34,854	40,832
Travel and meetings	32,952	35,012	42,838
Uniforms	17,963	17,010	17,241
Advertising	55,449	57,078	123,050
Training and education	10,495	5,777	4,449
Interest expense	-	-	329
Miscellaneous	21,861	15,111	30,267
Repairs and maintenance	<u>2,601</u>	<u>10,589</u>	<u>412</u>
Total operating expenses	10,940,723	10,645,880	11,874,929
Operating loss	(8,125,202)	(8,131,952)	(9,415,116)

(Continued)

LAKELAND AREA MASS TRANSIT DISTRICT
MANAGEMENTS'S DISCUSSION AND ANALYSIS
September 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Non-operating revenues (expenses)			
Property taxes	\$ 2,985,447	\$ 3,101,271	\$ 3,209,778
Federal and state operating grants (Note 6)	4,202,323	4,220,196	3,420,230
Investment income	4,902	9,081	10,938
Unrealized gain/(loss) loss on cash, cash equivalents and investments	16,832	36,820	23,005
Gain (loss) on disposals of equipment	(100,084)	1,260	219
Miscellaneous revenue (expense)	(180,802)	1,500	(172,707)
Total non-operating revenues	<u>6,928,618</u>	<u>7,370,128</u>	<u>6,491,463</u>
Net loss before capital contributions	(1,196,584)	(761,824)	(2,923,653)
Capital Contributions	<u>1,288,631</u>	<u>1,179,586</u>	<u>423,945</u>
Change in Net Position	92,047	417,762	(2,499,708)
Net position at beginning of year	<u>14,711,133</u>	<u>14,293,369</u>	<u>16,793,077</u>
Net position at end of year	<u>\$ 14,803,180</u>	<u>\$ 14,711,131</u>	<u>\$ 14,293,369</u>

The statement of revenues, expenses, and changes in net position can be thought of as the District's profit and loss statement. As you can see, several changes in activity occurred between 2012 and 2013, and contributed to the net increase in fiscal 2013.

Operating revenues increased in 2013, and operating expenses increased; which accordingly decreased the operating loss. Non-operating revenues also decreased, by approximately \$161,000; and, the capital contribution increased by \$109,000 to \$1.3 million. As a result, the District ended 2013 better off than in the prior year.

Operating Passenger Fares for Transit Service

In fiscal year 2013 ridership increased 12.8% over fiscal year 2012 and passenger fare revenue for fiscal year 2013 increased 12% over fiscal year 2012.

<u>Ridership</u>	<u>Fixed Route</u>	<u>Demand Response</u>	<u>WHAT Contract</u>	<u>TOTAL</u>
FY 2013	\$1,224,636	\$94,053	\$319,781	\$1,638,470
FY 2012	1,104,646	96,118	251,397	1,452,161
FY 2011	1,453,467	104,434	210,186	1,768,087
 <u>Riders Per Hour</u>				
FY 2013	17.27	3.20	19.83	
FY 2012	15.88	3.27	18.49	
FY 2011	19.54	3.30	20.15	

(Continued)

LAKELAND AREA MASS TRANSIT DISTRICT
MANAGEMENTS'S DISCUSSION AND ANALYSIS
September 30, 2013 and 2012

**Operational Cost Per
Revenue Hour**

FY 2013	\$83.84
FY 2012	\$83.62
FY 2011	\$91.26

Winter Haven Area Transit service

A portion of the Winter Haven Area Transit ("WHAT") service is operated by the District under the terms of an operating agreement between the District and the Polk County Board of County Commissioners, and is based upon the District's operating cost per revenue hour. In fiscal 2011, a Section 5317 Job Access Reverse Commute grant was awarded to the Polk Transit Authority ("Authority") for the operation of a WHAT route. This service continued in fiscal 2012, and the District operates this route under the terms of an identical operating agreement between the District and the Authority. The WHAT service revenue recognized for fiscal 2013 is 27% greater than the revenue recognized for fiscal 2012. This net increase is due to the additional service being operated during the year, although at a lower cost per revenue hour. Also the ridership for this service increased 27%.

Operating Expenses

Salaries and wages increased approximately 5.2% in fiscal year 2013. This increase was due primarily to the full-year staffing in FY 2013 resulting of a reduction in staff that occurred mid-year in fiscal 2011 and marginal increases for labor contract and regular employees.

Employee benefits decreased 2.3%, primarily due to a reduction in the rate for group health insurance costs for employees.

Fuel and lubricants expense for fiscal year 2013 increased from fiscal year 2012 by 3.8%, due to higher fuel (diesel) prices.

The 33% decrease in professional services was primarily due to reduction in legal fees and information technology services rendered during the year.

Material, supplies, maintenance and contract services increased 8% due to increase in fleet maintenance materials.

Miscellaneous expenses increased significantly due to the cost for a legal settlement.

All other operating expenses are within the same spending level in FY 2013 compared to FY 2012.

Total operational expenses in fiscal year 2013 increased 2.8% over fiscal year 2012. Total operating hours in fiscal year 2013 increased 3.2% from fiscal year 2012. The resulting cost per revenue hour for fiscal year 2013 of \$83.84 increased 0.3% compared to fiscal year 2012; of \$83.62.

Non-operating Revenues and Expenses and Capital Contributions

Property tax revenue decreased 3.7% in fiscal year 2013, due to the decrease in taxable property values within the District's taxing area. The millage rate remained constant at .5000 mills for fiscal years 2013 and 2012.

(Continued)

LAKELAND AREA MASS TRANSIT DISTRICT
MANAGEMENTS'S DISCUSSION AND ANALYSIS
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The District recognized \$1,288,631 and \$1,179,586 as capital contributions for fiscal years 2013 and 2012, respectively, for reimbursement of eligible costs that are capitalized as property and equipment.

Interest Income decreased by 46%, due to a decreased average daily carrying balance in the District's investment accounts as well as declining interest rates.

Fiscal 2014 Outlook

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

- A reduction in service was implemented in July 2011 in order to align the Districts operating costs with its revenues
- Additional revenues were secured as a result of a successful Section 5317 New Freedom Grant Application
- A balanced operating budget was approved for fiscal years 2012, 2013, and 2014, which included increased revenues and decreased expenditures.

The My Ride is the consolidated Transit Development Plan (TDP) for Polk County. The My Ride plan serves as the strategic guide for public transportation in Polk County over the next 10 years. It identifies public transportation service improvement priorities for the county, outlines a strategy for funding those priorities, and provides policy direction for accomplishment of plan initiatives.

On May 22, 2013 the Polk Transit Authority requested the Board of County Commissioners of Polk County to call a referendum on November 4, 2014 for approval of a Charter county transportation surtax at a rate of one percent with one half (½) of the proceeds from the Transportation surtax to the Transit Authority to be used for transit services. Likewise, on June 12, 2013 the Lakeland Area Mass Transit District Board approved a resolution supporting the passage of the referendum and committed not to levy an ad valorem tax for 2015.

Plan Initiatives

Unlike other traditional TDPs that are developed for a single transit agency within a jurisdiction, this TDP effort and was submitted to the Florida Department of Transportation (FDOT) on behalf of the two transit agencies that administer and operate the three transit services operating in Polk County: Polk County Transit Services (PCTS), Citrus Connection, and Winter Haven Area Transit (WHAT). The two transit agencies include Polk County/WHAT, which administers and operates the PCTS system and WHAT, and the Lakeland Area Mass Transit District (LAMTD), which administers and operates Citrus Connection. Polk County/WHAT and LAMTD are the designated recipients of Federal Transit Administration (FTA) grant funding and State of Florida PTBG program funding. The consolidated approach for this TDP is designed to address three major factors:

Consolidation – Transit services in Polk County are currently provided by three separate systems. The fragmented approach limits the continued development of an effective and efficient countywide transit system. It has resulted in the potential for redundant administrative and operational functions, a tangled web of transit roles and responsibilities for local government bodies and transit services that are constrained by jurisdictional boundaries and funding sources for each of the three systems. The consolidated approach aims at identifying opportunities and strategies to improve overall transit service efficiency in Polk County.

(Continued)

Funding Solutions – 2010 U.S. Census population figures for the Lakeland Urbanized Area and Winter Haven Urbanized Area are now over 200,000. Those population levels impact the amount of FTA Section 5307 funds that can be used for transit operations in both urbanized areas. The consolidated TDP addresses the expected capitalization of operation and maintenance costs relative to the use of FTA Section 5307 funds and provides a strategy and recommendation for the pursuit of a new dedicated local funding source for public transportation services in Polk County.

Customized Transit Services – Polk County is a large county consisting of both urban and rural areas. Traditional fixed-route transit services that operate primarily in urban areas are not the most efficient services for rural parts of the county. As a result, the My Ride plan identifies a host of urban and rural public transportation modes customized and scaled to the needs of each individual community in the county. This ensures that all county residents and visitors have access to public transportation options and allows the governing agency to provide those options in a cost-effective and fiscally-responsible manner.

Plan Development

Development of the My Ride plan included a number of activities, including a documentation of study area conditions and demographic characteristics, an evaluation of existing transit services, the development of a situation appraisal and needs assessment, a Park-and Ride Study, and the preparation of a 10-year transit development program that provides guidance during the 10-year planning horizon of the plan.

An extensive public outreach effort was also conducted as part of the My Ride plan development. That effort included stakeholder outreach to member jurisdictions, social service agencies, employers, visitors, and residents. Between February 6 and April 19, 2012, 31 listening sessions were held throughout Polk County using a varied approach. Some sessions were formally scheduled, some were informal sessions held at local libraries and coffee shops, and some were speaking engagements to selected groups of citizens, including neighborhood associations and local civic clubs. The result of these efforts led to reaching out to over 1,000 citizens to garner public input into the development of the My Ride service plan.

SERVICE PLAN

The My Ride service plan was developed based on a number of different efforts, including public involvement, data analysis, and feedback received from local agency staff. Service improvements in the plan can be grouped into two major categories:

- Existing service improvements – Improvements to service frequency, extended service hours, and/or more weekend service. In addition, some of the improvements include route realignments focused on either improving connectivity and/or improving the efficiency.
- Service expansion – New routes operating in areas of the county with no existing service.

New service modes also fall under this category of service improvements.

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A description of each service mode in the plan is listed below.

- Premium Bus Service (Bus Rapid Transit)
- Express Service
- Traditional Fixed-Route Service (Urban, Frequency ≤ 60 min)
- Traditional Fixed-Route Service (Rural, Frequency ≥ 60 min)
- Flex Service
- Call-and-Ride Service
- Community Transit Options
- Commuter Services/Vanpools
- Taxi-Access Program

Financial Plan:

The My Ride financial plan includes a recommended funding strategy for meeting public transportation needs in Polk County. Consistent with My Ride plan initiatives, the financial plan accounts for the impacts of the capitalization of Federal 5307 grant funding and addresses efficiencies being gained through the consolidation of LAMTD and Polk County/ WHAT. Consolidation efforts currently being performed by both agencies will ensure that Polk Transit will function as the governing board for all public transportation serves in Polk County in the future. A consolidation and transition plan detailing such actions is included in this study. It is important to emphasize that without an increase in dedicated local funding, full implementation of the My Ride plan cannot be realized and alternative funding models will need to be pursued by Polk Transit.

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

My Ride Plan Cost and Revenue Summary (in millions) FY 2013-FY 2022			
	Operating	Capital	Total
Costs			
Maintenance of Existing Services	\$114.2	\$45.3	\$159.5
Service Improvement and Expansion	\$127.3	\$87.9	\$215.2
Total	\$241.5	\$133.2	\$374.7
Revenues			
Sales Tax	\$165.2	\$110.0	\$275.2
Existing Sources	\$93.9	\$15.6	\$109.5
Other Federal/State	\$8.0	\$7.6	\$15.6
Total	\$267.1	\$133.2	\$400.3
Surplus Shortfall			\$25.6

Requests for Information

This financial report is designed to provide a general overview of Lakeland Area Mass Transit District's finances and to demonstrate the District's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Chief Financial Officer, Lakeland Area Mass Transit District, P.O. Box 1687, Lakeland, Florida, 33802.

LAKELAND AREA MASS TRANSIT DISTRICT
 STATEMENTS OF NET POSITION
 September 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
ASSETS		
Current assets		
Cash, cash equivalents and investments (Note 2)	\$ 144,270	\$ 286,144
Receivables	274,281	129,527
Due from other governments	5,508,711	4,961,585
Inventory	359,256	479,868
Prepaid expenses	<u>122,643</u>	<u>36,661</u>
Total current assets	6,409,161	5,893,785
 OTHER ASSETS:		
Cash, cash equivalents and investments (Note 2)	379,989	1,240,844
 PROPERTY AND EQUIPMENT:		
Buildings	4,947,438	4,679,687
Rolling stock	10,029,068	10,414,165
Shop and support equipment	1,451,463	1,445,704
Office furnishings and equipment	1,547,506	1,379,282
Construction work in progress	<u>282,711</u>	<u>129,741</u>
	18,258,186	18,048,579
Less accumulated depreciation (Note 4)	<u>10,985,489</u>	<u>10,326,791</u>
	7,272,697	7,721,788
Land and land improvements	<u>1,902,250</u>	<u>1,902,250</u>
Net property and equipment	<u>9,174,947</u>	<u>9,624,038</u>
Total assets	15,964,097	16,758,667

(Continued)

LAKELAND AREA MASS TRANSIT DISTRICT
STATEMENTS OF NET POSITION
September 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
LIABILITIES		
Current liabilities, payable from current assets		
Accounts payable	\$ 664,666	\$ 1,572,148
Accrued liabilities	199,513	172,559
Deposits held	<u>26,505</u>	<u>26,505</u>
Total current liabilities	890,684	1,771,212
 Noncurrent liabilities		
Accrued liabilities, less current portion	<u>270,233</u>	<u>276,324</u>
Total noncurrent liabilities	<u>270,233</u>	<u>276,324</u>
 Total liabilities	1,160,917	2,047,536
 NET POSITION		
Net investment in capital assets	9,174,947	9,624,038
Restricted for capital improvements	1,000	1,000
Unrestricted	<u>5,627,233</u>	<u>5,086,093</u>
 Total net position	<u>\$ 14,803,180</u>	<u>\$ 14,711,131</u>

See accompanying notes to financial statements.

LAKELAND AREA MASS TRANSIT DISTRICT
 STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
 Years ended September 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Operating revenues		
Passenger fares and contractual revenues for transit service	\$ 1,369,496	\$ 1,361,092
Winter Haven transit service	1,383,225	1,089,071
Sale of advertising space	<u>62,800</u>	<u>63,765</u>
Total operating revenues	2,815,521	2,513,928
 Operating expenses		
Salaries and wages	4,498,220	4,276,238
Employee benefits (Note 5)	1,889,095	1,933,613
Fuel and lubricants	1,367,289	1,317,442
Depreciation (Note 4)	1,360,981	1,212,467
Materials, supplies, maintenance, and contract services	967,553	892,724
Insurance	253,020	213,834
Professional services	309,505	458,957
Utilities	108,899	104,744
Lease expense	2,920	60,430
Office expense	41,920	34,854
Travel and meetings	32,952	35,012
Uniforms	17,963	17,010
Advertising	55,449	57,078
Training and education	10,495	5,777
Miscellaneous	21,861	15,112
Repairs and maintenance	<u>2,601</u>	<u>10,588</u>
Total operating expenses	10,940,723	10,645,880
 Operating loss	 (8,125,202)	 (8,131,952)

(Continued)

LAKELAND AREA MASS TRANSIT DISTRICT
 STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
 Years ended September 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Nonoperating revenues (expenses)		
Property taxes	\$ 2,985,447	\$ 3,101,271
Federal and state operating grants (Note 6)	4,202,323	4,220,196
Investment income	4,902	9,082
Unrealized gain/(loss) on cash, cash equivalents and investments	16,832	36,820
Gain (loss) on disposals of equipment	(100,084)	1,259
Miscellaneous revenue (expense)	<u>(180,802)</u>	<u>1,500</u>
Total nonoperating revenues	6,928,618	7,370,128
 Net loss before capital contributions	 (1,196,584)	 (761,824)
 Capital contributions	 <u>1,288,631</u>	 <u>1,179,586</u>
 Change in net position	 92,047	 417,762
 Net position at beginning of year	 <u>14,711,131</u>	 <u>14,293,369</u>
 Net position at end of year	 <u>\$ 14,803,178</u>	 <u>\$ 14,711,131</u>

See accompanying notes to financial statements.

LAKELAND AREA MASS TRANSIT DISTRICT
 STATEMENTS OF CASH FLOWS
 Years ended September 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities		
Cash received from customers	\$ 2,404,532	\$ 2,489,906
Other operating cash receipts (payments)	(180,802)	1,500
Cash paid for operating goods and services	(4,165,361)	(1,930,392)
Cash paid to employees	<u>(6,366,452)</u>	<u>(6,192,912)</u>
Net cash used in operating activities	(8,308,083)	(5,631,898)
 Cash flows from investing activities		
Investment income	21,734	47,161
 Cash flows from noncapital financing activities		
Proceeds from federal grants	2,151,332	2,488,033
Proceeds from state grants	1,770,097	903,640
Property tax revenues received	<u>2,985,447</u>	<u>3,101,271</u>
Net cash provided by noncapital financing activities	6,906,876	6,492,944
 Cash flows from capital and related financing activities		
Proceeds from federal grants restricted for capital acquisitions	1,059,868	1,192,421
Proceeds from state grants restricted for capital acquisitions	150,569	43,337
Proceeds from charitable contributions restricted for capital acquisitions	78,194	1,500
Proceeds from sale of equipment	-	76,275
Purchase of property and equipment	<u>(911,887)</u>	<u>(2,492,916)</u>
Net cash used in capital and related financing activities	<u>376,744</u>	<u>(1,179,383)</u>
 Net change in cash and cash equivalents	(1,002,729)	(271,176)
 Cash and cash equivalents at beginning of year	<u>1,526,988</u>	<u>1,798,164</u>
 Cash and cash equivalents at end of year	<u>\$ 524,259</u>	<u>\$ 1,526,988</u>

(Continued)

LAKELAND AREA MASS TRANSIT DISTRICT
 STATEMENTS OF CASH FLOWS
 Years ended September 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Classified in statements of net position as		
Current assets	\$ 144,270	\$ 286,144
Other assets	<u>379,989</u>	<u>1,240,844</u>
	<u>\$ 524,259</u>	<u>\$ 1,526,988</u>
 Reconciliation of operating loss to net cash used in operating activities		
Operating loss	\$ (8,125,202)	\$ (8,131,952)
Adjustments to reconcile operating loss to net cash used in operating activities		
Depreciation	1,360,981	1,212,467
Increase in receivables	(351,094)	(13,537)
Decrease in fuel tax refund receivable	(59,896)	(10,485)
Decrease (increase) in inventory	120,612	(8,143)
Decrease in prepaid expenses	(85,982)	(1,983)
Increase (decrease) in accounts payable	(907,479)	1,303,296
Decrease in accrued liabilities	20,863	16,939
Non-operating miscellaneous income (expense)	<u>(180,802)</u>	<u>1,500</u>
	<u>\$ (8,207,999)</u>	<u>\$ (5,631,898)</u>
 Noncash investing, capital, or financing transactions		
Capital contributions	<u>\$ 1,288,631</u>	<u>\$ 1,179,586</u>

See accompanying notes to financial statements.

LAKELAND AREA MASS TRANSIT DISTRICT
NOTES TO FINANCIAL STATEMENTS
September 30, 2013 and 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

There are no component units of the District. The District is not included as a component unit in any other government entity’s annual financial report.

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

New Accounting Pronouncements: In December 2010, the Governmental Accounting Standards Board (GASB) issued Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements. The Statement incorporates into the GASB’s authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with GASB pronouncements: (1) Financial Accounting Standards Board (FASB) Statements and Interpretations; (2) Accounting Principles Board Opinions; and (3) Accounting Research Bulletins of the American Institute of Certified Public Accountants’ (AICPA) Committee on Accounting Procedure. This Statement is effective for fiscal years beginning after December 15, 2011. The implementation of this Statement did not have a material impact on the District.

In June 2011, the GASB issued GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position. This Statement provides a new statement of net position format to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position (which is the net residual amount of the other elements). This Statement requires that deferred outflows of resources and deferred inflows of resources be reported separately from assets and liabilities. This Statement also amends certain provisions of GASB Statement No. 34, Basic Financial Statements-and Management’s Discussion and Analysis-for State and Local Governments, and related pronouncements to reflect the residual measure in the statement of financial position as net position, rather than net position. This Statement is effective for fiscal years beginning after December 15, 2011. The implementation on this Statement did not have a material impact on District.

(Continued)

LAKELAND AREA MASS TRANSIT DISTRICT
NOTES TO FINANCIAL STATEMENTS
September 30, 2013 and 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In March 2012, the GASB issued GASB Statement 65, "Items Previously Reported as Assets and Liabilities." The provisions of this Statement are effective for the District's fiscal year ended September 30, 2014, with earlier application being encouraged. The District has implemented this Statement retroactively as of October 1, 2011. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term deferred in financial statement presentations.

The significant accounting policies followed are described below.

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

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

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

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

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

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

(Continued)

LAKELAND AREA MASS TRANSIT DISTRICT
NOTES TO FINANCIAL STATEMENTS
September 30, 2013 and 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

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

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

Property Taxes: Property taxes become due and payable on November 1 of each year. Polk County, Florida, bills and collects the property taxes pertaining to the District. For the fiscal years ended September 30, 2013, and September 30, 2012, the District levied .5000 mills. A 4% discount is allowed if the taxes are paid in November with the discount declining by 1% each month thereafter. Taxes become delinquent on April 1 of each year. The levy date for property taxes for the current year was October 31 and the lien date is January 1.

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

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

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

(Continued)

LAKELAND AREA MASS TRANSIT DISTRICT
NOTES TO FINANCIAL STATEMENTS
September 30, 2013 and 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

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

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

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

NOTE 2 - CASH, CASH EQUIVALENTS AND INVESTMENTS

As of September 30, 2013 and 2012, the aggregate carrying amounts of the District's deposits were \$8,237 and \$161,350, respectively, and the aggregate bank balances were \$396,744 and \$163,261, respectively, of which \$250,000 was covered by Federal depository insurance.

(Continued)

LAKELAND AREA MASS TRANSIT DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 September 30, 2013 and 2012

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

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

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

As of September 30, 2013, the District has the following investments and maturities:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>				
		<u>Less than 1</u>	<u>1 - 3</u>	<u>3 - 5</u>	<u>5 - 10</u>	<u>10 - 20</u>
State investment pool (1)	<u>\$516,022</u>	<u>\$516,022</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

(1) Funds are invested in the SBA's local governments pooled investment account. The rate of interest fluctuates daily. The interest rate on September 30, 2013 was 0.18 percent. The interest rate of on September 30, 2012 was 0.32 percent. The SBA account is divided into two (2) funds. Fund A is accounted for as an SEC 287 like fund. The fair value of the position of this fund is the same as the value of the pooled shares. Fund B is accounted for as a fluctuating net asset value fund. The fair value of the position in fund B as of September 30, 2013 and 2012 was 1.13262284 and 94.896811 percent, respectively, of the value of the pooled shares. The SBA's duties related to the Local Government Surplus Funds Trust Funds are defined in Sections 218.40-218.41, Florida Statutes. The Executive Director is authorized to use all investment authority included in Section 215.47, Florida Statutes, and is responsible for all internal measurements, regulation and rules defined in these sections of the Florida Statutes.

As of September 30, 2012, the District had the following investments and maturities:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>				
		<u>Less than 1</u>	<u>1 - 3</u>	<u>3 - 5</u>	<u>5 - 10</u>	<u>10 - 20</u>
State investment pool	<u>\$1,365,638</u>	<u>\$1,365,638</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

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

(Continued)

LAKELAND AREA MASS TRANSIT DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 September 30, 2013 and 2012

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

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

Cash, cash equivalents and investments are reported in the accompanying statements of net position as of September 30, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Current assets		
Cash, cash equivalents and investments	\$ 144,270	\$ 286,144
Other assets		
Cash, cash equivalents and investments	<u>379,989</u>	<u>1,240,844</u>
	<u>\$ 524,259</u>	<u>\$ 1,526,988</u>

	<u>2013</u>	<u>2012</u>
The statements of net position classifications are summarized by investment categories as follows:		
Cash	\$ 8,237	\$ 161,350
State Board of Administration	<u>516,022</u>	<u>1,365,638</u>
	<u>\$ 524,259</u>	<u>\$ 1,526,988</u>

Credit Risk: At September 30, 2013, the District's investments, along with their respective ratings from Moody's Investor Services, were as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Credit Rating</u>
Local Government Surplus Funds Trust Fund A	\$437,918	AAAm
Local Government Surplus Funds Trust Fund B	\$78,104	Unrated

At September 30, 2012, the District's investments, along with their respective ratings from Moody's Investor Services, were as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Credit Rating</u>
Local Government Surplus Funds Trust Fund A	\$1,222,694	AAAm
Local Government Surplus Funds Trust Fund B	\$142,944	Unrated

(Continued)

LAKELAND AREA MASS TRANSIT DISTRICT
NOTES TO FINANCIAL STATEMENTS
September 30, 2013 and 2012

NOTE 3 - OTHER ASSETS

The District has established long range plans concerning bus replacement in the event the federal and state capital assistance grants are no longer available. As part of the plan, management has set aside certain assets that would be used to fund this project. The Board evaluates the plan on an annual basis. The assets set aside for reserves as of September 30, 2013 and 2012, consist of the following:

	<u>2013</u>	<u>2012</u>
Cash, cash equivalents and investments	<u>\$ 379,989</u>	<u>\$ 1,240,843</u>

NOTE 4 - PROPERTY AND EQUIPMENT

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

	Balance September 30, <u>2012</u>	<u>Additions</u>	<u>Deletions</u>	Balance September 30, <u>2013</u>
Depreciable Assets				
Buildings	\$ 4,679,687	\$ 267,751	\$ -	\$ 4,947,438
Rolling stock	10,414,165	317,186	702,283	10,029,068
Shop and support equipment	1,445,704	5,759	-	1,451,463
Office furnishings and equipment	<u>1,379,282</u>	<u>168,224</u>	<u>-</u>	<u>1,547,506</u>
Total Depreciable Assets	17,918,838	758,920	702,283	17,975,475
Less accumulated depreciation	<u>10,326,791</u>	<u>1,360,981</u>	<u>702,283</u>	<u>10,985,489</u>
Total depreciable assets, net	7,592,047	(602,061)	-	6,989,986
Non-depreciable Assets				
Construction work in progress	129,741	417,317	264,347	282,711
Land and land improvements	<u>1,902,250</u>	<u>-</u>	<u>-</u>	<u>1,902,250</u>
Total Non-depreciable Assets	<u>2,031,991</u>	<u>417,317</u>	<u>264,347</u>	<u>2,184,961</u>
Total capital assets, net	<u>\$ 9,624,038</u>	<u>\$ (184,744)</u>	<u>\$ 264,347</u>	<u>\$ 9,174,947</u>

(Continued)

LAKELAND AREA MASS TRANSIT DISTRICT
NOTES TO FINANCIAL STATEMENTS
September 30, 2013 and 2012

NOTE 4 - PROPERTY AND EQUIPMENT (Continued)

	Balance September 30, <u>2011</u>	<u>Additions</u>	<u>Deletions</u>	Balance September 30, <u>2012</u>
Depreciable Assets				
Buildings	\$ 4,136,571	\$ 744,951	\$ 201,835	\$ 4,679,687
Rolling stock	9,309,320	1,642,504	537,660	10,414,164
Shop and support equipment	1,354,088	91,617	-	1,445,704
Office furnishings and equipment	1,365,438	13,843	-	1,379,282
Leasehold improvements	58,249	-	58,249	-
Leased property	<u>35,399</u>	<u>-</u>	<u>35,399</u>	<u>-</u>
Total Depreciable Assets	16,259,065	2,492,915	833,143	17,918,837
Less accumulated depreciation	<u>9,947,326</u>	<u>1,212,467</u>	<u>833,002</u>	<u>10,326,791</u>
Total depreciable assets, net	6,311,739	1,280,448	141	7,592,046
Non-depreciable Assets				
Construction work in progress	205,876	(76,135)	-	129,741
Land and land improvements	<u>1,902,250</u>	<u>-</u>	<u>-</u>	<u>1,902,250</u>
Total Non-depreciable Assets	<u>2,108,126</u>	<u>(76,135)</u>	<u>-</u>	<u>2,031,991</u>
Total capital assets, net	<u>\$ 8,419,865</u>	<u>\$ 1,204,313</u>	<u>\$ 141</u>	<u>\$ 9,624,038</u>

NOTE 5 - DEFERRED COMPENSATION PLAN

The District offers employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan was created, and may be amended by the Board of Directors. The plan is available to all District employees and permits employees to defer part of their wages. All contributions under this plan are discretionary. The District also provides for a matching employer contribution of up to 5% of employee wages (the total contribution for employees normally cannot exceed \$16,500 in one year). The amount of this matching contribution was \$88,272 and \$98,893 for the fiscal years 2013 and 2012, respectively. Payments from the deferred compensation plan are not available to employees until termination, retirement, death or unforeseeable emergency. The compensation is not included in the employee's taxable income until such amounts are actually received by the employee.

NOTE 6 - FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE

Operating Grants: For each fiscal year, the District applies for an operating assistance grant from the Federal Transit Administration to assist in defraying the operating costs of the transit system. The maximum amount receivable under this grant is 50 percent of the operating deficit incurred during the respective fiscal year. For purposes of determining the amount of these deficits, proceeds from other federal awards and state financial assistance, expenditures reimbursable under the other federal awards and state financial assistance, property tax revenues, and depreciation expense are not considered. The District has recognized non-operating revenue of \$4,202,323 and \$4,220,196 in fiscal years 2013 and 2012, respectively, under these grants.

Capital Grants: The District has recognized \$1,288,631 and \$1,179,586 as capital grant contributions for fiscal years 2013 and 2012, respectively, relating to the reimbursed portion of eligible costs that are capitalized as property and equipment.

(Continued)

LAKELAND AREA MASS TRANSIT DISTRICT
NOTES TO FINANCIAL STATEMENTS
September 30, 2013 and 2012

NOTE 7 - COMMITMENTS AND CONTINGENCIES

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

The District had two and four active construction projects as of September 30, 2013 and 2012 respectively. These projects all involve the installation of passenger bus shelters. The amount committed to these projects is \$13,860 and \$6,190 as of September 30, 2013 and 2012 respectively.

NOTE 8 - RISK MANAGEMENT

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

NOTE 9 - OTHER POSTEMPLOYMENT BENEFITS

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

NOTE 10 - RELATED PARTIES

The District has one related party for which transactions occurred during fiscal 2013 and 2012 – the Polk Transit Authority (the "Authority"). The transactions consist of the reimbursement of expenses incurred by the District on behalf of the Authority. The reimbursed costs include office expenses and labor costs associated with shared employee responsibilities. The reimbursement was authorized by both Boards of Directors and is pursuant to an interlocal agreement between the entities. The amount of reimbursable costs for fiscal years 2013 and 2012, respectively, was \$2,220 and \$1,406.

NOTE 11 - MANAGEMENT'S FUNDING PLAN

The District has operated at a loss for five of the past nine fiscal years. Reserve funds have been used to supplement revenues to maintain the existing level of service. However, due to the depletion of the operating reserves, the District implemented a reduction of service in July, 2011 in order to operate at a sustainable level with existing revenues. As a result of this service reduction, the District was able to present a balanced operating budget for fiscal 2012 and fiscal 2013. The District continues to monitor revenues and expenses to ensure long-term solvency.

(Continued)

LAKELAND AREA MASS TRANSIT DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 September 30, 2013 and 2012

NOTE 12 - LONG TERM LIABILITIES

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

	Balance September 30, <u>2012</u>	<u>Additions</u>	<u>Deletions</u>	Balance September 30, <u>2013</u>	Due in one <u>Year</u>
Accumulated compensated absences	\$ 316,757	354,408	360,269	\$ 310,896	\$ 40,663

	Balance September 30, <u>2011</u>	<u>Additions</u>	<u>Deletions</u>	Balance September 30, <u>2012</u>	Due in one <u>Year</u>
Accumulated compensated absences	\$ 312,250	346,621	342,114	\$ 316,757	\$ 40,433

NOTE 13 - FUTURE ACCOUNTING PRONOUNCEMENTS

In March 2012, the GASB issued GASB Statement 66, Technical Corrections – 2012, an amendment of GASB Statements No. 10 and No. 62. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, and No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements. This Statement amends Statement No. 10, Accounting and Financial Reporting for Risk Financing and Related Insurance Issues, by removing the provision that limits fund-based reporting of an entity's risk financing activities to the general fund and the internal service fund type. As a result, governments should base their decisions about fund type classification on the nature of the activity to be reported, as required in Statement 54 and Statement No. 34, Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments. This Statement also amends Statement 62 by modifying the specific guidance on accounting for (1) operating lease payments that vary from a straight-line basis, (2) the difference between the initial investment (purchase price) and the principal amount of a purchased loan or group of loans, and (3) servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a current (normal) servicing fee rate. These changes clarify how to apply Statement No. 13, Accounting for Operating Leases with Scheduled Rent Increases, and result in guidance that is consistent with the requirements in Statement No. 48, Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues, respectively. The provisions of this Statement are effective for the District's fiscal year ended September 30, 2014, with earlier application being encouraged. Management has not determined what impact, if any, this Statement may have on its financial statements.

(Continued)

LAKELAND AREA MASS TRANSIT DISTRICT
NOTES TO FINANCIAL STATEMENTS
September 30, 2013 and 2012

NOTE 13 - FUTURE ACCOUNTING PRONOUNCEMENTS (Continued)

In June 2012, the GASB issued Statement 67, Financial Reporting for Pension Plans. This Statement replaces the requirements of Statement No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans and Statement 50 as they relate to pension plans that are administered through trusts or similar arrangements meeting certain criteria. The Statement builds upon the existing framework for financial reports of defined benefit pension plans, which includes a statement of fiduciary net position (the amount held in a trust for paying retirement benefits) and a statement of changes in fiduciary net position. Statement 67 enhances note disclosures and RSI for both defined benefit and defined contribution pension plans. Statement 67 also requires the presentation of new information about annual money-weighted rates of return in the notes to the financial statements and in 10-year RSI schedules. The provisions of this Statement are effective for the District's fiscal year ending September 30, 2014. Management has not determined what impact, if any, this GASB statement might have on its financial statements.

In June 2012, the GASB issued Statement 68, Accounting and Financial Reporting for Pensions. This Statement replaces the requirements of Statement No. 27, Accounting for Pensions by State and Local Governmental Employers and Statement No. 50, Pension Disclosures, as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. Statement 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The Statement also enhances accountability and transparency through revised and new note disclosures and required supplementary information (RSI). The provisions of this Statement are effective for the District's financial year ending September 30, 2015. Management has not determined what impact, if any, this GASB statement might have on its financial statements.

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

(Continued)

LAKELAND AREA MASS TRANSIT DISTRICT
NOTES TO FINANCIAL STATEMENTS
September 30, 2013 and 2012

NOTE 13 - FUTURE ACCOUNTING PRONOUNCEMENTS (Continued)

In April 2013, the GASB issued Statement 70, Accounting and Financial Reporting for non-exchange Financial Guarantees. The objective of this Statement is to improve accounting and financial reporting by state and local governments that extend and receive non-exchange financial guarantees. This Statement requires a government that extends a non-exchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. This liability should be reported until legally released as an obligor. This Statement also requires a government that is required to repay a guarantor for making a payment on a guaranteed obligation or legally assuming the guaranteed obligation to continue to recognize a liability until legally released as an obligor. When released as an obligor, the government should recognize revenue as a result of being relieved of the obligation. This Statement also provides additional guidance for intra-entity non-exchange financial guarantees involving blended component units by specifying the information required to be disclosed by governments that extend non-exchange financial guarantee as well as new information to be disclosed by governments that receive non-exchange financial guarantees. The provisions of this Statement are effective for the District's fiscal year ended September 30, 2014, with earlier application being encouraged. Management has not determined what impact, if any, this GASB statement might have on its financial statements.

SUPPLEMENTARY INFORMATION

LAKELAND AREA MASS TRANSIT DISTRICT
 SCHEDULE OF EXPENDITURES OF
 FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE
 Year Ended September 30, 2013

<u>Agency/Program</u>	<u>CFDA or CFSA Number</u>	<u>Grant Identifying Number</u>	<u>Expenditures</u>
<i>FEDERAL AGENCY:</i>			
Department of Transportation/ Federal Transit Administration:			
Direct Awards:			
Federal Transit Capital Investment Grant	20.500	FL-04-0064-00	\$ 1,429
Federal Transit Capital Investment Grant	20.500	FL-04-0108-00	203,980
Federal Transit Capital Investment Grant	20.500	FL-04-0109-00	13,122
Federal Transit Capital Investment Grant	20.500	FL-04-0129-00	448,768
Federal Transit Capital Investment Grant	20.500	FL-04-016-01	<u>200,000</u>
Subtotal Capital Investment Grants			867,299
Federal Transit Formula Grants- Operating and Capital Assistance	20.507	FL-90-X833-00	2,624,072
Federal Transit Capital Grants- ARRA	20.507	FL-96-X021-00	<u>191,689</u>
Subtotal Formula Grants			<u>2,815,761</u>
Total Federal Transit Cluster			3,683,060
State of Florida Department of Transportation (pass through):			
New Freedom Program	20.521	AQ198	92,870
New Freedom Program	20.521	AQ199	<u>573,487</u>
Total Federal Transit Cluster			<u>666,357</u>
Total Expenditures of Federal Awards			<u>\$ 4,349,417</u>

(Continued)

LAKELAND AREA MASS TRANSIT DISTRICT
 SCHEDULE OF EXPENDITURES OF
 FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE
 Year Ended September 30, 2013

<u>Agency/Program</u>	<u>CFDA or CFSA Number</u>	<u>Grant Identifying Number</u>	<u>Expenditures</u>
<u>STATE AGENCY:</u>			
State of Florida Department of Transportation:			
Public Transit Block Grant Program - Operating Assistance	55.010	AQQ77	\$ 847,889
Transit Corridor Program - Service Enhancement Project	55.013	AOW11	156,875
State Highway Project Reimbursement - Transit Service Development	55.012	APS58	<u>57,699</u>
Total State of Florida Department of Transportation			<u>1,062,463</u>
Total Expenditures of State Financial Assistance			<u>\$ 1,062,463</u>

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

LAKELAND AREA MASS TRANSIT DISTRICT
NOTES TO THE SCHEDULE OF EXPENDITURES OF
FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE
Year Ended September 30, 2013

NOTE 1 - BASIS OF PRESENTATION

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

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

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

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Directors
Lakeland Area Mass Transit District
Lakeland, Florida

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Lakeland Area Mass Transit District (the "District") as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated June 30, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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

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 deficiencies described in the accompanying schedule of findings and questioned costs as 2013-001 to be a material weakness.

(Continued)

Compliance and Other Matters

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

District's Response to Findings

District's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Crowe Horwath LLP

Tampa, Florida
June 30, 2014

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND STATE FINANCIAL ASSISTANCE PROJECT; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE REQUIRED BY OMB CIRCULAR A-133 AND CHAPTER 10.550 RULES OF THE AUDITOR GENERAL

Board of Directors
Lakeland Area Mass Transit District
Lakeland, Florida

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

We have audited the Lakeland Area Mass Transit District's (the District) compliance with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement and the requirements described in the *Department of Financial Services' State Projects Compliance Supplement*, that could have a direct and material effect on each of the District's major federal programs and state financial assistance projects for the year ended September 30, 2013. The District's major federal programs and state financial assistance projects are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs and state financial assistance projects.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs and state financial assistance projects based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations; and Chapter 10.550, *Rules of the Auditor General*. Those standards and OMB Circular A-133, and Chapter 10.550, *Rules of the Auditor General* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program or state financial assistance project occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program and state financial assistance project. However, our audit does not provide a legal determination of the District's compliance.

(Continued)

Opinion on Each Major Federal Program and State Financial Assistance Project

In our opinion, the District's complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal program or state financial assistance project for the year ended September 30, 2013.

Report on Internal Control Over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program and state financial assistance project to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and state financial assistance project and to test and report on internal control over compliance in accordance with OMB Circular A-133 and Chapter 10.550, *Rules of the Auditor General*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program 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. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program or state financial assistance project that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133 and Chapter 10.550, *Rules of the Auditor General*. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards and State Financial Assistance Required by OMB Circular A-133 and Chapter 10.550 Rules of the Auditor General

We have audited the financial statements of the District as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements. We issued our report thereon dated June 30, 2014, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards and state financial assistance is presented for purposes of additional analysis as required by OMB Circular A-133 and Chapter 10.550, *Rules of the Auditor General* and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements.

(Continued)

The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards and state financial assistance is fairly stated in all material respects in relation to the basic financial statements as a whole.

A handwritten signature in black ink that reads "Crowe Horwath LLP". The signature is written in a cursive, flowing style.

Crowe Horwath LLP

Lakeland, Florida
June 30, 2014

LAKELAND AREA MASS TRANSIT DISTRICT
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS -
 FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE
 Year Ended September 30, 2013

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued	Unmodified
Internal control over financial reporting	
Material weakness identified?	Yes
Significant deficiencies identified not considered to be material weaknesses?	None Reported
Noncompliance material to financial statements noted?	No

Federal Awards and State Financial Assistance

Internal Control over major programs	
Material weakness identified?	No
Significant deficiencies identified not considered to be material weaknesses?	None reported
Type of auditor's report issued on compliance for major programs	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section 510(a), and Section 215.97 of Chapter 10.550, Rules of the Auditor General?	No

Identification of major programs

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

Federal:

20.500/20.507 Federal Transit Cluster - ARRA

State:

55.010 Public Transit Block Grant Program

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

(Continued)

LAKELAND AREA MASS TRANSIT DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS -
FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE
Year Ended September 30, 2013

Section II - Financial Statement Findings

Material Weakness:

2013-001 Year End Close Process

Condition: The District has not established effective and efficient period end financial statement close procedures which enable the preparation of financial statements and related disclosures on a timely basis. Specifically we identified the following deficiencies in the procedures:

- Numerous post-closing adjusting and correcting entries.
- Errors related to related party receivables.
- Errors related to unbilled revenue and related contract services income related in part to cost per revenue hour calculation.
- Errors related to the bank reconciliation process.
- The draft Schedule of Federal Awards and State Financial Assistance contained various errors.

Criteria: The period end financial statement close procedures are the processes in which the results of all of the various transactions are summarized, reviewed, consolidated, edited and prepared in a timely and efficient manner into the financial reports. This process begins with the preparation of the trial balance and ends with the preparation of the year end financial statements and related disclosures. The process includes closing the general ledger and preparing the trial balance, accumulating and posting journal entries, drafting the financial statements and disclosures and preparing management's discussion and analysis. These Procedures should be implemented in order to facilitate the timely preparation of year end financial statements in accordance with generally accepted accounting principles.

Cause: There was a transition in staff and there was not enough staffing available to complete all of the tasks necessary in a complete, accurate and timely, manner.

Effect: An adequate year end financial reporting process has not been consistently in place that allows for timely year end financial statements to be prepared by District.

Recommendation: District should review its current staffing levels and procedures related to the financial statement close process and determine the appropriateness of those processes for preventing and detecting misstatements and for preparing reliable, timely and accurate financial statements. This District should considering utilizing tools such as year end entry checklists, GAAP disclosure checklists, mechanical checks of draft financial reports for accuracy, etc. to enhance and strengthen its existing procedures.

Views of Responsible Officials: The District Finance Department was in transition after the end of the fiscal year. As a result the General Ledger postings and reconciliations were not current. A new Chief Financial Officer was hired and a Senior Accounting position was added to strengthen the Finance Department Staff.

Policies and Procedures to address the deficiencies noted above are currently being addressed. A month end and year end check list, an accounts receivable control check list and other control mechanisms are being implemented that will correct these problems.

(Continued)

LAKELAND AREA MASS TRANSIT DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS -
FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE
Year Ended September 30, 2013

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

There were no findings for the year ended September 30, 2013.

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

There were no findings for the year ended September 30, 2013.

LAKELAND AREA MASS TRANSIT DISTRICT
SUMMARY OF PRIOR AUDIT FINDINGS
Year Ended September 30, 2012

AUDIT REFERENCE

Number 12-1 Preparation of the Schedule of Expenditures of Federal Awards and State Financial Assistance

Recommendation: The District should ensure that all grant expenditures are properly classified on the SEFA.

Status: See current year comment 2013-001.

Board of Directors
 Lakeland Area Mass Transit District
 Lakeland, Florida

We have audited the financial statements of the Lakeland Area Mass Transit District (the District) as of and for the fiscal year ended September 30, 2013, and have issued our report thereon dated June 30, 2014.

We conducted our audit in accordance with United States generally accepted auditing standards, and *Government Auditing Standards* issued by the Comptroller General of the United States; and and 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 Auditor's Report on Internal Control over Financial Reporting and Compliance and Other Matters Based on an Audit of The Financial Statements Performed in Accordance with Government Auditing Standards, Independent Auditor's Report on Compliance for each Major Federal Program and State Financial Assistance Project; Report on Internal Control over Compliance; and Report of the Schedule of Expenditures of Federal Awards and State Financial Assistance Required by OMB Circular A-133 and Chapter 10.550, Rules of the Auditor General, and Schedule of Findings and Questioned Costs. Disclosures in those reports and schedule, which are dated June 30, 2014, 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 govern the conduct of local government entity audits performed in the State of Florida. This letter includes the following information, which is not included in the aforementioned auditor's 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 significant findings and recommendations made in the preceding annual financial audit report. Our results are as follows:

Tabulation of Uncorrected Findings and Summary of Prior Year Findings:			
Current Year Finding #	2011-12 FY Finding #	2010-11 FY Finding #	Status
2013-001	12-1 Preparation of the Schedule of Expenditures of Federal Awards and State Financial Assistance	None	Continuing comment (see Schedule of Findings and Questioned Costs)
None	12-2 Dual Signatures on Checks	N/A	Implemented
None	12-3 Non-compliance with the Prompt Payment Act	N/A	Implemented
None	12-4 Property Tax Revenue	N/A	Implemented
None	12-5 Prior Year Grant Receivable	N/A	Implemented
None	12-6 Inventory Valuation	N/A	Implemented
2013-001	12-7 Cost Per Revenue Hours Calculation		Continuing comment (see Schedule of Findings and Questioned Costs)

(Continued)

- Section 10.554(1)(i)2., Rules of the Auditor General, requires our audit to include a review of the provisions of Section 218.415, Florida Statutes, regarding the investment of public funds. In connection with our audit, nothing came to our attention that caused us to believe that the District failed to comply with Section 218.415, *Florida Statutes*, insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the District's noncompliance with Section 218.415, *Florida Statutes*, insofar as they relate to accounting matters.
- Section 10.554(1)(i)3., Rules of the Auditor General, requires that we address in the management letter any recommendations to improve financial management, accounting procedures, and internal controls. In connection with our audit, we have noted our findings and recommendations under the heading Current Year Recommendations.
- Section 10.554(1)(i)4., Rules of the Auditor General, requires that we address noncompliance with provisions of contracts or grant agreements, or abuses that have occurred, or are likely to have occurred, that have an effect on the financial statement amounts that is less than material but which warrants the attention of those charged with governance. In connection with our audit, we have noted our findings and recommendations under the heading Current Year Recommendations.

Section 10.554(1)(i)5., Rules of the Auditor General, requires that the name or official title and legal authority of the primary government and each component unit of the reporting entity be disclosed in this management letter, unless disclosed in the notes to the financial statements. This information is disclosed in the financial statements.

- Section 10.554(1)(i)6.a., Rules of the Auditor General, requires a statement be included as to whether or not the local governmental entity has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific condition(s) met. In connection with our audit, we determined that the District did not meet any of the conditions described in Section 218.503(1), Florida Statutes.
- Section 10.554(1)(i)6.b., Rules of the Auditor General, requires that we determine whether the annual financial report for the District for the fiscal year ended September 30, 2013, 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, 2013. In connection with our audit, we determined that these two reports were in agreement.
- Pursuant to Sections 10.554(1)(i)6.c. and 10.556(7), Rules of the Auditor General, we applied financial condition assessment procedures. It is management's responsibility to monitor the entity's financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by same.

(Continued)

CURRENT YEAR RECOMMENDATIONS

2013-002 MATCHING SCHEDULE		Deficiency
Condition:	In the current year there was not a formal review process in place for the grants matching schedule.	
Criteria:	Documented control procedures should be in place and operating effectively for all required compliance areas for federal and state grants.	
Cause:	There was a transition in staff and there was not enough staffing available to complete all of the tasks necessary in a complete, accurate and timely, manner.	
Effect:	The matching schedule had to be recalculated a number of times.	
Recommendation:	District should review its current staffing levels and procedures related to grant compliance and determine the appropriateness of those procedures for ensuring compliance with grant compliance requirements.	
Management's Response:	The District is developing procedures to monitor grants compliance on a monthly basis. A Senior Accountant; a new position has been hired and with the Chief Financial Officer will ensure all grants are in compliance with the grants award.	

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

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

The purpose of this management letter is to communicate certain matters prescribed by *Chapter 10.550 Rules of the Auditor General*. Accordingly, this management letter is not suitable for any other purpose.



Crowe Horwath LLP

Lakeland, Florida
June 30, 2014