KPMG

PINELLAS SUNCOAST TRANSIT AUTHORITY

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

September 30, 2007

(With Independent Auditors' Report Thereon)

PINELLAS SUNCOAST TRANSIT AUTHORITY

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

It is with great pleasure that the Annual Financial Report for the Pinellas Suncoast Transit Authority (the Authority) for the fiscal year ended September 30, 2007 is hereby submitted. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the Authority. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of the operations of the Authority. All disclosures necessary to enable the reader to gain an understanding of the Authority's financial activities have been included.

The Authority's financial statements have been audited by KPMG LLP, a firm of certified public accountants licensed to practice in the State of Florida. The audit was conducted to provide reasonable assurance that the Authority's financial statements for the fiscal year ended September 30, 2007 are free of material misstatements. The audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the Authority's financial statements for the fiscal year ended September 30, 2007 are presented fairly in conformity with accounting principles generally accepted in the United States of America. The auditor's report is presented as the first component of the financial section of this report.

Profile of the Authority

The Pinellas Suncoast Transit Authority (PSTA) was created in 1984 via a merger of the St. Petersburg Municipal Transit System and the Central Pinellas Transit Authority to provide Pinellas County with a cohesive public transit system. Today, a fleet of 181 buses and 16 trolleys serve more than 37 regular routes and six commuter routes throughout Pinellas County. The Route 100X provides express service between St. Petersburg and downtown Tampa 32 times a day, the Route 300X provides express service between Largo and downtown Tampa 14 times a day, and the popular Suncoast Beach TrolleySM connects the Gulf beaches from Clearwater Beach to Pass-a-Grille.

Pinellas County is 280 square miles with 924,610 residents. PSTA serves most of the unincorporated area and 19 of the County's 24 municipalities. This accounts for 98% of the County's population and 97% of its land area. The cities of St. Pete Beach, Treasure Island, Kenneth City, Belleair Beach, and Belleair Shore are not members of the Authority; however, St. Pete Beach and Treasure Island do contract for trolley service with PSTA.

During the 2006/07 service year, PSTA vehicles traveled a total of 10.2 million miles, providing approximately 659,000 hours of service, and 11.7 million passenger trips.

PSTA is governed by a board of directors comprised of thirteen elected officials, and two nonelected officials that are appointed by the County and municipal governments. Operating expenses are covered through state and federal funds, passenger fares, and ad valorem taxes.

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

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

Local Economy

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

Significant infill and redevelopment activity is underway as less than 7% of land area is vacant property that is suitable for development. Total employment is approximately 550,000, or 60% of total population. The largest employment sectors are services, commercial, and industrial.

With an expanse of beaches, it is estimated that over 5 million tourists visit Pinellas County every year. The service industry is the largest employment sector with slightly more than 300,000 employees, and projected growth to almost 350,000 by the year 2025.

Commercial employment is 130,000 and projected to grow to 140,000 through the 2025 horizon. Industrial employment is over 90,000 and will grow to almost 96,000 by 2025, according to current projections.

Local planners anticipate that employment will continue to grow at a faster rate than population. As a result, investment by PSTA has been necessary to accommodate increasing demand for transit service including peak-period service frequency improvements and more evening service for shift workers. A total of 11 expansion buses were purchased by PSTA in fiscal year 2007 to expand operations, better serve commute trips along major urban corridors, and facilitate intra-county travel.

Long-Term Financial Planning

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

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

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

Cash Management

The primary objective of the Authority’s investment program is the preservation of capital. Investment transactions are conducted in such a manner as to avoid loss. Accordingly, the Authority’s deposits were either insured by federal depository insurance or by collateral pledged with the State Treasurer pursuant to *Florida Statutes*. The Authority maintains an interest-bearing account which functions as a master account for zero balance checking accounts. Interest earnings are indexed to the Federal Reserve funds rate. All other funds are invested with the State Board of Administration Local Government Investment Pool and Comingled Asset Management Program Fixed Income Fund. Please see note 10 for additional information related to these investments.

Risk Management

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

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

Property Tax Reform

On June 14, 2007 the Florida Legislature passed sweeping property tax reforms designed to reduce the average property tax bill for homeowners and businesses. Effective for the 2007-08 fiscal year, most local governmental entities had to reduce their 2007-08 millage rates to the 2006-07 revenue levels. Once the rate was determined, the legislature mandated an additional cut of 3% to 9% based on the compounded annual growth in per capita property taxes levied from fiscal year 2001-02 to 2006-07. Based on PSTA’s compounded annual growth during the five year period, the additional cuts required to the millage rate was 3%. PSTA’s millage rate as a result of this legislation dropped from 0.6074 mills in fiscal year 2006-07 to 0.5601 mills in fiscal year 2007-08.

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

Major Initiatives

- PSTA introduced Automatic Passenger Counters (APC) into the fleet. The APC's provide ridership and running time information at the individual bus stop level. The information obtained from the APC's is used to improve scheduling and amenity planning.
- PSTA enhanced service frequency on Routes 04, 59, 60, and 74. Evening service was increased on selected routes.
- PSTA enjoyed record ridership of 11.7 million passengers, an increase of 2.3% over the prior year.
- The Bikes on Buses program realized growth of 37.9% over the prior year bringing the total bike trips to 322,726.
- Twenty one new Gillig buses were purchased to replace the 1997 model year vehicles. This brings the average age of PSTA's fleet to just over five years.

Awards and Acknowledgements

Several PSTA projects earned awards and recognition from local and national entities. The American Public Transportation Association (APTA) awarded PSTA with a First Place AdWheel Award for the "Pick Up the Phone" animated television commercial. The South West Transit Association also recognized the commercial with a Third Place honor, as well as a First Place award for the Lost & Found Interior Bus Poster, and a Second Place for the Retiring Executive Director's Tribute PowerPoint presentation. The "Pick Up the Phone" commercial was also bestowed an Award of Excellence from the Florida Public Transportation Association (FPTA). The annual FPTA awards program also recognized the annual Bus Roadeo Communications Materials and the GO Card Self-Promotion Back Attack Bus Posters with Awards of Merit, and the campaign promoting Rollin the Trip Planner with an Honorable Mention.

Mr. Tim Garling assumed the roll of Executive Director on November 12, 2007, replacing Roger Sweeney who retired after 16 years of service on July 1, 2007.

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

Respectfully submitted,

Steven K. Smith, CPA
Director of Finance

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

Independent Auditors' Report

Members of the Board
Pinellas Suncoast Transit Authority:

We have audited the accompanying balance sheet of the Pinellas Suncoast Transit Authority (PSTA) as of September 30, 2007, and the related statements of revenues, expenses and changes in net assets and of cash flows for the year then ended. These financial statements are the responsibility of PSTA's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of PSTA's internal control over financial reporting. Accordingly we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of PSTA as of September 30, 2007, and the changes in financial position and cash flows thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 10, 2008, on our consideration of PSTA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

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

KPMG LLP

November 10, 2008
Certified Public Accountants

Pinellas Suncoast Transit Authority (PSTA or Authority) offers readers of PSTA's financial statements this narrative overview and analysis of the financial activities of PSTA for the fiscal year ended September 30, 2007. The information presented here should be considered in conjunction with the letter of transmittal and the financial statements.

Financial Highlights

- The Authority's assets exceeded its liabilities at the close of fiscal year 2007 by $110.6 million (net assets) which is an increase over the prior period of $6.7 million. Of the net asset amount, $25.6 million is unrestricted and may be used to meet the Authority's ongoing obligations.
- The revenues and capital grants totaled $69.2 million, an increase of 6.0% over the prior year. Expenses and special item totaled $62.5 million, an increase of 2.4% over the prior year. The results of the 2007 activities resulted in an increase in net assets of $6.7 million.

Overview of the Financial Statements

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

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

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

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

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

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

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

(Continued)

Financial Analysis

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

		2007	2006
Assets:			
Current and other assets	$	34,182,139	27,808,897
Capital assets		85,020,852	85,860,203
Total assets	$	119,202,991	113,669,100
Liabilities:			
Current liabilities	$	8,594,875	9,762,404
Total liabilities		8,594,875	9,762,404
Net assets:			
Investments in capital assets		85,020,852	85,860,203
Unrestricted		25,587,264	18,046,493
Total net assets		110,608,116	103,906,696
Total liabilities and net assets	$	119,202,991	113,669,100

As depicted above, the largest portion of the Authority's net assets, 76.9%, reflects its investment in capital assets. The Authority uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. The PSTA Board of Directors has chosen to designate how the unrestricted portion of the net assets can be used (see note 5 to the financial statements). As was the case in the prior years, PSTA has no debt and is able to report positive balances in all categories of net assets.

The following schedule reflects the condensed statement of revenues and expenses and changes in net assets compared to the prior year. Total revenues increased by 6.0%, substantially from increased property tax revenues. Total expenses and special items increased by 2.4% as compared to the prior year.

		2007	2006
Operating revenues	$	10,847,632	9,165,409
Operating expenses:			
Operations		27,549,595	26,221,417
Purchased transportation		4,737,036	4,524,549
Maintenance		7,764,003	6,768,943
Administration and finance		10,992,624	11,243,446
Marketing		2,111,843	1,792,109
Depreciation		9,381,743	6,817,959
Total operating expenses		62,536,844	57,368,423
Operating loss		(51,689,212)	(48,203,014)
Federal, state, and local operating assistance grants		6,452,699	5,821,572
Property tax revenues		37,972,265	32,964,068
Other nonoperating revenue, net		4,785,730	1,972,738
Capital grants		9,179,938	15,400,163
Change in net assets before special items		6,701,420	7,955,527
Special items		—	(3,719,636)
Change in net assets		6,701,420	4,235,891
Net assets, beginning of the year		103,906,696	99,670,805
Net assets, end of the year	$	110,608,116	103,906,696

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

The operating revenue continues to show improvement due to increased ridership. The operating revenues increased by $1.7 million or 18.4%. Operating expenses before depreciation and special items increased by $2.6 million or 5.2% over fiscal year 2006. The largest portion of the increase was due to a $2.5 million increase in salaries and benefits.

The nonoperating revenues, excluding capital grants, increased by $8.5 million or 20.7%. The growth in property tax revenue was the result of a higher tax base causing an increase of $5.0 million or 15.2%. The millage for fiscal years 2007 and 2006 was 0.6074 and 0.6377 respectively. See note 2(m) for additional information on ad valorem taxes.

The special items in fiscal year 2006 included the sale of the Clearwater Facility for $5.0 million which resulted in a gain on disposition of $583 thousand; the abandonment of the software package which resulted in a write-off of the software cost of approximately $2.2 million; and the occurrence of a liability to repay the federal government $2.1 million in grant funds used to purchase the system.

On August 25, 2008, the federal government waived any claim for repayment of funds awarded for the procurement of the system. Accordingly, PSTA reduced the amount due to the federal government and during the year ended September 30, 2007, recognized the $2.1 million in nonoperating revenue, other, net.

Capital Assets

PSTA has invested $85.0 million in capital assets (net of accumulated depreciation). Approximately 41.1% of capital assets represent revenue generating equipment and approximately 42.8% represents the new Scherer Drive Administration and Maintenance facility.

Capital Assets, Net of Accumulated Depreciation

		2007	2006
Land	$	6,961,677	6,961,677
Buildings and improvements		39,622,931	40,889,514
Revenue equipment		34,980,636	34,339,642
Furniture and other equipment		3,420,233	3,359,483
Capital assets in progress		35,375	309,887
Total	$	85,020,852	85,860,203

Additional information regarding capital assets can be found in note (4) of the financial statements.

Long-Term Debt Administration

PSTA currently has no long-term debt. Through management's strategy, PSTA has been able to avoid issuing bonds or other debt instruments.

Economic Factors and Next Years Budgets and Rates

The adopted fiscal year 2008 budget was based on a rate of 0.5601 mill which was reduced from 0.6074 mill for fiscal year 2007. Lowering the rate was mandated by the Property Tax Reform Legislation which was passed on June 14, 2007.

Requests for Information

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

PINELLAS SUNCOAST TRANSIT AUTHORITY

Balance Sheet

September 30, 2007

Assets

Current assets:		
Cash and cash equivalents	$	31,573,231
Accounts receivable, net of allowance of $523,278		1,056,097
Grants receivable		316,336
Inventories		1,069,962
Prepaid expenses		166,513
Total current assets		34,182,139
Capital assets:		
Land		6,961,677
Buildings and improvements		45,324,682
Revenue equipment		65,730,500
Furniture and other equipment		7,073,849
Capital assets in progress		35,375
		125,126,083
Less accumulated depreciation		40,105,231
Total capital assets		85,020,852
Total assets	$	119,202,991

Liabilities and Net Assets

Current liabilities:		
Accounts payable	$	2,779,314
Accrued expenses		5,815,561
Total current liabilities		8,594,875
Net assets:		
Invested in capital assets		85,020,852
Unrestricted		25,587,264
Total net assets		110,608,116
Total liabilities and net assets	$	119,202,991

See accompanying notes to financial statements.

PINELLAS SUNCOAST TRANSIT AUTHORITY

Statement of Revenues, Expenses and Changes in Net Assets

Year ended September 30, 2007

Operating revenues:		
Passenger fares	$	10,717,941
Demand response		129,691
Total operating revenues		10,847,632
Operating expenses:		
Operations		27,549,595
Purchased transportation		4,737,036
Maintenance		7,764,003
Administration and finance		10,992,624
Marketing		2,111,843
Total operating expenses, before depreciation		53,155,101
Operating loss before depreciation		(42,307,469)
Depreciation		9,381,743
Operating loss		(51,689,212)
Nonoperating revenues:		
Federal maintenance assistance grants		1,244,902
State operating assistance grants		3,358,203
Other federal grants		254,840
Special project assistance – state grants		1,076,945
Special project assistance – local grants		517,809
Property tax revenues		37,972,265
Interest income		1,874,079
Advertising revenue		116,467
Fuel tax refunds		562,156
Other, net		2,233,028
Total nonoperating revenues		49,210,694
Loss before capital grants		(2,478,518)
Capital grants		9,179,938
Increase in net assets		6,701,420
Net assets, beginning of year		103,906,696
Net assets, end of year	$	110,608,116

See accompanying notes to financial statements.

PINELLAS SUNCOAST TRANSIT AUTHORITY

Statement of Cash Flows

Year ended September 30, 2007

Cash flows from operating activities:		
Receipts from customers	$	10,105,716
Payments to suppliers		(19,325,529)
Payments to and on behalf of employees		(32,595,730)
Net cash used in operating activities		(41,815,543)
Cash flows from capital financing activities:		
Purchases of capital assets		(8,543,837)
Capital grants		9,179,938
Proceeds from sale of capital assets		26,629
Net cash provided by capital financing activities		662,730
Cash flows from noncapital financing activities:		
Property tax revenues		37,972,265
Operating and special project assistance grants		7,288,560
Other		824,618
Net cash provided by noncapital financing activities		46,085,443
Cash flows from investing activities:		
Interest received		1,874,079
Net cash provided by investing activities		1,874,079
Net increase in cash and cash equivalents		6,806,709
Cash and cash equivalents, beginning of year		24,766,522
Cash and cash equivalents, end of year	$	31,573,231
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	$	(51,689,212)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation		9,381,743
Increase in accounts receivable		(741,916)
Decrease in inventories		162,493
Decrease in prepaid expenses		177,029
Increase in accounts payable		1,452,252
Decrease in accrued expenses		(557,932)
Net cash used in operating activities	$	(41,815,543)
Noncash capital financing activities:		
Decrease in due to FTA	$	2,061,849

See accompanying notes to financial statements.

(1) Description of Business

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

(2) Summary of Significant Accounting Policies

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

(a) Measurement Focus and Basis of Accounting

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

(b) Cash and Cash Equivalents

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

(c) Accounts Receivable

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

(d) Grants Receivable

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

(e) Inventories and Prepaid Expenses

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

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

(f) Capital Assets

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

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

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

(g) Compensated Absences

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

(h) Net Assets

Net assets are classified and displayed in three components:

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

Restricted net assets – Consists of net assets with constraints placed on the use either by (1) external groups, such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation. There were none at September 30, 2007.

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

(i) Grants

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

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

(j) Use of Estimates

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

(k) Operating Revenues and Expenses

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

(l) Fare Revenues

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

(m) Property Tax Revenue

PSTA is a special taxing district which is authorized to levy an ad valorem tax on the taxable real and personal property in the transit area not to exceed 0.7500 mills. The approved ad valorem tax rate for fiscal year 2007 was 0.6074 mills.

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

The Pinellas County Tax Collector advertises and sells tax certificates on all real property for delinquent taxes. The Pinellas County Tax Collector must receive payment before the certificates are issued. Any person owning land on which a tax certificate has been sold may redeem the tax certificate by paying the Pinellas County Tax Collector the face amount of the tax certificate plus

(Continued)

interest and other costs. The owner of the tax certificate may, at any time after taxes have been delinquent (April 1), for two years, file an application for tax deed sale. The County, as a certificate owner, may exercise similar procedures two years after taxes have been delinquent. Tax deeds are issued to the highest bidder for the property which is sold at public auction.

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

Property tax calendar:

January 1, 2006 – Property taxes are based on assessed property value at this date as determined by the Pinellas County Property Appraiser.

May 23, 2006 – Property assessment roll and certificates of value provided to PSTA by the Pinellas County Property Appraiser.

July 26, 2006 – Proposed millage rate is approved by the Board of Directors and provided to the Pinellas County Property Appraiser who mails notices to the taxpayers.

September 13, 2006 – Property tax millage rate resolution approved by the Board of Directors.

October 1, 2006 – Beginning of the year for which property taxes have been levied.

November 1, 2006 – Property taxes are due and payable.

April 1, 2007 – Unpaid property taxes become delinquent.

June 1, 2007 – Tax certificates are sold by the Pinellas County Tax Collector.

(n) Implementation of New Accounting Standards

In April 2004, the Governmental Accounting Standards Board issued Statement 43 (GASB 43) for financial reporting for post-employment benefit (OPEB) plans other than pension plans. GASB 43 applies to state and local governmental employers that have plans to fund OPEB costs such as healthcare and life insurance. There was no financial statement impact to PSTA.

In June 2004, the Governmental Accounting Standards Board issued Statement 45 (GASB 45) for other post-employment benefits (OPEB), which is effective for PSTA beginning with fiscal year ended September 30, 2008. This statement requires that PSTA accrue the cost of PSTA's retiree health subsidy and OPEB during the period of employees' active employment as the benefits are being earned. It requires the unfunded actuarial accrued liability be disclosed in order to accurately account for the total future cost of OPEB and the financial impact on PSTA. As of the date of these financial statements, the amount of liability has not been determined.

(3) Cash and Cash Equivalents

At September 30, 2007, the carrying value of PSTA's cash and cash equivalents was as follows:

Type		Carrying value	Credit rating
Petty cash	$	16,587	N/A
Demand deposits		3,294,163	N/A
Commingled Asset Management Program (CAMPFI)		6,101,925	N/A
Local Government Surplus Funds Trust Fund (SBA)		22,160,556	Unrated
Total cash and cash equivalents	$	31,573,231	

(a) Custodial Credit Risk

At September 30, 2007, Pinellas Suncoast Transit Authority's deposits were entirely covered by federal depository insurance or by collateral pledged with the State Treasurer pursuant to Chapter 280, *Florida Statutes*. Under this Chapter, in the event of default by a participating financial institution (a qualified public depository), all participating institutions are obligated to reimburse the governmental entity for the loss.

(b) Credit Risk

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

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

PSTA invested funds throughout the year with the Local Government Surplus Funds Trust Fund (LGIP) and the Commingled Asset Management Program Fixed Income Pool (CAMPFI) which are administered by the State Board of Administration of Florida (SBA). Chapter 19-7 of the Florida Administrative Code provides guidance and establishes the general operating procedures for the administration of the funds and they are audited by the State of Florida Auditor General.

The LGIP is not a registrant with the Securities and Exchange Commission; however, it is a "2a-7 like" pool. Consequently, the fair value of the portion in this external investment pool is the same as the value of the pool shares.

(Continued)

The CAMPFI invests in bonds with intermediate and long maturities. Changes in interest rates will cause volatility in the net asset value of the portfolio. The carrying value represents fair value based upon quoted market prices at September 30, 2007. Securities purchased by CAMPFI are consistent with Section 215.47, Florida Statutes.

The investments are not classified as to credit risk because they are not evidenced by securities that exist in book or entry form. Credit ratings of the investments held by the Pinellas Suncoast Transit Authority's cash balance are indicated above.

(c) Interest Rate Risk

PSTA has no specific investment policy regarding interest rate risk.

(d) Concentration of Credit Risk

PSTA places no limit on the amount PSTA may invest in any one issuer. PSTA had $28,262,481 with the State Board of Administration of Florida (SBA) at September 30, 2007 or approximately 90% of its cash and cash equivalents. The amount invested with the SBA was $22,160,556 in the Local Government Surplus Funds Trust Fund and $6,101,925 in the Commingled Asset Management Program, Fixed Income. Please see note 10 for additional information related to these investments.

(4) Capital Assets

Capital asset activity for the year ended September 30, 2007 was as follows:

	October 1, 2006	Additions	Transfers and disposals	September 30, 2007
Nondepreciable assets:				
Land	$ 6,961,677	—	—	6,961,677
Capital assets in progress	309,887	3,728	278,240	35,375
Total nondepreciable assets	7,271,564	3,728	278,240	6,997,052
Depreciable assets:				
Buildings and improvements	44,908,284	423,488	7,090	45,324,682
Revenue equipment	60,520,402	7,326,725	2,116,627	65,730,500
Furniture and other equipment	6,039,409	1,068,136	33,696	7,073,849
Total depreciable assets	111,468,095	8,818,349	2,157,413	118,129,031
Total at historical cost	118,739,659	8,822,077	2,435,653	125,126,083
Less accumulated depreciation for:				
Buildings and improvements	4,018,770	1,690,071	7,090	5,701,751
Revenue equipment	26,180,760	6,685,732	2,116,628	30,749,864
Furniture and other equipment	2,679,926	1,005,940	32,250	3,653,616
	32,879,456	9,381,743	2,155,968	40,105,231
Capital assets, net	$ 85,860,203	(559,666)	279,685	85,020,852

(5) Board Designated Net Assets

Unrestricted net assets includes reserves which have been designated by the Board of Directors for capital asset replacement in the amount of $9,638,557, catastrophic event claims in the amount of $2,000,000 and operating contingencies in the amount of $13,948,707.

(6) Risk Management

PSTA maintains self-insured programs for damage to vehicles and general liability claims for amounts up to $100,000 and workers' compensation claims for amounts up to $250,000. PSTA carries insurance coverage for excess liability limited to $2,000,000 per occurrence for vehicle and general liability claims. PSTA's excess workers' compensation program provides protection consistent with Florida Statutes. Provision has been made for claims filed and for estimated losses resulting from claims incurred but not reported as of the close of the fiscal year based upon the judgment of management and plan administrators. For the past three years, insurance settlements have not exceeded insurance coverage and there were no significant reductions in insurance coverage from the previous year.

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

		Workers' compensation	General liability
Claims reserve – September 30, 2005	$	1,205,393	460,779
Current year claims incurred and changes in prior year estimates		1,539,203	1,352,080
Claim payments		(1,359,553)	(667,008)
Claims reserve – September 30, 2006		1,385,043	1,145,851
Current year claims incurred and changes in prior year estimates		1,351,448	1,053,734
Claim payments		(478,462)	(979,187)
Claims reserve – September 30, 2007	$	2,258,029	1,220,398

(7) Retirement Plan

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

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

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

PSTA is required to contribute to FRS at an actuarially determined rate. The rate was 9.85% of covered payroll from October 2006 through September 2007 with the exception of DROP participants whose rate was 10.91%. The contribution requirements of PSTA are established and may be amended by the State of Florida. PSTA's contributions to the plan for the years ending September 30, 2007, 2006, and 2005 were $2,248,227, $1,723,016, and $1,516,866, respectively, and were equal to the required contributions for each year.

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

(8) Post Employment Benefits Other than Pension

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

(9) Commitments and Contingencies

(a) Grant Expenditures Subject to Audit

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

(b) Litigation

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

(c) Due to Federal Transit Administration

PSTA entered into an agreement with a vendor to install a new fully integrated software package that would handle the tracking and reporting needs of a public transportation entity. The system went live in August 2005 but it was determined that the system would not meet PSTA's needs and was abandoned. The total capital cost of the system was $2,140,483 plus $100,589 in peripheral capital costs for a total of $2,241,072, all of which was written off during the fiscal year ended September 30, 2006. In addition, a corresponding amount due to the federal government of $2,061,848 was also recorded as the system was purchased with grant funds. On August 25, 2008, the Federal Transit Administration waived any claim for repayment of funds awarded for the procurement of the system. Accordingly, PSTA reduced the amount due to the federal government and recognized the $2,061,848 in nonoperating revenue, other, net, in the accompanying statement of revenues, expenses, and changes in net assets.

(10) Subsequent Events

On November 29, 2007, the State Board of Administration (SBA) put a hold on any withdrawals of amounts invested in the Local Government Surplus Funds Trust Fund (LGIP) by local governments. This action was taken to prevent a further deterioration in the overall investment portfolio as a result of significant amounts of withdrawals that had taken place during the month of November 2007. These withdrawals were based upon the disclosure that the SBA had invested in mortgage backed securities which had the potential for significant declines in market value.

On December 6, 2007, the SBA classified all amounts invested by local governments in LGIP into two distinct funds. Pool A was allocated 86% of the amounts invested by each respective local government and became withdrawable on that date. This fund continues to permit deposits and withdrawals and is backed by short-term highly liquid investments. Pool B received 14% of the amounts and is secured by the underlying troubled investments. No deposits or withdrawals are permitted to Pool B. As the underlying securities stabilize or mature they are transferred to Pool A where they may be withdrawn. As of June 30, 2008 approximately $1.6 million of the $2.6 million originally transferred from Pool A to Pool B has been transferred back to Pool A.

On September 30, 2008, PSTA had $8,491,226 invested in the LGIP Pool A and $858,193 invested in Pool B. Pool A is now rated AAAm by Standard and Poors and remains a 2a-7 like investment. Accordingly, the account balance is considered the fair value of PSTA's investment. Pool B is considered a fluctuating net asset (NAV) for valuation purposes with a Fair Value Factor of .798385. Applying this factor to the Pool B balance of $858,193 yields a fair value of $685,168.

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

Members of the Board
Pinellas Suncoast Transit Authority:

We have audited the financial statements of the Pinellas Suncoast Transit Authority (PSTA) as of and for the year ended September 30, 2007, and have issued our report thereon dated November 10, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered PSTA's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of PSTA's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of PSTA's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiencies described in items 2007-01, 2007-02, 2007-03, 2007-04, and 2007-05 in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider items 2007-01, 2007-02, 2007-03, 2007-04, and 2007-05 to be material weaknesses.

Compliance and Other Matters

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

We noted certain matters that we reported to management of PSTA in a separate letter dated November 10, 2008.

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

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

KPMG LLP

November 10, 2008
Certified Public Accountants

KPMG

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

Members of the Board
Pinellas Suncoast Transit Authority:

Compliance

We have audited the compliance of the Pinellas Suncoast Transit Authority (PSTA) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* and the requirements described in the Executive Office of the Governor's *State Projects Compliance Supplement* that are applicable to each of its major federal programs and state financial assistance projects for the year ended September 30, 2007. PSTA's major federal programs and state financial assistance projects are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs and state financial assistance projects is the responsibility of PSTA's management. Our responsibility is to express an opinion on PSTA's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* (OMB Circular A-133) and Chapter 10.550, *Rules of the Auditor General* (Chapter 10.550). Those standards, OMB Circular A-133 and Chapter 10.550, require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program or state financial assistance project occurred. An audit includes examining, on a test basis, evidence about PSTA's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on PSTA's compliance with those requirements.

In our opinion, PSTA complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs and state financial assistance projects for the year ended September 30, 2007. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and Chapter 10.550 and which are described in the accompanying schedule of findings and questioned costs as items 2007-06 and 2007-07.

Internal Control over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program or state financial assistance project on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program or state financial assistance project such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program or state financial assistance project that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2007-06 and 2007-07 to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program or state financial assistance project will not be prevented or detected by the entity's internal control. We did not consider any of the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses.

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

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

KPMG LLP

November 10, 2008
Certified Public Accountants

PINELLAS SUNCOAST TRANSIT AUTHORITY

Schedule of Expenditures of Federal Awards
and State Financial Assistance

Year ended September 30, 2007

Federal or state grantor/pass-through grantor/program title	CFDA number/ CSFA number	Grant or contract number		Expenditures
U.S. Department of Transportation:				
Direct programs:				
Federal Transit Cluster:				
Federal Transit Capital Grant	20.500	FL-03-0284	$	127,618
Federal Transit Formula Grant	20.507	FL-90-0377		369,858
Federal Transit Formula Grant	20.507	FL-90-0405		2,800
Federal Transit Formula Grant	20.507	FL-90-0435		112,611
Federal Transit Formula Grant	20.507	FL-90-0470		121,105
Federal Transit Formula Grant	20.507	FL-90-0507		328,667
Federal Transit Formula Grant	20.507	FL-90-0535		1,841,996
Federal Transit Formula Grant	20.507	FL-90-0562		7,505,144
Federal Transit Formula Grant	20.507	FL-90-0605		13,541
Federal Transit Formula Grant	20.507	FL-90-0617		1,500
Total program				10,424,840
Job Access/Reverse Commute	20.516	FL-37-4007		174,840
Passed through Pinellas County Metropolitan Planning Organization:				
Federal Transit Formula Grant	20.505	WP-17816685		80,000
Total expenditures of federal awards			$	10,679,680
Florida Department of Transportation:				
Direct programs:				
Public Transit Block Grant Program	55.010	402513-1-84-07	$	3,358,204
Public Transit Service Development Program (Route 18)	55.012	411923-l-84-05		322,864
Public Transit Service Development Program (Routes 5, 7 and 15)	55.012	420737-1-84-01		183,688
Public Transit Service Development Program (Routes 59 &74)	55.012	422380-1-84-01		18,351
Public Transit Service Development Program (Route 78)	55.012	420738-1-84-01		58,485
Public Transit Service Development Program (Route 90)	55.012	402532-1-84-03		12,707
Public Transit Service Development Program (Route 19 Existing Service)	55.012	411923-1-94-04		163,798
Total program				759,893
Transit Corridor Program (Route 100X)	55.013	410695-1-84-07		167,051
Transit Corridor Program (Route 300X)	55.013	418695-1-84-02		150,000
Total program				317,051
Total expenditures of state financial assistance			$	4,435,148

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

PINELLAS SUNCOAST TRANSIT AUTHORITY

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

Year ended September 30, 2007

Basis of Presentation

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

PINELLAS SUNCOAST TRANSIT AUTHORITY

Schedule of Findings and Questioned Costs

Year ended September 30, 2007

Section I – Summary of Auditors' Results

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

Identification of major programs/projects:

Federal programs	Federal CFDA No.
U.S. Department of Transportation:	
Federal Transit Cluster	20.500/20.507

The threshold for distinguishing Type A and Type B programs was $320,390 for federal programs.

Auditee qualified as low-risk auditee?		Yes	X	No

(Continued)

PINELLAS SUNCOAST TRANSIT AUTHORITY

Schedule of Findings and Questioned Costs

Year ended September 30, 2007

State projects:

Internal control over major projects:

• Material weakness(es) identified?		Yes	X	No
• Significant deficiency(ies) identified that are not considered to be material weaknesses?	X	Yes		No
Type of auditors' report issued on compliance for major projects:	Unqualified			
Any audit findings disclosed that are required to be reported in accordance with Chapter 10.550?	X	Yes		No

Identification of major programs/projects:

State projects	State CSFA No.
Florida Department of Transportation:	
Public Transit Block Grant Program	55.010
Public Transit Service Development Program	55.012

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

(2) Findings Relating to the Financial Statements Reported in Accordance with *Government Auditing Standards*

Finding 2007-01

Criteria

Proper reporting of financial results in a timely and accurate manner is an important component of internal control. Controls should be in place to monitor account balances on a regular basis to detect potential errors that could impact the accurate reporting of financial results.

Condition Found

Throughout fiscal 2007, sufficient controls were not in place to detect and correct errors that impacted financial reporting. Several balance sheet accounts contained amounts and balances that were not correct and consequently the closing process and preparation of the financial statements was not completed for 11 months after the fiscal year-end.

Cause

Lack of management review of financial results in a timely manner.

Context

The finding is systemic in nature as several post closing journal entries were needed to finalize year-end account balances.

Effect

The lack of timely account balance monitoring and reconciliation on a regular basis can result in errors occurring that could go undetected. Sometimes these errors can be the result of process activities or technology issues that need to be revised or changed to prevent future similar errors.

Perspective

This incident is systemic in nature.

Recommendation

Management should establish policies and procedures to monitor and reconcile account balances and funds on a monthly basis. There should be adequate supervision and review performed to ensure all reconciliations are taking place and that journal entries related to reconciliations are properly reviewed. When errors are identified that require adjustment, the nature of the error needs to be identified and corrected so that similar errors in the future do not occur.

2006 Management's Response

All journal entries are now being reviewed and approved prior to posting. Account balances are being reviewed and subsidiary ledgers are reconciled monthly.

2007 Management's Response

The audit for fiscal year 2006 was completed in March 2008. The recommendation made by the auditors was corrected at that time. Fiscal year 2007 was closed prior to the completion of the audit for 2006 so the recommendation was still applicable. Currently, all journal entries are being approved prior to posting. Account balances are being reviewed and subsidiary ledgers are reconciled to the general ledger.

Finding 2007-02

Criteria

The timely preparation and review of bank reconciliations are part of an effective system of internal controls. Bank reconciliations are designed to prevent and detect errors or irregularities by comparing the amounts recorded in the general ledger to supporting documentation. Any differences should be investigated and resolved in a timely manner.

Condition Found

The bank reconciliations for PSTA's eight bank accounts were not performed in a timely manner and were not reconciled to the general ledger for several months after the fiscal year-end. Furthermore, several outstanding items noted on the year-end bank reconciliations were not proper reconciling items.

Cause

Lack of performing bank reconciliations in a timely manner.

Context

The finding is systemic in nature as PSTA was unable to reconcile the bank accounts back to the general ledger on a timely basis. Furthermore, management had to adjust to the bank balance for all cash accounts.

Effect

Several general ledger accounts are subject to errors and irregularities since the reconciling items on the bank reconciliations are not being identified and corrected on a timely basis.

Perspective

This incident is systemic in nature.

Recommendation

We recommend that the bank reconciliations be prepared monthly on a timely basis and that the Finance Director review the reconciliations, as well as the appropriate disposition of reconciling items and any related journal entries, in a timely manner.

2006 Management's Response

Bank accounts are now being reconciled and reviewed by management on a timely basis.

2007 Management's Response

The audit for fiscal year 2006 was completed in March 2008. The recommendation made by the auditors was corrected at that time. Fiscal year 2007 was closed prior to the completion of the audit for 2006 so the recommendation was still applicable. Currently, the bank accounts are being reconciled and reviewed by management on a monthly basis.

(Continued)

Finding 2007-03

Criteria

PSTA management is responsible for preparing a statement of cash flows that properly presents the cash effects during the reporting period of PSTA's operations, noncapital financing transactions, capital and related financing transactions, and investing transactions.

Condition Found

The cash flow statement prepared by PSTA's management required several adjustments in order to be in accordance with U.S. Generally Accepted Accounting Principles.

Cause

Lack of proper training on preparing the Statement of Cash Flows.

Context

The finding is systemic in nature as there were several errors in the cash flow statement in the categories of capital financing activities as well as noncapital financing activities.

Effect

Improper presentation of cash effects from capital and noncapital financing activities can result in a statement of cash flows which is not in accordance with U.S. Generally Accepted Accounting Principles.

Perspective

This incident is isolated to the condition noted above.

Recommendation

Management should consider additional training for accounting staff regarding the requirements of Statement of Financial Accounting Standards No. 95, *Statement of Cash Flows*.

Management's Response

We concur with the auditors finding and will provide the training as suggested.

(Continued)

Finding 2007-04

Criteria

Manually prepared journal entries should be supported by sufficient underlying documentation that provides an explanation of the amount and nature of the transaction, properly retained in files and reviewed and approved by someone other than the preparer. Controls should be in place to ensure that all manually prepared journal entries are reviewed and underlying support for those journal entries are attached and retained for an appropriately established retention period.

Condition Found

During our audit, we selected 282 manual journal entries for testwork. Of the 282 journal entries selected, 16 of the entries had no evidence of management review and the original manual journal entries as well as corresponding underlying support for 57 manual journal entries either could not be located or only a partial amount of the journal entry amount could be supported. After extensive research and analysis of accounts that were impacted by the journal entries, PSTA pieced together the support for each entry.

Cause

Lack of policies and procedures to review, support, and retain manual journal entries.

Context

The finding is systemic in nature.

Effect

Management oversight over manual journal entries is crucial for effective internal controls over the financial reporting process. The lack of controls and management review over journal entries to support amounts posted to the general ledger can lead to improper financial reporting.

Perspective

This incident is systemic in nature.

Recommendation

Management should implement policies and procedures whereby all manually prepared journal entries are reviewed and supported by sufficient underlying documentation and properly filed for an appropriately established retention period.

Management's Response

We concur with the auditor's findings and all manually prepared journal entries are being reviewed and approved and supporting documentation is attached.

(Continued)

Finding 2007-05

Criteria

Effective IT general controls are an important component of information systems for the processing of operational as well as financial information.

Condition Found

IT general control testing identified control design deficiencies as well as a lack of controls around significant risk points related to access to programs and data, program changes, and program development processes.

Cause

Lack of controls around access to programs and data, program changes, and program development.

Context

The finding is systematic in nature.

Effect

Failed IT general controls.

Perspective

The finding is systemic in nature.

Information Technology Policies/Procedures

Observation

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

Recommendation

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

Management's Response

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

(Continued)

Passwords Policy Not Enforced

Observation

Strong controls are not enforced for FleetNet passwords, including password length, password history, or complexity requirements. Weak password controls can result in the compromise of FleetNet accounts, which can then lead to unauthorized access to financially critical areas of the FleetNet application.

In addition, password standards are not defined by management in PSTA's IT policies.

Recommendation

Password standards should be clearly defined in PSTA's IT policies. FleetNet password parameters should strictly follow what is outlined in PSTA's IT policies.

In addition, the following password controls should be enforced for access to the FleetNet application:

- Minimum Password Length – 6 characters
- Maximum Password Age – 90 days
- Password Complexity – must have alpha/numeric characters
- Enforce Password History – remember passwords for 1 year (users cannot re-use the same passwords)
- Account Lockout Threshold – 5 invalid logon attempts

Management's Response

IT will work with FleetNet to determine what of the requirements above can be provided to meet the recommended password controls. Currently, a six character password is issued to the user with the user then recommended to change the password to one that they can remember. Since FleetNet will not be fully implemented until the end of February 2008, not all users have the need to change passwords as they are in "Test" environment not production or have not started using the upgraded version. In order to meet the recommendation above, a FleetNet Password policy will be developed.

Physical Access to FleetNet server room

Observation

Entrance to the server room is not restricted by a badge reader. While the two entrances to the Technology Department have badge readers, the server room itself is not properly secured. Badge access is not restricted to appropriate PSTA personnel. Marketing, finance, administrative, and maintenance employees should not have access to the Technology Department server area.

Recommendation

The server room door should have a badge reader that only allows access to authorized personnel (appropriate members of technology department). Also, badge access should not be granted to employees from departments such as: marketing, finance, administration, and maintenance. Finally, management should review the list of users with badge access to the server room/technology department.

Management's Response

The physical entrance into the IT area is limited to only the Executive Director, Directors and certain Managers. A separate card reader has been installed at the server room entrance to further limit access to that area.

FleetNet New User Access

Observation

Evidence that management notifies the technology department of a new user's access rights to functionality within the FleetNet application is not consistently documented.

Recommendation

Documentation should be maintained that shows management's approval of a new user's access rights in FleetNet.

Management Response

Currently, the only management notification to establish a new FleetNet user's access rights comes in through our HelpDesk email account from the user's manager. The email specifies the FleetNet modules access required to support the new user's job functions and duties. FleetNet access rights are not established until IT is notified that the new user has started and has had some training from the user's department. A formal document will be developed to ensure through the manager's approval, that the user's access is setup correctly. If the user leaves PSTA, the document will also provide information to what modules access rights should be disabled.

A Periodic Review of FleetNet User Access is not Performed

Observation

A periodic system access review is not performed for the FleetNet application which can result in unauthorized access.

Recommendation

PSTA management (department directors along with IT) should perform a review of user access privileges on at least a semi-annual basis. A system access listing should be generated by the application security administrators and distributed to the directors in each department to review and formally approve whether system access is appropriately assigned. Evidence of management review should be maintained, including

(Continued)

sign-off on the system access report(s) reviewed, management response of inappropriate rights that need to be removed, and confirmation from IT confirming the removal of any inappropriate user access rights identified.

Management's Response

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

No Documentation of Authorizing Changes

Observation

Sufficient documentation that includes management's approval of all changes made to the FleetNet application is not retained.

Recommendation

A formal process should be in place for making changes to the FleetNet application. All changes need to be approved and signed off by an appropriate level of business and/or IT management. Obtaining the appropriate approval confirms that the changes arc technically feasible and have considered financial reporting objectives.

Management's Response

PSTA purchased standard transit specific software to manage all aspects of the business. Each Transit Agency's business processes are different and require software changes. PSTA does not have data base administrators (DBA) so any code changes are done by FleetNet. Since implementing FleetNet, the users have identified deficiencies in the software due to PSTA's business processes. As areas are identified, they are discussed with management. If the management concurs on the need or a change, an email is sent to IT's HelpDesk email account requesting the change. Management works with IT and FleetNet to determine if the change is feasible, does not cause a security risk, jeopardize another function in FleetNet, provide an enhancement to the software, or other concerns. FleetNet will then determine if the change can be done, if a cost is associated with the change and the timeline to complete and beta test. If the user's department director, IT Director, and FleetNet agree, the change request is submitted to FleetNet. All of the above is done via an email trail to document each step. Current approval is obtained at each step via email. A formal process document for change management will be developed to ensure each step is identified and approved with the appropriate management and IT Director. This process will also provide a means for IT to determine that new fixes or upgrades applied into the test environment are designed correctly and have no unexpected impact to the software and other business processes.

No Documentation for Testing Changes

Observation

While testing is performed prior to production, PSTA does not consistently maintain documentation that provides evidence that the testing successfully occurs.

Recommendation

Documentation should be maintained to provide evidence that program changes ate tested, validated, and approved prior to implementation into the production environment. Appropriate testing will validate that the changes meet the user requirements and will not have a negative impact on any of the existing controls.

Management's Response

Currently as approved changes are applied to the software and users have tested the changes, IT is notified via email if the change works or if it still requires additional work. Any software change is tested first, if the user indicates that the change is working, the fix is then applied to production. This is an area for improvement in documenting all the steps; tested, validated, and approved by user and management to ensure that the change does not have an impact to other modules. A form will be developed as part of "Authorized Changes" to ensure all the steps are followed consistently as noted in the above risk observation.

Access to Migrate Changes into Production is not Adequately Restricted

Observation

Authorization to migrate changes into the FleetNet production environment is not sufficiently restricted. All security administrators for FleetNet have access to implement these types of changes. Changes migrated into production are not automatically tracked/documented.

Recommendation

All security administrators for FleetNet should not have access to implement changes into production. The technology department should not only be verbally notified of who has access to migrate changes. The authorized users should be noted in documentation by IT management.

Management's Response

Currently, there are three IT staff that have access to implement changes in FleetNet: Director of IT, System Manager, and a backup (System Analyst). The Director of IT has a very limited role in making changes therefore the System Manager is the key system administrator. The backup is needed to ensure changes can be done in the absence of either Director or Manager. This proved essential with turnover and vacancy in the department. A report (documentation) can be generated from FleetNet that indicates all the authorized users and the authorized modules 'access. As noted above, a form will be developed that tracks the approval of authorized users, module access, and modules changes.

No Evidence that Configuration Changes are Tracked, Reviewed, and Approved

Observation

Documentation is not retained that provides evidence that all configuration changes are monitored and approved by appropriate management. FleetNet activity logs do not provide evidence that configuration changes are monitored/reviewed by management.

Recommendation

All configuration changes should be reviewed and approved by management and management should sign off on a report/log that includes a list of configuration changes.

Management's Response

PSTA does not have a DBA so any changes to the code are done by FleetNet. Currently, requested changes are tracked through email under IT HelpDesk. The requested changes are monitored by IT Management for user's management approval, FleetNet information, user testing and acceptance, and notification to move to production. The FleetNet activity log can be incorporated in a form and process to note configuration changes made and approved by IT and user management

No Formal Procedures for Performing FleetNet Backups

Observation

There are no formal procedures in place that document the process for performing successful FleetNet backups.

Recommendation

Documentation should be maintained that shows the process for completing backups and include details regarding the backup schedule, monitoring and handling backup errors/warnings.

Management's Response

The backups for all systems are scheduled to run daily off business hours. Each tape is changed out with a new tape for the next daily backup. The backups are not validated but a warning is received from the backup system if the tape had a problem with the backup. The system is then rescheduled for backup. Currently, there is no schedule established to test system backup data for validation. A document will be developed to log what and when backups have been validated and tested.

No Periodic Testing of Backup Media

Observation

PSTA does not periodically test the quality of data on FleetNet backup media. A formal restoration process is not currently in place. Restorations performed on a regular basis.

Recommendation

Backup restoration testing should be performed at least annually test the effectiveness of the restoration process and the quality of backup data and evidence that backup testing is performed should be retained.

Management's Response

IT will work closely with FleetNet to develop a formal restoration process that includes a testing procedure.

(Continued)

Incident Handling Procedures and Documentation

Observation

Documentation should be maintained to that outlines the technology department's procedures for logging, monitoring, and resolving incidents and evidence of logging/resolving incidents is not maintained.

Recommendation

Documentation should be maintained that outlines the technology department's procedures for logging, monitoring, and resolving incidents and provide evidence that all incidents are logged, monitored, and resolved by the technology department.

Management's Response

IT has not invested funding to purchase a "Remedy" type of system to log and track software and/or hardware incidents. This is due to the cost of those systems. As a proven alternative, IT uses email. An email mailbox (HelpDesk) has been used to notify IT of user problems; software and hardware problems, training assistance, new employee system setup, system security access approval, request for feasibility studies, phone problems, new software or hardware requests, telecommunication problems, and more. This method has provided a cost effective approach to managing incidents. IT will work to create an incident database that will provide the ability to produce reports needed to show how incidents are logged, monitored, and resolved by IT.

(Continued)

(3) Findings and Questioned Costs Relating to Federal Awards

Finding 2007-06

Federal Agency:	Federal Transit Authority
Program:	Federal Transit Cluster
CFDA number:	20.507 and 20.500
Award number:	FL-03-0284; FL-90-0377 FL-90-0405; FL-90-0435 FL-90-0470; FL-90-0507; FL-90-0617 FL-90-0535; FL-03-0562; FL-90-0605
Award years:	June 28, 2005 – September 30, 2008; October 1, 1999 – December 31, 2006; October 1, 2000 – September 30, 2007; January 31, 2002 – December 31, 2006; July 29, 2002 – July 1, 2009; September 27, 2003 – December 31, 2006; July 1, 2007 – July 1, 2010; August 2, 2005 – September 30, 2010; July 1, 2006 – July 1, 2009; July 1, 2007 – July 1, 2010

Criteria – Reporting

Federal Transit Authority, Circular 5010.1C, Grants Management Guidelines – financial reporting requirements, stipulate the following criteria (payment can be withheld for failure to submit either financial or narrative reports in a timely manner):

- All essential financial facts relating to the scope and purpose of each financial report and applicable reporting period should be completely and clearly displayed in the reports.
- Reported financial data should be accurate and timely. The requirement for accuracy does not rule out inclusion of reasonable estimates when precise measurement is impractical, uneconomical, unnecessary, or conducive to delay.
- Financial reports should be based on the required supporting documentation maintained under an adequate accounting system that produces information which objectively discloses financial aspects of events or transactions.
- Financial data reported should be derived from accounts that are maintained on a consistent, periodic basis; material changes in accounting policies or methods and their effect must be clearly explained.
- Reporting terminology used in financial reports to FTA should be consistent with receipt and expense classifications included in the latest approved project budget.

Condition Found

Quarterly financial status report (SF-269A) were not reconciled to the general ledger in a timely manner.

Questioned Costs

None

Context

Reconciliation of quarterly financial status reports to the general ledger was not performed until 11 months after fiscal year-end.

Effect

The lack of proper and timely reconciliation of the quarterly financial status reports submitted during fiscal year 2007 to the general ledger could result in improper amounts reported as allowable costs under the grant agreement.

Perspective

These incidents are considered systemic in nature.

Recommendations

Management should establish policies and procedures to ensure that the quarterly financial status reports are reconciled to the general ledger on a timely basis prior to submission.

Management's Response

We concur with the auditor's recommendation. The Grants Accountant is reconciling the quarterly financial reports on a quarterly basis.

(4) Findings and Questioned Costs Relating to State Financial Assistance Projects

Finding 2007-07

State Agency:	Florida Department of Transportation
Program:	Public Transit Service Development Program
CSFA number:	55.012
Award number:	411923-1-84-05, 411923-1-94-04, 420737-1-84-01, 422380-1-84-01, 420738-1-84-01, 402532-1-84-03
Award years:	May 31, 2005 – December 31, 2009, December 23, 2003 – December 31, 2007, August 25, 2006 – June 30, 2009, August 27, 2007 – December 31, 2010, August 24, 2006 – June 30, 2009, September 15, 2003 – December 31, 2006

Criteria – Allowable Costs/Cost Principles

Under the stipulations of the grant agreement and state compliance supplement reimbursable costs include sufficient supported costs associated with improving service to the riding public. In providing evidence to support reimbursement calculations, the entity should be able to justify critical factors used in determining reimbursement amounts.

Condition Found

PSTA utilizes a mathematical formula to determine the reimbursable amount; however, the cost per hour rate utilized to calculate reimbursement amounts could not be supported.

Questioned Costs

None

Context/Effect

All quarterly reimbursement requests totaling $759,893 were obtained for fiscal year 2007. The quarterly reimbursement request was based on an outdated cost per hour rate which resulted in a lower reimbursement for fiscal year 2007. However, PSTA is to be reimbursed for costs associated with improving service to the riding public through December 31, 2010.

Perspective

These incidents are considered systemic in nature.

Recommendations

We recommend PSTA establish procedures to ensure documentation that support reimbursement of allowable costs be updated and evaluated on a periodic basis.

(Continued)

Management's Response

The hourly rate to charge the grants has been updated and will be reviewed on an annual basis.

KPMG LLP
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100 North Tampa Street
Tampa, FL 33602

Management Letter

Members of the Board
Pinellas Suncoast Transit Authority:

We have audited the financial statements of the Pinellas Suncoast Transit Authority (PSTA) as of and for the year ended September 30, 2007, and have issued our report thereon dated November 10, 2008.

We conducted our audit in accordance with U.S. generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. We have issued our Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*; Report on Compliance with the Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133 and *Rules of the Auditor General*, Chapter 10.550; and the related schedule of findings and questioned costs. Disclosures in those reports and schedule, which are dated November 10, 2008, should be considered in conjunction with this management letter.

Additionally, our audit was conducted in accordance with the provisions of Chapter 10.550, *Rules of the Auditor General*, which govern the conduct of local governmental entity audits performed in the State of Florida, unless otherwise required to be reported in our Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards;* Report on Compliance with the Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133 and *Rules of the Auditor General*, Chapter 10.550, this letter is required to include the following information.

The *Rules of the Auditor General* Section 10.554(1)(i)(1) require that we determine whether or not corrective actions have been taken to address significant findings and recommendations made in the preceding annual financial audit report. Corrective actions have been taken to address significant findings and recommendations made in the preceding annual financial audit report (except as noted under the heading Summary of Prior Year Recommendations).

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

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

The *Rules of the Auditor General* Section 10.554(1)(i)(4) require that we address in the management letter any violations of provisions of contracts and grant agreements or abuse that have an effect on the financial statements that is less than material but more than inconsequential. In connection with our audit, we did not have any such findings.

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

(a) Violations of laws, rules, regulations, and contractual provisions or abuse that have occurred, or are likely to have occurred, and would have an immaterial effect on the financial statements.

(b) Improper expenditures or illegal acts that would have an immaterial effect on the financial statements.

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

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

   (2) Failures to properly record financial transactions; and

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

The results of our audit disclosed no violations of laws, rules, regulations or contractual provisions or abuse, no improper or illegal expenditures, or other deficiencies in internal control which are not otherwise reported.

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

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

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

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

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

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

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

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

The *Rules of the Auditor General* Section 10.554(1)(i)(7)(b) require that we determine whether the annual financial report for PSTA for the fiscal year ended September 30, 2007, 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, 2007. This report has not yet been filed.

The *Rules of the Auditor General* Sections 10.554(i)(7)(c) and 10.556(7) require that we apply financial condition assessment procedures. In connection with our audit, we applied financial condition assessment procedures. It is management's responsibility to monitor PSTA's financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by same.

* * * * * * *

This management letter is intended solely for the information and use of the Members of the Board, management, others within the organization, and the Auditor General of the State of Florida, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

November 10, 2008
Certified Public Accountants

PINELLAS SUNCOAST TRANSIT AUTHORITY

Current Year Observations and Recommendations

Year ended September 30, 2007

Description

None

Exhibit B

PINELLAS SUNCOAST TRANSIT AUTHORITY

Summary of Prior Year Recommendations

Year ended September 30, 2007

Description	Comment still relevant	Comment cleared and removed
User Controls Related to Vehicle and General Liability Claim Payments	X	
Prepaid Expense Accounts		X
Accrued Tax Assessors Expense		X
Accrued Retirement Payable		X
Accounts Receivable and Related Reserve		X
Clearing Account for Mincom Issues		X
Property Tax Revenues and Expenses		X
CIP and Deferred Revenue		X

PINELLAS SUNCOAST TRANSIT AUTHORITY

Summary of Prior Year Recommendations

Year ended September 30, 2007

User Controls Related to Vehicle and General Liability Claim Payments

Observation

User controls identified within the SAS 70 for Crawford and Company are to allow for effective processing of vehicle and general liability claim information and transactions at the client level. User controls tested related to the effective processing of general and vehicle claims was determined not to be operating effectively. Several claim files did not contain proper supporting documentation or indication of authorization of claim settlement payments.

Recommendation

To ensure that claims payments and files are supported by sufficient documentation, PSTA should implement controls to ensure that files are reviewed on a timely basis. In addition, files should be signed-off indicating that they are being reviewed by the appropriate individual.

2006 Management's Response

Procedures are now in place to ensure proper documentation of claim payments.

2007 Observation Update

This observation and recommendation are still applicable in the current year.

2007 Management's Response

The audit for fiscal year 2006 was completed in March 2008. The recommendation made by the auditors was corrected at that time. Fiscal year 2007 was closed prior to the completion of the audit for 2006 so the recommendation was still applicable. Procedures are now in place to ensure proper documentation of claim payments.