

**CHATTANOOGA AREA REGIONAL  
TRANSPORTATION AUTHORITY**

**FINANCIAL REPORT**

**JUNE 30, 2014**

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## INDEPENDENT AUDITOR'S REPORT

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To the Board of Directors  
Chattanooga Area Regional Transportation Authority  
Chattanooga, Tennessee

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the **Chattanooga Area Regional Transportation Authority** ("CARTA"), a component unit of the City of Chattanooga, as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise CARTA's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

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

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

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

## ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Chattanooga Area Regional Transportation Authority, as of June 30, 2014 and 2013, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Other Matters***

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 7 and the schedules of funding progress on page 23 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### ***Other Information***

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of Chattanooga Area Regional Transportation Authority. The schedule of insurance coverage is presented for purposes of additional analysis as required by the State of Tennessee and is not a required part of the basic financial statements. Also, the schedule of expenditures of federal and state awards 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 is not a required part of the basic financial statements.

The schedule of insurance coverage and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 17, 2014, on our consideration of CARTA's internal control over financial reporting and 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* in considering CARTA's internal control over financial reporting and compliance.

*Mauldin & Jenkins, LLC*

Chattanooga, Tennessee  
November 17, 2014

**Chattanooga Area Regional Transportation Authority**  
**A Component Unit of the City of Chattanooga, Tennessee**  
**Management's Discussion and Analysis**  
**Years Ended June 30, 2014 and 2013**

As management of the Chattanooga Area Regional Transportation Authority, ("CARTA"), we offer readers of CARTA's financial statements this narrative overview and analysis of the financial activities of CARTA for the fiscal years ended June 30, 2014 and 2013. CARTA is a component unit of the City of Chattanooga, Tennessee. Readers are encouraged to consider the information presented here in conjunction with CARTA's financial statements.

**FINANCIAL HIGHLIGHTS**

- ❖ For the year ended June 30, 2014, operating revenues were approximately \$7,700,000 which is a significant increase from the prior year's revenues of \$7,200,000. Passenger fare revenue accounted for approximately \$4,500,000 of operating revenues, an increase of approximately \$100,000 from the prior year's passenger fare revenue. The increase in passenger fare revenue is partially due to increased ridership at the Incline of approximately 15,000 from the prior year.
- ❖ For the year ended June 30, 2014, non-operating revenues were approximately \$7,700,000 compared to \$7,500,000 in the prior year. The current year amount was comprised primarily of operating subsidies of approximately \$6,900,000 and planning grants of approximately \$700,000.
- ❖ Total operating expenses for the year ended June 30, 2014 were approximately \$23,200,000 compared to \$22,500,000 for the prior year. The increase in operating expenses was primarily due to the increase in parking activity and increase in medical insurance premiums. Fiscal year 2014 was the first full year for parking operations which caused an increase in parking revenues and expenses.

Net position increased approximately \$3,800,000 for the year ended June 30, 2014. This net increase was due to capital activity. Capital contributions were higher in FY14 due to several vehicle purchases which were covered by capital grants.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

The basic financial statements provide short-term and long-term information about CARTA's overall financial status. CARTA follows accounting principles generally accepted in the United States of America, as applied to governmental units. We present our basic financial statements on an accrual basis of accounting that is similar to the accounting basis used by most private-sector companies.

Under the accrual basis, the current year's revenues earned and expenses incurred are accounted for in the Statement of Revenues, Expenses and Changes in Net Position regardless of when cash is received. This statement measures the financial success of CARTA's operations over the past year and can be used to determine whether CARTA has successfully recovered all of its costs through its user fees and other charges (business-type activities), profitability and credit worthiness. CARTA is a Municipal Authority and provides public transportation in the City of Chattanooga, Tennessee.

In the Statement of Cash Flow, the primary purpose is to provide information about CARTA's cash receipts and cash payments during the reporting period. The statement reports cash receipts, cash payments and changes in cash resulting from operating, investing, and financing activities and provides answers to questions such as where did cash come from, what was cash used for, and what was the change in the cash balance during the period.

All of CARTA's assets and liabilities are included in the Statement of Net Position. Net position – assets plus deferred outflows of resources minus liabilities minus deferred inflows of resources – is one measure of CARTA's financial health or financial position. Over time, increases or decreases in CARTA's net position are one indicator of whether our financial health is improving or deteriorating.

The basic financial statements can be found as listed on the table of contents of this report.

## FINANCIAL ANALYSIS OF CARTA

CARTA's net position increased by approximately \$3,800,000 for fiscal year ended June 30, 2014.

### Condensed Statements of Net Position

	<u>2014</u>	<u>2013</u>
<b>Assets</b>		
Current and other assets	\$ 4,364,231	\$ 4,821,499
Capital assets, net	<u>28,153,847</u>	<u>24,377,130</u>
Total Assets	<b><u>\$32,518,078</u></b>	<b><u>\$29,198,629</u></b>
<b>Liabilities</b>		
Current and other liabilities	\$ 3,797,287	\$ 3,879,670
Long-term liabilities	<u>520,443</u>	<u>870,570</u>
Total Liabilities	<u>4,317,730</u>	<u>4,750,240</u>
<b>Net Position</b>		
Net investment in capital assets	\$27,283,277	\$23,175,100
Unrestricted	<u>917,071</u>	<u>1,273,289</u>
Total Net Position	<u>28,200,348</u>	<u>24,448,389</u>
Total Liabilities and Net Position	<b><u>\$32,518,078</u></b>	<b><u>\$29,198,629</u></b>

CARTA's net position increased by approximately \$3,800,000 or approximately 16% at June 30, 2014 from the prior year.

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

	<u>2014</u>	<u>2013</u>
Operating Revenues	\$ 7,683,857	\$ 7,200,486
Operating Expenses	<u>23,206,200</u>	<u>22,472,081</u>
Operating Loss	<u>(15,522,343)</u>	<u>(15,271,595)</u>
Non-Operating Revenues	7,701,034	7,469,519
Capital Contributions	<u>11,573,268</u>	<u>6,102,555</u>
<b>Increase (Decrease) in Net Position</b>	<b><u>\$ 3,751,959</u></b>	<b><u>\$ (1,699,521)</u></b>

For the year ended June 30, 2014, CARTA's operating revenues increased approximately 7% and operating expenses increased by approximately 3% from the prior year.

### Net Capital Assets

	<b>2014</b>	<b>2013</b>
Land	\$ 3,258,047	\$ 3,258,047
Land improvements	67,105	67,105
Buildings & improvements	33,068,466	33,043,001
Transportation equipment	33,015,387	26,622,224
Parking meters	2,030,131	2,030,131
Construction in progress	71,175	-
Other, primarily shop & garage equipment	22,055,634	21,950,339
	93,565,945	86,970,847
Less: Accumulated depreciation	(65,412,098)	(62,593,717)
Net capital assets	<b>\$ 28,153,847</b>	<b>\$ 24,377,130</b>

Capital assets consist of land, land improvements, buildings & improvements, transportation equipment, parking meters, shop & garage equipment and other basic equipment and furnishings. CARTA had approximately \$28,200,000 in capital assets, net of depreciation, at June 30, 2014. Major capital asset investments during the current fiscal year included purchases of six electric shuttles and charging stations and eight 35-foot buses.

For more detailed information about CARTA's capital assets, please see the notes to the basic financial statements.

### DEBT

CARTA had outstanding debt of \$1,770,570 at June 30, 2014. CARTA made principal payments on its loan to the City of approximately \$85,000 and principal payments on its loan to Republic Parking of approximately \$247,000 for the fiscal year ended June 30, 2014. CARTA also paid \$300,000 toward its outstanding balance on the line of credit with the City of Chattanooga. In addition, CARTA made interest payments on its debt of approximately \$80,000 for the fiscal year ended June 30, 2014.

	<b>2014</b>	<b>2013</b>
Note Payable – City of Chattanooga	\$ 426,788	\$ 511,658
Note Payable – Republic Parking	443,782	690,372
Line of Credit	900,000	1,200,000
Total Debt	<b>\$1,770,570</b>	<b>\$2,402,030</b>

For more detailed information on CARTA's debt, please see the notes to the basic financial statements.

## **ECONOMIC FACTORS**

The following factors were considered in preparing CARTA's budget for the fiscal year 2014. CARTA did seek an increase in local subsidies for fiscal year 2014 to assist with rising costs of medical premiums, auto liability & workers' comp insurance premiums, and fuel.

- ❖ Medical insurance increasing
- ❖ Auto liability & workers' comp insurance premiums increasing
- ❖ Fuel costs increasing

CARTA is considering different options to control medical insurance costs and auto liability & workers' comp insurance costs. CARTA has implemented an extensive safety and training program and is already experiencing cost savings as a result of this program. CARTA entered into a fuel hedging contract in early 2012 to aid in reducing fuel costs. This contract expired in December 2013 and was renewed through December 2014. CARTA is actively promoting cost cutting and cost savings company-wide.

## **REQUESTS FOR INFORMATION**

This financial report is designed for those interested with a general overview of CARTA's finances and to demonstrate CARTA's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Autumn Jewell, CFO, Chattanooga Area Regional Transportation Authority, 1617 Wilcox Boulevard, Chattanooga, Tennessee, 37406.

CHATTANOOGA AREA REGIONAL TRANSPORTATION AUTHORITY

STATEMENTS OF NET POSITION  
June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 1,118,660	\$ 1,691,622
Receivables, net	1,853,598	1,802,940
Prepaid expenses	874,368	769,239
Other post employment benefit assets	97,643	94,017
Materials and supplies inventories	<u>419,962</u>	<u>463,681</u>
Total current assets	<u>4,364,231</u>	<u>4,821,499</u>
<b>NONCURRENT ASSETS</b>		
Capital assets:		
Land	3,258,047	3,258,047
Land improvements	67,105	67,105
Buildings and improvements	33,068,466	33,043,001
Transportation equipment	33,015,387	26,622,224
Parking equipment	2,030,131	2,030,131
Construction in progress	71,175	-
Other, primarily garage and shop equipment	<u>22,055,634</u>	<u>21,950,339</u>
	93,565,945	86,970,847
Less accumulated depreciation	<u>(65,412,098)</u>	<u>(62,593,717)</u>
Net capital assets	<u>28,153,847</u>	<u>24,377,130</u>
Total assets	<u><u>\$32,518,078</u></u>	<u><u>\$29,198,629</u></u>

The Notes to Basic Financial Statements are an integral part of these statements.

	<u>2014</u>	<u>2013</u>
<b>LIABILITIES AND NET POSITION</b>		
<b>CURRENT LIABILITIES</b>		
Current maturities of notes payable	\$ 350,127	\$ 331,460
Line of credit	900,000	1,200,000
Accounts payable - operating	525,671	563,792
Accounts payable - capital	338,012	187,042
Accrued liabilities	730,743	887,519
Net pension obligation	840,081	570,273
Accident claims reserve	<u>112,653</u>	<u>139,584</u>
Total current liabilities	<u>3,797,287</u>	<u>3,879,670</u>
<b>NONCURRENT LIABILITIES</b>		
Notes payable	<u>520,443</u>	<u>870,570</u>
Total liabilities	<u>4,317,730</u>	<u>4,750,240</u>
<b>NET POSITION</b>		
Net investment in capital assets	27,283,277	23,175,100
Unrestricted	<u>917,071</u>	<u>1,273,289</u>
Total net position	<u>28,200,348</u>	<u>24,448,389</u>
Total liabilities and net position	<u>\$32,518,078</u>	<u>\$29,198,629</u>

CHATTANOOGA AREA REGIONAL TRANSPORTATION AUTHORITY

STATEMENTS OF REVENUES, EXPENSES AND  
CHANGES IN NET POSITION  
Years Ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
<b>OPERATING REVENUES</b>		
Passenger fares	\$ 4,494,856	\$ 4,361,601
Incline ancillary	289,242	239,252
Parking	2,631,293	2,315,802
Advertising	<u>268,466</u>	<u>283,831</u>
Total operating revenues	<u>7,683,857</u>	<u>7,200,486</u>
<b>OPERATING EXPENSES</b>		
Operations	10,399,608	10,198,512
Maintenance	4,466,728	4,160,091
Administrative	4,967,483	4,572,444
Depreciation and amortization	<u>3,372,381</u>	<u>3,541,034</u>
Total operating expenses	<u>23,206,200</u>	<u>22,472,081</u>
<b>OPERATING LOSS</b>	<u>(15,522,343)</u>	<u>(15,271,595)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Operating subsidies	6,942,964	6,796,700
Planning grants	669,314	721,973
Interest income	789	8,533
Interest expense	(79,708)	(67,687)
Other	<u>167,675</u>	<u>10,000</u>
Total nonoperating revenues	<u>7,701,034</u>	<u>7,469,519</u>
<b>LOSS BEFORE CONTRIBUTIONS</b>	<u>(7,821,309)</u>	<u>(7,802,076)</u>
Capital contributions	<u>11,573,268</u>	<u>6,102,555</u>
<b>CHANGE IN NET POSITION</b>	3,751,959	(1,699,521)
<b>NET POSITION, beginning of year</b>	<u>24,448,389</u>	<u>26,147,910</u>
<b>NET POSITION, end of year</b>	<u>\$28,200,348</u>	<u>\$24,448,389</u>

The Notes to Basic Financial Statements are an integral part of these statements.

CHATTANOOGA AREA REGIONAL TRANSPORTATION AUTHORITY

STATEMENTS OF CASH FLOWS  
Years Ended June 30, 2014 and 2013

	2014	2013
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from customers	\$ 7,652,971	\$ 7,400,380
Payments to suppliers	(8,090,384)	(8,097,041)
Payments to employees	(11,609,521)	(11,213,959)
Net cash used in operating activities	<u>(12,046,934)</u>	<u>(11,910,620)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Operating and planning grant funds received	<u>7,779,953</u>	<u>7,528,673</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Purchases of capital assets	(7,149,098)	(2,785,421)
Net increase (decrease) in revolving line of credit	(300,000)	700,000
Repayment of notes payable	(331,460)	(161,760)
Proceeds from issuance of note payable	-	770,564
Payment of interest	(79,708)	(67,687)
Capital contributions	<u>11,553,496</u>	<u>6,515,543</u>
Net cash provided by capital and related financing activities	<u>3,693,230</u>	<u>4,971,239</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest income	<u>789</u>	<u>8,533</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	(572,962)	597,825
<b>CASH AND CASH EQUIVALENTS, beginning of year</b>	<u>1,691,622</u>	<u>1,093,797</u>
<b>CASH AND CASH EQUIVALENTS, end of year</b>	<u>\$ 1,118,660</u>	<u>\$ 1,691,622</u>
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES</b>		
Operating loss	\$(15,522,343)	\$(15,271,595)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation expense	3,372,381	3,541,034
Changes in operating assets and liabilities:		
Receivables, net	(30,886)	199,893
Prepaid expenses	(105,129)	(300,460)
Other post employment benefit assets	(3,626)	(94,017)
Materials and supplies inventories	43,719	(91,146)
Accounts payable	112,849	(40,930)
Accrued liabilities and other	<u>86,101</u>	<u>146,601</u>
Net cash used in operating activities	<u>\$(12,046,934)</u>	<u>\$(11,910,620)</u>

The Notes to Basic Financial Statements are an integral part of these statements.

CHATTANOOGA AREA REGIONAL TRANSPORTATION AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2014 and 2013

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Note 1. Summary of Significant Accounting Policies

Organization and operation:

The Chattanooga Area Regional Transportation Authority (CARTA) is a component unit of the City of Chattanooga (the City). The City appoints ten members of CARTA's eleven-member board of directors. Additionally, the City finances the majority of CARTA's operating deficits. CARTA operates a mass transit system for the Chattanooga Metropolitan Area.

Basis of presentation:

The financial statements of CARTA have been prepared in accordance with generally accepted accounting principles in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting. The GASB periodically updates its codification of existing Governmental Accounting and Financial Reporting Standards, which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental entities.

Basis of accounting:

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. The accompanying financial statements are prepared using the accrual basis of accounting. The measurement focus is upon determination of financial position, changes in net position, and changes in cash flows. The generally accepted accounting principles used are those applicable to comparable businesses in the private sector. Revenues are recognized when earned and expenses are recognized when incurred. All assets and liabilities (whether current or noncurrent) associated with CARTA's activities are included in the statement of net position. The reported net position is segregated into net investment in capital assets, restricted and unrestricted components.

Operating revenues and expenses reported in CARTA's financial statements include activities related to the primary, continuing operations of CARTA. Operating revenues for CARTA are charges to customers for services. Operating expenses are the costs of providing services and include administrative expenses and depreciation of capital assets. Other revenues are classified as non-operating in the financial statements.

Federal, state, and local capital contributions:

The U.S. Department of Transportation and the Tennessee Department of Transportation, under contracts with CARTA, have provided funds for a significant portion of the cost of acquisition and development of the mass transit system. The remaining project costs (matching contributions) have been furnished by the City and other municipalities served by CARTA.

At June 30, 2014 and 2013, no amount of cash is designated for uses authorized by capital grant contracts.

CHATTANOOGA AREA REGIONAL TRANSPORTATION AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2014 and 2013

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Note 1. Summary of Significant Accounting Policies (continued)

Federal, state, and local operating subsidies:

CARTA receives operating subsidies from the U.S. Department of Transportation, the Tennessee Department of Transportation, and local governments under operating assistance grant contracts. The amounts received or contractually receivable under such grants have been recorded as operating subsidies in the statement of revenues, expenses and changes in net position. These operating assistance grant contracts are obtained on a year-to-year basis.

Federal, state, and local planning grants:

CARTA receives planning grants from the U.S. Department of Transportation and the Tennessee Department of Transportation. These planning grant contracts are obtained on a year-to-year basis.

Cash, cash equivalents and investments:

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, cash balances in banks and overnight cash investments. The carrying amount approximated market value as of June 30, 2014 and 2013.

CARTA invests excess cash in interest-bearing accounts and overnight cash investments with local depository institutions as authorized by the Board of Directors and in accordance with applicable state laws. CARTA's investment policy with respect to cash and overnight cash investments is to maximize investment earnings while maintaining an acceptable level of risk.

At June 30, 2014 and 2013, CARTA held no amounts in investments.

Custodial credit risk – CARTA's policies limit deposits and investments to those instruments allowed by applicable state laws. State statutes require that all deposits with financial institutions must be collateralized by securities whose market value is equal to 105 percent of the value of the uninsured deposits. Those deposits must be covered by federal depository insurance or the Tennessee Bank Collateral Pool, by collateral held by CARTA's agent in CARTA's name, or by the Federal Reserve Banks acting as third party agents. State statutes also authorize CARTA to invest in repurchase agreements utilizing obligations of the United States or its agencies as the underlying securities. Statutes also require that securities underlying repurchase agreements must have a market value at least equal to the amount of funds invested in the repurchase transaction. At June 30, 2014, all deposits were entirely covered by the Federal Deposit Insurance Corporation or the Tennessee Bank Collateral Pool.

CHATTANOOGA AREA REGIONAL TRANSPORTATION AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2014 and 2013

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Note 1. Summary of Significant Accounting Policies (continued)

Materials and supplies inventories:

Materials, supplies, gasoline, diesel fuel, and oil are carried in inventory accounts at average cost and are subsequently charged to expenditures when consumed. Office supplies and individual items valued at less than five thousand dollars are charged to expenditures when purchased.

Capital assets:

Capital assets are stated at original cost. Maintenance and repairs, including the cost of minor items of property, are expensed as incurred.

Depreciation on equipment is recorded on a straight-line basis over the estimated useful lives of the assets. Buildings are depreciated over 25 years. New transportation equipment is depreciated over 5 to 12 years, and used transportation equipment is depreciated over 5 years. Other equipment is being depreciated over estimated useful lives ranging from 3 to 25 years. Upon retirement or sale of equipment, the cost is removed from the asset account and, for financial statement purposes, depreciation through the date of retirement is removed from accumulated depreciation. Any gain or loss on the retirement is included in depreciation expense.

Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Net position:

CARTA's financial statements utilize a net position presentation. Net position is categorized as net investment in capital assets, restricted and unrestricted.

**Net Investment in Capital Assets** – is intended to reflect the portion of net position which is associated with non-liquid capital assets less outstanding capital asset related debt.

**Restricted** – represents net position that has third party (statutory, bond covenant or granting agency) limitations on their use. CARTA's policy is generally to use any restricted net position first, as appropriate opportunities arise.

**Unrestricted** – represents unrestricted net position. While management may have categorized and segmented portions for various purposes, CARTA has the unrestricted authority to revisit or alter these managerial decisions.

CHATTANOOGA AREA REGIONAL TRANSPORTATION AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2014 and 2013

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Note 1. Summary of Significant Accounting Policies (continued)

Compensated absences:

CARTA employees are granted annual paid time off in varying amounts. A liability is recognized for amounts of accrued annual paid time off leave and related benefits attributable to services already rendered and for which it is probable that compensation will be paid. A liability for accumulated unused sick leave is recognized only for those employees who have elected the Deferred Retirement Option Program (DROP) since it is not paid upon termination for those employees that have not elected DROP.

Note 2. Pension Plans

As of June 30, 2014, CARTA has two pension plans, The Disability and Retirement Plan of the Chattanooga Area Regional Transportation Authority and Local 1212 of the Amalgamated Transit Union (Disability and Retirement Plan) and The Chattanooga Area Regional Transportation Authority Defined Benefit Plan (Defined Benefit Plan). These plans are described below.

**Plan Descriptions:**

Disability and Retirement Plan:

The Disability and Retirement Plan of the Chattanooga Area Regional Transportation Authority and Local 1212 of the Amalgamated Transit Union is a single-employer defined benefit pension and retirement plan. All full-time, permanent employees who have completed at least 60 days of employment are eligible to participate in the Plan. Participants who retire at or after age 65 with 5 years of continuous service, or when the sum of the employee's age and number of completed continuous years of service equals or exceeds 85, are entitled to a monthly benefit.

Early retirement is available, with a reduced benefit which starts immediately, to employees who have completed 15 years or more of credited service and are at least 55 years old. An employee retiring with 5 to 14 years of service is not eligible to receive any immediate benefits, but is eligible to receive benefits at age 65. Participants who terminate employment prior to the completion of 5 years of continuous credited service before termination are refunded their contributions to the Plan but are not entitled to receive any contributions made to the Plan by CARTA.

Defined Benefit Plan:

The Chattanooga Area Regional Transportation Authority Defined Benefit Plan is a single-employer defined benefit pension plan covering only one retiree, the former executive director of CARTA. Under this plan, the participant is eligible to receive a normal retirement benefit upon attaining age 58. The amount of the monthly retirement benefit shall be equal to 91% of the participant's average monthly compensation, as defined, reduced by the amount of monthly benefits received under CARTA's Disability and Retirement Plan.

CHATTANOOGA AREA REGIONAL TRANSPORTATION AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2014 and 2013

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Note 2. Pension Plans (continued)

**Funding Policies:**

Disability and Retirement Plan:

Contributions:

All participants in the Plan are required to make a contribution to the Plan equal to 4.00 percent of their earnings, with CARTA contributing 12.60 and 11.75 percent of the employees' earnings for the years ended June 30, 2014 and 2013, respectively. The monthly employer and employee contributions are subject to certain limitations as specified in the Plan.

Annual pension cost and net pension obligation:

For the years ended June 30, 2014, 2013 and 2012, the annual pension cost was \$910,715, \$908,890, and \$816,672, respectively.

The annual required contribution was determined as part of the January 1, 2012, actuarial valuation, which is the latest actuarial valuation performed, using the entry age method. Significant actuarial assumptions used in the valuation were as follows:

Investment rate of return	7.5%
Projected salary increases	3.5%
Inflation rate	2.0%

Defined Benefit Plan:

Contributions:

No contribution shall be required under the Plan from the participant. CARTA shall pay such amounts as actuarially determined necessary to provide the benefits under the Plan.

Annual pension cost and net pension asset:

For the years ended June 30, 2014, 2013 and 2012, the annual required contribution for the Defined Benefit Plan was \$269,808, \$186,731, and \$160,995, respectively.

The annual required contribution was determined as part of the January 1, 2012, actuarial valuation using the aggregate cost method. Significant actuarial assumptions used in the valuation were as follows:

Investment rate of return	5.5%
Projected salary increases	N/A
Inflation rate	N/A

CHATTANOOGA AREA REGIONAL TRANSPORTATION AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2014 and 2013

Note 2. Pension Plans (continued)

**Trend information and schedule of funding progress:**

Disability and Retirement Plan:

<u>Fiscal Year Ended</u>	<u>Annual Required Contribution (ARC)</u>	<u>Percentage of ARC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2011	\$931,980	100%	\$ -
June 30, 2012	\$816,672	100%	\$ -
June 30, 2013	\$908,890	100%	\$ -

The schedule below presents historical pension trend information, and it provides an indication of the progress made in accumulating sufficient assets to pay benefits when due.

<u>Actuarial Valuation Date</u>	(1) <u>Actuarial Value of Assets</u>	(2) <u>Actuarial Accrued Liability (AAL)</u>	(3) <u>Unfunded AAL (UAAL) (2)-(1)</u>	(4) <u>Funded Ratio (1)÷(2)</u>	(5) <u>Covered Payroll</u>	(6) <u>UAAL as % of Covered Payroll (3)÷(5)</u>
Jan. 1, 2012	\$10,198,478	\$17,759,259	\$7,560,781	57.4%	\$6,297,930	120.1%

Defined Benefit Plan:

<u>Fiscal Year Ended</u>	<u>Annual Required Contribution (ARC)</u>	<u>Percentage of ARC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2012	\$160,995	0.0%	\$383,541
June 30, 2013	\$186,731	0.0%	\$570,273
June 30, 2014	\$269,808	0.0%	\$840,081

The schedule below presents historical pension trend information, and it provides an indication of the progress made in accumulating sufficient assets to pay benefits when due.

<u>Actuarial Valuation Date</u>	(1) <u>Actuarial Value of Assets</u>	(2) <u>Actuarial Accrued Liability (AAL)</u>	(3) <u>Unfunded AAL (UAAL) (2)-(1)</u>	(4) <u>Funded Ratio (1)÷(2)</u>	(5) <u>Covered Payroll</u>	(6) <u>UAAL as % of Covered Payroll (3)÷(5)</u>
January 1, 2014	\$874,996	\$1,421,161	\$546,165	61.6%	\$174,325	313.3%

**Financial Reports:**

The Disability and Retirement Plan of the Chattanooga Area Regional Transportation Authority and Local 1212 of the Amalgamated Transit Union issues a stand-alone financial report. A copy of the report may be obtained by writing to CARTA, 1617 Wilcox Boulevard, Chattanooga, Tennessee 37406. The Chattanooga Area Regional Transportation Authority Defined Benefit Plan does not issue stand-alone financial reports.

CHATTANOOGA AREA REGIONAL TRANSPORTATION AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2014 and 2013

Note 3. Other Postemployment Benefit Obligations

As of June 30, 2014, CARTA has adopted an other postemployment benefit obligation (OPEB) plan.

**Plan Description:**

CARTA provides health care, life insurance, and supplemental retirement benefits for certain members of management and their spouses. The Plan is a single-employer defined benefit plan. Participants of this plan who retire are entitled to a monthly benefit.

**Funding Policy:**

Contributions:

CARTA pays for all of the costs of the health care, life insurance, and supplemental retirement benefits. The contribution requirements of CARTA are established and may be amended by CARTA's Board of Directors. Plan members are currently not required to contribute.

Annual OPEB cost and net OPEB obligation:

For the years ended June 30, 2014, 2013 and 2012, the annual OPEB cost is equal to the annual required contribution of \$38,529, \$47,385 and \$45,526, respectively, as determined by actuarial valuations performed as of July 1, 2014, 2013 and 2012, respectively.

The annual required contribution was determined as part of the July 1, 2014 actuarial valuation using the projected unit credit method. Significant actuarial assumptions used in the valuation were as follows:

Remaining amortization period	15 years
Inflation rate	2.00%
Projected salary increases	3.50%
Interest rate	3.00%
Healthcare cost trend rate	7.25%

**Trend Information and Schedule of Funding Progress:**

<u>Fiscal Year Ended</u>	<u>Annual Required Contribution (ARC)</u>	<u>Actual Contribution</u>	<u>Net OPEB Obligation (Asset)</u>
June 30, 2012	\$45,526	\$ 40,683	\$ 4,843
June 30, 2013	\$47,385	\$146,150	\$(94,017)
June 30, 2014	\$38,529	\$ 44,091	\$(97,643)

CHATTANOOGA AREA REGIONAL TRANSPORTATION AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2014 and 2013

Note 3. Other Postemployment Benefit Obligations (continued)

**Trend Information and Schedule of Funding Progress:** (continued)

The schedule below presents historical OPEB trend information, and it provides an indication of the progress made in accumulating sufficient assets to pay benefits when due.

Actuarial Valuation Date	(1) Actuarial Value of Assets	(2) Actuarial Accrued Liability (AAL)	(3) Unfunded AAL (UAAL) (2)-(1)	(4) Funded Ratio (1)÷(2)	(5) Covered Payroll	(6) UAAL as % of Covered Payroll (3)÷(5)
December 31, 2013	\$ -	\$164,068	\$164,068	0.00%	\$6,974,684	2.35%

Note 4. Risk Management

CARTA is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. CARTA purchases commercial insurance for claims and for all other risks of loss. At June 30, 2014, there are no significant claims liabilities outstanding. CARTA's exposure to risks of loss is detailed as follows:

Accident claims reserve:

CARTA is insured for public liability and property damage with the Tennessee Municipal League and is responsible for the deductible portion of claims up to a maximum of \$10,000 per individual claim. Amounts over this limit are fully covered by insurance. CARTA has recorded estimated reserves of \$112,653 and \$139,584 at June 30, 2014 and 2013, respectively. In the opinion of management, these reserves are sufficient to provide for the estimated costs of claims not covered by insurance.

Workers' compensation insurance:

CARTA is fully-insured for workers' compensation claims, to an annual maximum of \$1,000,000. The charges to operating expenses associated with workers' compensation insurance for the years ended June 30, 2014 and 2013, were \$387,246 and \$323,651, respectively.

CHATTANOOGA AREA REGIONAL TRANSPORTATION AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2014 and 2013

Note 5. Long-Term Notes Payable

Long-term notes payable at June 30, 2014 and 2013, consist of the following:

	<u>2014</u>	<u>2013</u>
Note payable to City of Chattanooga due in monthly installments of \$8,649 including principal and interest at 4.00% through December 31, 2018	\$ 426,788	\$ 511,658
Note payable to Republic Parking System, Inc. due in monthly installments of \$23,442 including principal and interest at 6.00% through February 13, 2016	<u>443,782</u>	<u>690,372</u>
	870,570	1,202,030
Less portion due within one year	<u>(350,127)</u>	<u>(331,460)</u>
Note payable total long-term portion	<u>\$ 520,443</u>	<u>\$ 870,570</u>

Aggregate maturities or payments required on principal under long-term debt obligations for each of the succeeding five years and thereafter are as follows:

Year Ending June 30,	
2015	\$350,127
2016	273,908
2017	95,671
2018	99,569
2019	<u>51,295</u>
	<u>\$870,570</u>

Note 6. Capital Assets

Capital assets are summarized as follows:

	<u>June 30, 2013</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2014</u>
Capital assets (nondepreciable):				
Land	\$ 3,258,047	\$ -	\$ -	\$ 3,258,047
Construction in progress	<u>-</u>	<u>71,175</u>	<u>-</u>	<u>71,175</u>
Total capital assets (nondepreciable)	<u>3,258,047</u>	<u>71,175</u>	<u>-</u>	<u>3,329,222</u>
Capital assets (depreciable):				
Land improvements	67,105	-	-	67,105
Parking equipment	2,030,131	-	-	2,030,131
Building and improvements	33,043,001	25,465	-	33,068,466
Transportation equipment	26,622,224	6,900,963	(507,800)	33,015,387
Other, primarily garage and shop equipment	<u>21,950,339</u>	<u>151,495</u>	<u>(46,200)</u>	<u>22,055,634</u>
Total capital assets (depreciable)	<u>83,712,800</u>	<u>7,077,923</u>	<u>(554,000)</u>	<u>90,236,723</u>
Total capital assets	86,970,847	7,149,098	(554,000)	93,565,945
Less accumulated depreciation	<u>(62,593,717)</u>	<u>(3,372,381)</u>	<u>554,000</u>	<u>(65,412,098)</u>
Net capital assets	<u>\$ 24,377,130</u>	<u>\$ 3,776,717</u>	<u>\$ -</u>	<u>\$ 28,153,847</u>

CHATTANOOGA AREA REGIONAL TRANSPORTATION AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2014 and 2013

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Note 7. Sublease Agreement and Agreement for Grant Support

During 2009 CARTA entered into a sublease agreement and agreement for grant support with Southeast Tennessee Human Resources Agency (SETHRA). CARTA provided SETHRA \$300,000 in financial assistance from CARTA's New Freedom grant for the creation of a "call center" within the new building constructed by SETHRA.

CARTA and SETHRA intend that the new call center will not only help CARTA improve its services to disadvantaged individuals relying on CARTA's Care-A-Van services, but will also allow CARTA's and SETHRA's combined efforts to provide better and more coordinated transportation services to their urban and rural clients.

In return for the financial assistance, SETHRA will provide CARTA office and call center space under the terms of the sublease agreement. The term of the sublease agreement is for 20 years through September 2029. No further rent is due under the agreement.

Note 8. Line of Credit

CARTA has a \$1,500,000 line of credit with the City of Chattanooga with an outstanding balance of \$900,000 and \$1,200,000 at June 30, 2014 and 2013, respectively. Interest payments on the credit line are due monthly at a fixed rate equal to 2.75 percent at June 30, 2014. The credit line is unsecured. The credit line expires May 30, 2015.

Note 9. Parking Authority

Effective October 22, 2012, the City of Chattanooga (City) authorized CARTA to serve as the City of Chattanooga Parking Authority (Parking Authority) in addition to CARTA's normal operations. As the Parking Authority, CARTA is responsible for all metered parking and the enforcement of parking in the City. City Ordinance, Article X, Division 2, Section 24-311 through 24-349 discusses the formation of the Parking Authority and authorizes the Parking Authority to use parking revenues "...for the purpose of rental, acquisition, establishment, erection, maintenance, replacement and operation of all parking meters, parking garages and lots, and other parking facilities provided by the Parking Authority; for the purpose of making the parking system safe and effective; for the expenses incurred by and through the Parking Authority in the regulation of vehicular parking and enforcement of these ordinances; and for providing downtown shuttle service. Any sums remaining after expenditures for the foregoing purposes shall be remitted to the general fund of the City of Chattanooga..."

CHATTANOOGA AREA REGIONAL TRANSPORTATION AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2014 and 2013

Note 9. Parking Authority (continued)

Summarized operating results for the Parking Authority portion of CARTA's operations for the year ended June 30, 2014 and 2013, are as follows:

	<u>2014</u>	<u>2013</u>
Revenues:		
Parking meters	\$ 917,975	\$ 863,458
Parking enforcement	913,907	577,235
Grants - shuttle	<u>446,682</u>	<u>548,459</u>
Total revenues	<u>2,278,564</u>	<u>1,989,152</u>
Expenses:		
Operating	1,324,775	1,094,775
Maintenance	576,682	632,970
Administrative	1,274,027	814,304
Depreciation	376,240	159,002
Interest	<u>34,172</u>	<u>28,561</u>
Total expenses	<u>3,585,896</u>	<u>2,729,612</u>
Net loss	<u><u>\$(1,307,332)</u></u>	<u><u>\$ (740,460)</u></u>

As part of the transition, the City and CARTA entered into a 3-year revenue sharing agreement which requires CARTA to pay the City \$40,000 per month for 24 months and \$20,000 per month for 12 months. This arrangement allows the City to gradually adjust their budget for the reduction in parking revenues. CARTA's payments to the City for the year ended June 30, 2014 were \$480,000 which is included in operating expenses in the summarized operating results above. The remaining payments related to this agreement are as follows:

2015	\$340,000
2016	100,000

CHATTANOOGA AREA REGIONAL TRANSPORTATION AUTHORITY

REQUIRED SUPPLEMENTARY INFORMATION OTHER THAN  
MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2014

Schedules of Funding Progress

Disability and Retirement Plan:

Actuarial Valuation Date	(1) Actuarial Value of Assets	(2) Actuarial Accrued Liability (AAL)	(3) Unfunded AAL (UAAL) (2)-(1)	(4) Funded Ratio (1)÷(2)	(5) Covered Payroll	(6) UAAL as % of Covered Payroll (3)÷(5)
January 1, 2010	\$10,117,468	\$17,951,898	\$7,834,430	56.4%	\$5,826,461	134.5%
January 1, 2011	\$10,564,293	\$18,405,745	\$7,841,452	57.4%	\$6,024,238	130.2%
January 1, 2012	\$10,198,478	\$17,759,259	\$7,560,781	57.4%	\$6,297,930	120.1%

Defined Benefit Plan:

Actuarial Valuation Date	(1) Actuarial Value of Assets	(2) Actuarial Accrued Liability (AAL)	(3) Unfunded AAL (UAAL) (2)-(1)	(4) Funded Ratio (1)÷(2)	(5) Covered Payroll	(6) UAAL as % of Covered Payroll (3)÷(5)
January 1, 2012	\$756,943	\$1,226,228	\$469,284	61.7%	\$138,818	338.10%
January 1, 2013	\$830,365	\$1,408,440	\$578,075	59.0%	\$136,310	424.10%
January 1, 2014	\$874,996	\$1,421,161	\$546,165	61.6%	\$174,325	313.30%

Other Postemployment Benefits:

Actuarial Valuation Date	(1) Actuarial Value of Assets	(2) Actuarial Accrued Liability (AAL)	(3) Unfunded AAL (UAAL) (2)-(1)	(4) Funded Ratio (1)÷(2)	(5) Covered Payroll	(6) UAAL as % of Covered Payroll (3)÷(5)
December 31, 2011	\$ -	\$517,299	\$517,299	0.00%	\$6,974,684	7.42%
December 31, 2012	\$ -	\$217,425	\$217,425	0.00%	\$6,974,684	3.12%
December 31, 2013	\$ -	\$164,068	\$164,068	0.00%	\$6,974,684	2.35%

CHATTANOOGA AREA REGIONAL TRANSPORTATION AUTHORITY

SUPPLEMENTAL SCHEDULE OF INSURANCE COVERAGE

June 30, 2014

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The following schedule is presented to conform to the requirements of the State of Tennessee, Comptroller of the Treasury Standards for Reporting:

<u>Type of Coverage</u>	<u>Amount of Coverage</u>
Felonious assault	\$ 100,000
Auto and general liability	5,000,000
Boiler and machinery	49,213,280*
Workers' compensation excess	1,000,000
Electronics floater	717,190
Fire, theft, and vandalism	46,907,315
Fiduciary	2,000,000
Employee blanket bond	500,000
Crime – employee dishonesty	500,000
Crime – forgery and alteration	150,000
Crime – computer fraud	150,000
Crime – theft, disappearance or destruction	150,000

\*Includes a maximum of \$1,650,000 of business interruption coverage.

CHATTANOOGA AREA REGIONAL TRANSPORTATION AUTHORITY  
 SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS  
 Year Ended June 30, 2014

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	(Accrued) Deferred Grant Revenue June 30, 2013	Grant Revenue Received	Expenditures	Adjustments	(Accrued) Deferred Grant Revenue June 30, 2014
<b>FEDERAL GRANTS</b>							
<b>U.S. DEPARTMENT OF TRANSPORTATION</b>							
<b>Federal Transit Cluster</b>							
Direct:							
Federal Transit - Capital Investment Grants	20 500	TN-04-0056	\$ -	\$ 97,089	\$ 97,089	\$ -	\$ -
Federal Transit - Capital Investment Grants	20 500	TN-04-0061	(1,325)	81,254	79,929	-	-
Federal Transit - Capital Investment Grants	20 500	TN-04-0017	-	103,638	103,638	-	-
Federal Transit - Capital Investment Grants	20 500	TN-04-0063	(8,703)	3,428,391	3,426,367	-	(6,679)
Federal Transit - Capital Investment Grants	20 500	TN-05-0036	-	-	-	-	-
Federal Transit - Capital Investment Grants	20 500	TN-05-0037	(97,990)	8,001	8,001	97,990	-
Federal Transit - Capital Investment Grants	20 500	TN-54-0002	(92,736)	81,473	83,101	92,736	(1,628)
Federal Transit - Capital Investment Grants	20 500	TN-34-0002	-	227,818	331,586	-	(103,768)
Total Federal Transit - Capital Investment Grants			(200,754)	4,027,664	4,129,711	190,726	(112,075)
Direct:							
Federal Transit - Formula Grants	20 507	TN-90-X313	-	1,364	1,364	-	-
Federal Transit - Formula Grants	20 507	TN-90-0340	(106,709)	98,305	20,621	-	(29,025)
Federal Transit - Formula Grants	20 507	TN-90-0349	(301,843)	487,679	207,471	(190,726)	(212,361)
Federal Transit - Formula Grants/ARRA	20 507	TN-90-0359	-	3,117,145	3,242,747	-	(125,602)
Total Federal Transit - Formula Grants			(408,552)	3,704,493	3,472,203	(190,726)	(366,988)
Direct:							
CMAQ - FHWA Transfer	20 507	TN-95-0034	(17,461)	204,342	186,881	-	-
Total CMAQ Grant			(17,461)	204,342	186,881	-	-
Direct:							
STP-FHWA Transfer	20 507	TN-95-0053	-	1,600,000	1,600,000	-	-
STP-FHWA Transfer	20 507	TN-95-0063	-	459,532	459,532	-	-
Total STP-FHWA Transfer Grant			-	2,059,532	2,059,532	-	-
Total Federal Transit Cluster			(626,767)	9,996,031	9,848,327	-	(479,063)
<b>Transit Services Programs Cluster</b>							
Direct:							
Job Access - Reverse Commute	20 516	TN-37-0089	(137,419)	434,268	323,115	-	(26,266)
Total Job Access - Reverse Commute Grants			(137,419)	434,268	323,115	-	(26,266)
Direct:							
New Freedom Program	20 521	TN-57-0013	(6,261)	65,240	61,803	-	(2,824)
Total New Freedom Program			(6,261)	65,240	61,803	-	(2,824)
Total Transit Services Programs Cluster			(143,680)	499,508	384,918	-	(29,090)
Direct:							
TIGGER	20 523	TN-77-0001	-	20,083	20,083	-	-
Total TIGGER Grants			-	20,083	20,083	-	-
TOTAL EXPENDITURES OF FEDERAL AWARDS			(770,447)	10,515,622	10,253,328	-	(508,153)

CHATTANOOGA AREA REGIONAL TRANSPORTATION AUTHORITY  
 SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS  
 Year Ended June 30, 2014

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	(Accrued) Deferred Grant Revenue June 30, 2013	Grant Revenue Received	Expenditures	Adjustments	(Accrued) Deferred Grant Revenue June 30, 2014
<b>STATE GRANTS</b>							
<b>TENNESSEE DEPARTMENT OF TRANSPORTATION</b>							
Direct:							
State Funding for TN-57-0001	N/A	GG-1036506	(2,480)	-	-	-	(2,480)
State Funding for TN-57-0013	N/A	GG-1237067	(19,696)	17,031	7,725	-	(10,390)
State Funding for TN-05-0036	N/A	GG-1237531	(3,848)	13,509	-	-	9,661
State Funding for TN-05-0037	N/A	GG-1439310	(12,249)	-	1,000	12,249	(1,000)
State Funding for TN-54-0002	N/A	GG-1439658	(11,592)	-	9,561	11,592	(9,561)
State Funding for TN-34-0002	N/A	GG-1439323	-	7,656	41,449	-	(33,793)
State Funding for TN-04-0017	N/A	GG-0927223	(28,252)	22,414	12,955	-	(18,793)
State Funding for TN-04-0056	N/A	GG-1337661	(43,697)	55,939	12,136	-	106
State Funding for TN-04-0061	N/A	GG-1333085	(374)	10,364	9,990	-	-
State Funding for TN-90-X293	N/A	GG-0930150	(44,884)	-	-	-	(44,884)
State Funding for TN-37-X086	N/A	GG-1333086	(37,174)	39,879	-	-	2,705
State Funding for TN-37-0089	N/A	GG-1438892	(56,966)	5,537	150,552	-	(201,981)
State Funding for TN-04-0063	N/A	GG-1333084	(64,758)	479,462	428,295	-	(13,591)
State Funding for TN-95-0022	N/A	GG-1135363	(40,107)	40,000	-	-	(107)
State Funding for TN-95-0063	N/A	Not Available	-	-	200,000	-	(200,000)
State Funding for TN-95-0063	N/A	Not Available	-	-	57,442	-	(57,442)
State Funding for TN-90-0340	N/A	GG-1238070	(156,772)	105,542	2,578	-	(53,808)
State Funding for TN-90-X313	N/A	GG-1135677	-	-	170	-	(170)
State Funding for TN-90-X349	N/A	GG-1337651	(426,323)	326,878	26,803	(23,841)	(150,089)
State Funding for TN-90-0359	N/A	GG-1439131	-	-	389,754	-	(389,754)
State Operating	N/A	GG-1439905	-	2,021,711	2,124,132	-	(102,421)
<b>TOTAL EXPENDITURES OF STATE AWARDS</b>			<u>(949,172)</u>	<u>3,145,922</u>	<u>3,474,542</u>	<u>-</u>	<u>(1,277,792)</u>
<b>TOTAL EXPENDITURES OF FEDERAL AND STATE AWARDS</b>			<b>\$ (1,719,619)</b>	<b>\$ 13,661,544</b>	<b>\$ 13,727,870</b>	<b>\$ -</b>	<b>\$ (1,785,945)</b>

The Notes to Schedule of Expenditures of Federal and State Awards are an integral part of this schedule.

CHATTANOOGA AREA REGIONAL TRANSPORTATION AUTHORITY

NOTES TO SCHEDULE OF EXPENDITURES  
OF FEDERAL AND STATE AWARDS  
Year Ended June 30, 2014

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Note 1. Basis of Presentation

The accompanying supplemental schedule of expenditures of federal and state awards includes the federal and state grant activity of CARTA under programs of the federal and state governments for the year ended June 30, 2014. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audit of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of CARTA, it is not intended to and does not present the financial position, changes in net position or cash flows of CARTA.

Note 2. Summary of Significant Accounting Policies

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-133, *Audit of States, Local Governments, and Non-Profit Organizations* wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available.

Note 3. Subrecipients

Of the federal expenditures presented in the schedule, CARTA provided federal awards to subrecipients as follows:

<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Amount Provided To Subrecipients</u>
Job Access – Reverse Commute	20.516	\$42,461

Note 4. Adjustments

Adjustments to the schedule of expenditures of federal and state awards reflect adjustments to prior year ending accrued revenues that will not be received, adjustments to record accruals not recorded in prior years, or reclassifications of accrual amounts to the proper grants.



Independent Auditor's Report on Internal Control Over Financial Reporting  
and on Compliance and Other Matters Based on an Audit of  
Financial Statements Performed in Accordance With  
Government Auditing Standards

To the Board of Directors  
Chattanooga Area Regional Transportation Authority  
Chattanooga, Tennessee

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Chattanooga Area Regional Transportation Authority ("CARTA"), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise CARTA's basic financial statements, and have issued our report thereon dated November 17, 2014.

**Internal Control Over Financial Reporting**

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

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

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

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether CARTA's financial statements are free from 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*.

## **Purpose of this Report**

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

*Mauldin & Jenkins, LLC*

Chattanooga, Tennessee  
November 17, 2014



Independent Auditor's Report on Compliance

For Each Major Program and on Internal Control

Over Compliance Required by OMB Circular A-133

To the Board of Directors  
Chattanooga Area Regional Transportation Authority  
Chattanooga, Tennessee

**Report on Compliance for Each Major Federal Program**

We have audited the compliance of the Chattanooga Area Regional Transportation Authority (CARTA) with the types of compliance requirements described in the *OMB Circular A-133, Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014. CARTA's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs.

***Management's Responsibility***

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

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of CARTA's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 occurred. An audit includes examining, on a test basis, evidence about CARTA's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of CARTA's compliance.

### ***Opinion on Each Major Federal Program***

In our opinion, CARTA complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

### **Report on Internal Control Over Compliance**

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

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

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

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



Chattanooga, Tennessee  
November 17, 2014

CHATTANOOGA AREA REGIONAL TRANSPORTATION AUTHORITY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended June 30, 2014

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

- Material weaknesses identified?                   \_\_\_ yes       X   no
- Significant deficiencies 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 weaknesses identified?                   \_\_\_ yes       X   no
- Significant deficiencies identified that are not considered to be material weaknesses?                   \_\_\_ yes       X   none reported

Type of auditors' report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?                   \_\_\_ yes       X   no

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
20.500	Federal Transit Cluster:
20.507	Federal Transit - Capital Investment Grants
	Federal Transit - Formula Grants

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee?                     X   yes     \_\_\_ no

CHATTANOOGA AREA REGIONAL TRANSPORTATION AUTHORITY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended June 30, 2014

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SECTION II - FINANCIAL STATEMENT FINDINGS

None reported.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported.

CHATTANOOGA AREA REGIONAL TRANSPORTATION AUTHORITY

SCHEDULE OF PRIOR AUDIT FINDINGS  
Year Ended June 30, 2014

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None reported.