

FINANCIAL STATEMENTS

PENSACOLA BAY TRANSPORTATION COMPANY, LLC

DECEMBER 31, 2013 AND 2012

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INDEPENDENT AUDITOR'S REPORT

To the Member
Pensacola Bay Transportation Company, LLC
Pensacola, Florida

Report on the Financial Statements

We have audited the accompanying financial statements of Pensacola Bay Transportation Company, LLC (the Company), which comprise the balance sheets as of December 31, 2013 and 2012, and the related statements of operations and member's equity and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company'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 Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Pensacola Bay Transportation Company, LLC as of December 31, 2013 and 2012, and the results of operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the basic financial statements of Pensacola Bay Transportation Company, LLC as a whole. The schedules of operating expenses and the schedule of expenditures of state financial assistance are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of state financial assistance is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United State 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 October 3, 2014, on our consideration of Pensacola Bay Transportation Company, LLC'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 Pensacola Bay Transportation Company, LLC's internal control over financial reporting and compliance.

Brown Thornton Pacenti & Company, P.A.

Pensacola, Florida
October 3, 2014

BALANCE SHEETS

PENSACOLA BAY TRANSPORTATION COMPANY, LLC

December 31, 2013 and 2012

	<u>ASSETS</u>	2013	2012
		<u>2013</u>	<u>2012</u>
CURRENT ASSETS			
Cash and cash equivalents		\$ 176,792	\$ 154,017
Accounts receivable, net of allowance for doubtful accounts of \$0 and \$1,500 for 2013 and 2012, respectively		466,711	447,363
Prepaid insurance		<u>345,913</u>	<u>286,970</u>
Total current assets		989,416	888,350
PROPERTY AND EQUIPMENT, net		187,508	83,610
OTHER ASSETS		<u>2,930</u>	<u>2,930</u>
Total assets		<u>\$ 1,179,854</u>	<u>\$ 974,890</u>

LIABILITIES AND MEMBER'S EQUITY

	2013	2012
	<u>2013</u>	<u>2012</u>
CURRENT LIABILITIES		
Accounts payable	\$ 257,190	\$ 145,858
Accrued liabilities	74,673	67,199
Due to affiliate	93,924	75,141
Line of credit	114,283	124,283
Notes payable - insurance	312,726	228,120
Current portion of long-term debt	<u>28,637</u>	<u>42,547</u>
Total current liabilities	881,433	683,148
LONG-TERM DEBT, net	65,242	15,533
MEMBER'S EQUITY	<u>233,179</u>	<u>276,209</u>
Total liabilities and member's equity	<u>\$ 1,179,854</u>	<u>\$ 974,890</u>

The accompanying notes are an integral part of these financial statements.

STATEMENTS OF OPERATIONS AND MEMBER'S EQUITY

PENSACOLA BAY TRANSPORTATION COMPANY, LLC

Years Ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
REVENUE	\$ 4,186,915	\$ 4,358,194
OPERATING EXPENSES	<u>4,230,850</u>	<u>4,159,366</u>
Gross profit (loss)	(43,935)	198,828
OTHER INCOME (LOSS)		
Gain on sale of vehicles	900	-
Interest income	<u>5</u>	<u>37</u>
	<u>905</u>	<u>37</u>
Net income (loss)	(43,030)	198,865
MEMBER'S EQUITY		
Beginning of year	276,209	87,844
Distributions	<u>-</u>	<u>(10,500)</u>
End of year	<u>\$ 233,179</u>	<u>\$ 276,209</u>

The accompanying notes are an integral part of these financial statements.

STATEMENTS OF CASH FLOWS
PENSACOLA BAY TRANSPORTATION COMPANY, LLC
Years Ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	\$ (43,030)	\$ 198,865
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	35,637	29,563
Gain on sale of vehicles	(900)	-
(Increase) decrease in operating assets:		
Accounts receivable	(19,348)	31,636
Inventory	-	798
Prepaid insurance	(58,943)	(3,242)
Increase (decrease) in operating liabilities:		
Accounts payable	111,332	(107,191)
Accrued liabilities	7,474	6,513
Due to affiliate	18,783	75,013
Notes payable - insurance	<u>84,606</u>	<u>(34,126)</u>
Net cash provided by operating activities	135,611	197,829
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(53,322)	(1,873)
Proceeds from sale of vehicles	<u>900</u>	<u>-</u>
Net cash used by investing activities	(52,422)	(1,873)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on long-term debt	(50,414)	(49,045)
Payments on member loan	-	(26,600)
Net proceeds from (payments on) line of credit	(10,000)	12,500
Distributions to member	<u>-</u>	<u>(10,500)</u>
Net cash used by financing activities	<u>(60,414)</u>	<u>(73,645)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	22,775	122,311
CASH AND CASH EQUIVALENTS		
Beginning of year	<u>154,017</u>	<u>31,706</u>
End of year	<u>\$ 176,792</u>	<u>\$ 154,017</u>

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

PENSACOLA BAY TRANSPORTATION COMPANY, LLC

NOTE A - NATURE OF OPERATIONS

Pensacola Bay Transportation Company, LLC (the Company) was formed on September 6, 2001, and organized as a limited liability company. The Company operates in Santa Rosa and Escambia counties of the state of Florida, and provides transportation services to the disadvantaged. The Company's operations are funded, to some extent, by state and federal grants.

The Company's member also owns the stock of Mobile Bay Transportation, Inc. Transactions with this affiliated company are described in Note G. The member is in a position to, and in the future may, influence the operating results or financial position of the Company through this affiliate. The member has no personal liability for obligations of the Company beyond the capital contributions, except for a specific guarantee explained in Note E.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Basis of Accounting - The Company prepares its financial statements using the accrual basis of accounting, where revenues are recognized when earned and expenses are recognized when incurred. This basis of accounting conforms to accounting principles generally accepted in the United States of America.
2. Use of Estimates - Management uses estimates and assumptions in preparing these financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were used.
3. Cash and Cash Equivalents - For purposes of the statement of cash flows, the Company considers all highly liquid debt instruments with an original maturity, when purchased, of three months or less to be cash equivalents. There were no cash equivalents at December 31, 2013 or 2012.
4. Accounts Receivable - Accounts receivable are recorded when invoices are issued and are presented in the balance sheet net of an allowance for doubtful accounts. Credit is generally extended on a short-term basis; thus, accounts receivable do not bear interest.

NOTES TO FINANCIAL STATEMENTS

PENSACOLA BAY TRANSPORTATION COMPANY, LLC

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

5. Allowance for Doubtful Accounts - The allowance for doubtful accounts is based on historical experience, coupled with a review of the current status of existing receivables. Receivables will be charged off in the period management determines them to be uncollectible. Recoveries of receivables previously charged off are recorded as revenue when received. Management considered receivables to be fully collectable for the year ended December 31, 2013.

6. Property and Equipment - Property and equipment are carried at cost and depreciated over their estimated useful lives. Depreciation is computed utilizing both the straight-line method and accelerated methods. The useful lives of property and equipment for purposes of computing depreciation are:

Furniture, fixtures, and office equipment	5 - 10 years
Shop equipment	5 - 7 years
Vehicles	5 years

7. Income Taxes - The Company is taxed as an S Corporation under the Internal Revenue Code and applicable state statutes. Under an S Corporation election, the income of the Company flows through to the member to be taxed at the individual level rather than the company level. Accordingly, the Company will have no tax liability (with limited exceptions) as long as the S Corporation election is in effect.

The Company believes that any tax positions that it has taken or expects to take that are more-likely-than-not sustainable, as described in the FASB Accounting Standards Codification section *Accounting for Uncertainty in Income Taxes*, would not be material to the financial statements taken as a whole. Accordingly, no liability has been provided for unrecognized tax benefits, nor has any interest or penalty been accrued.

The Company's federal and state income tax returns for 2011, 2012, and 2013 are subject to examination by the Internal Revenue Service and state authorities, generally for three years after they were filed.

8. Events Occurring After the Reporting Date - The Company has evaluated events and transactions that occurred between December 31, 2013 and October 3, 2014, which is the date that the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

NOTES TO FINANCIAL STATEMENTS

PENSACOLA BAY TRANSPORTATION COMPANY, LLC

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

9. Advertising Costs - Advertising costs are expensed as incurred. Total advertising expenses were \$1,390 and \$1,348 for the years ended December 31, 2013 and 2012, respectively.

NOTE C - PROPERTY AND EQUIPMENT

Property and equipment as of December 31, 2013 and 2012, consists of the following:

	<u>2013</u>	<u>2012</u>
Furniture, fixtures, and office equipment	\$ 59,010	\$ 53,026
Shop equipment	46,786	47,186
Vehicles	<u>355,270</u>	<u>267,832</u>
	461,066	368,044
Less accumulated depreciation	<u>(273,558)</u>	<u>(284,434)</u>
Property and equipment, net	<u>\$ 187,508</u>	<u>\$ 83,610</u>

Depreciation expense totaled \$35,637 and \$29,563 for the years ended December 31, 2013 and 2012, respectively.

NOTE D - LINE OF CREDIT

The Company had an available \$150,000 line of credit with a bank, which was renewed on August 26, 2013, with a due date of August 26, 2016. There was a balance of \$114,283 and \$124,283 outstanding at December 31, 2013 and 2012, respectively. The variable interest rate was 2.85% over the prime rate. The line of credit is collateralized by accounts receivable, vehicles, equipment, and furniture.

NOTES TO FINANCIAL STATEMENTS

PENSACOLA BAY TRANSPORTATION COMPANY, LLC

NOTE E - LONG-TERM DEBT

Notes payable at December 31, 2013 and 2012, were as follows:

	<u>2013</u>	<u>2012</u>
Note to bank, payable in monthly installments of \$1,623, including interest at 4.90%, due August 2018, collateralized by two vehicles with book values totaling \$87,515	\$ 81,097	\$ -
Note to bank, payable in monthly installments of \$300, including interest at 5.00%, due February 2014, with no specific collateral specified	-	4,069
Note to bank, payable in monthly installments of \$691, including interest at 5.20%, due July 2014, collateralized by vehicle with a book value of \$11,715	4,722	13,177
Note to bank, payable in monthly installments of \$984, including interest at 6.60%, due August 2013, collateralized by inventory, chattel paper, accounts, equipment, and general intangibles	-	5,566
Note to bank, payable in monthly installments of \$2,150, including interest at 2.90%, due April 2015, guaranteed by the member of the Company	<u>8,060</u>	<u>35,268</u>
Less current portion	<u>(28,637)</u>	<u>(42,547)</u>
Long-term debt, net	<u>\$ 65,242</u>	<u>\$ 15,533</u>

NOTES TO FINANCIAL STATEMENTS
PENSACOLA BAY TRANSPORTATION COMPANY, LLC

NOTE E - LONG-TERM DEBT (Continued)

Future maturities of long-term debt for each of the next five years are as follows:

Year ending <u>December 31,</u>		
2014	\$	28,637
2015		16,650
2016		17,484
2017		18,360
2018		<u>12,748</u>
	\$	<u>93,879</u>

Interest expense was \$12,488 and \$18,745 for the years ended December 31, 2013 and 2012, respectively.

NOTE F - SUPPLEMENTAL CASH FLOW INFORMATION

Supplemental cash flow information for the years ended December 31, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Cash payments for interest	\$ <u>12,256</u>	\$ <u>18,776</u>

During the year ended December 31, 2013, the Company purchased two vehicles with a note in the amount of \$86,213.

The Company transferred two vehicles to Mobile Bay Transportation, Inc. during 2012 in exchange for a \$7,268 credit against the amount owed to Mobile Bay Transportation, Inc.

NOTES TO FINANCIAL STATEMENTS

PENSACOLA BAY TRANSPORTATION COMPANY, LLC

NOTE G - RELATED PARTY TRANSACTIONS

The Company member owns all of the stock of Mobile Bay Transportation, Inc., which provides administrative, management, and support services to the Company. The Company expenditures for these services were \$292,972 and \$305,076 for the years ended December 31, 2013 and 2012, respectively. The Company owed Mobile Bay Transportation, Inc. \$93,924 and \$75,141 at December 31, 2013 and 2012, respectively. These amounts are shown on the balance sheets as due to affiliate and represents the unpaid balances for administrative services rendered to the Company by the affiliate.

The Company leases office space from the member for \$5,000 per month, on a month-to-month basis.

NOTE H - 401(k) EMPLOYEE SAVINGS PLAN

The Company provides an opportunity for all bargaining unit employees once they achieve six months of continuous service, to participate in a Company sponsored 401(k) employee savings plan. This Plan provides an employer match of up to one percent (1%) of employee gross pay for any amount up to one percent (1%) contribution made by the employee. In the third year of the contract employer contribution will be 1.5%. The Company made contributions to the Plan of \$2,752 and \$1,974, for the years ended December 31, 2013 and 2012, respectively.

NOTES TO FINANCIAL STATEMENTS

PENSACOLA BAY TRANSPORTATION COMPANY, LLC

NOTE I - OPERATING LEASES

The Company rents facilities in Escambia County and Santa Rosa County under month-to-month operating leases. The Company also leases equipment and vehicles under month-to-month operating leases. The Company leases industry specific vehicle dispatch software with an annual renewable contract. Under these agreements, total operating lease expenses were as follows:

	<u>2013</u>	<u>2012</u>
Equipment rental	\$ 7,576	\$ 3,737
Rent - office	81,600	80,100
Software lease	<u>14,400</u>	<u>14,400</u>
Total operating leases	<u>\$ 103,576</u>	<u>\$ 98,237</u>

In 2011, the Company entered into a lease for a facility in Pensacola under a three-year operating lease that requires annual rental payments of \$13,800. Rent expense for this facility was \$13,800 for the year ended December 31, 2013.

At December 31, 2013, there were no non-cancelable operating leases having remaining terms in excess of one year.

NOTE J - CONTINGENCIES

The Florida Commission for the Transportation Disadvantaged funding specifies periodic audits. Any expenditure disallowed as a result of these audits could become a liability of the Company.

The Company's ability to provide the same level of services in the future is contingent on continuing grants from the Florida Commission for the Transportation Disadvantaged.

NOTE TO FINANCIAL STATEMENTS

PENSACOLA BAY TRANSPORTATION COMPANY, LLC

NOTE K - MAJOR CUSTOMERS

Net sales for the year ended December 31, 2013, includes sales to three major customers, each of which accounted for more than 10% of the total net sales of the Company as follows:

<u>Customer</u>	<u>Sales</u>	<u>Percent of Sales</u>	<u>Accounts Receivable at December 31, 2013</u>
A	\$ 1,407,894	34%	\$ 118,838
B	916,907	22%	100,977
C	1,093,666	26%	121,473
Others	<u>768,448</u>	<u>18%</u>	<u>125,423</u>
	<u>\$ 4,186,915</u>	<u>100%</u>	<u>\$ 466,711</u>

NOTE L - CONCENTRATION OF RISK

The Transportation Disadvantaged Service Plan is an annually updated tactical plan jointly developed by the Planning Agency and implemented by the Community Transportation Coordinator (CTC). The CTC contract, currently held by Pensacola Bay Transportation Company, LLC, was up for renewal in June of 2014. The Company did not receive the contract for Escambia County. The Company's term revenues have been adversely affected and the Company significantly reduced their workforce (See below).

Approximately 80% of the Company's employees were covered by collective bargaining agreements. These agreements dictate most aspects of pay and benefits for current and future union employees. The union employees at the Company include the drivers and maintenance personnel. The administrative staff and management are not union employees. This agreement expired when the Escambia County contract was not renewed at the end of June 2014.

ADDITIONAL INFORMATION

SCHEDULES OF OPERATING EXPENSES
PENSACOLA BAY TRANSPORTATION COMPANY, LLC
Years Ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Administrative fees	\$ 292,972	\$ 305,076
Advertising	1,390	1,348
Depreciation	35,637	29,563
Dues and subscriptions	2,736	1,044
Equipment rental	7,576	3,737
Fuel	570,964	678,565
Insurance	567,096	555,715
Interest	12,488	18,745
Office	50,715	76,038
Parking and tolls	1,646	1,874
Payroll tax	161,399	168,742
Professional services	27,560	25,222
Radio and telephone	57,668	47,093
Rent - office	81,600	80,100
Repairs and maintenance	226,005	123,821
Retirement plan contributions	2,752	1,974
Salaries	1,608,119	1,639,232
Software lease	14,400	14,400
Subcontract carriers	489,680	375,050
Taxes and licenses	12,039	8,015
Travel and entertainment	<u>6,408</u>	<u>4,012</u>
	<u>\$ 4,230,850</u>	<u>\$ 4,159,366</u>

**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 Member
Pensacola Bay Transportation Company, LLC
Pensacola, Florida

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 balance sheets and statements of operations and member's equity and cash flows of Pensacola Bay Transportation Company, LLC (the Company) as of and for the year ended December 31, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the Company's basic financial statements, and have issued our report thereon dated October 3, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Pensacola Bay Transportation Company, LLC's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Pensacola Bay Transportation Company, LLC's internal control. Accordingly, we do not express an opinion on the effectiveness of Pensacola Bay Transportation Company, LLC'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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Company'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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be a significant deficiency. (13-1)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Pensacola Bay Transportation Company, LLC'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*.

Pensacola Bay Transportation Company, LLC's Response to Findings

Pensacola Bay Transportation Company, LLC's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Pensacola Bay Transportation Company, LLC's response was not subject to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Company'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 Company's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Brown Thornton Parenta & Company, P.A.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

PENSACOLA BAY TRANSPORTATION COMPANY, LLC

Year Ended December 31, 2013

FINDINGS - FINANCIAL STATEMENT AUDIT

SIGNIFICANT DEFICIENCY

13-1 - Mileage Billed

Criteria: Internal controls should be in place to ensure that mileage billed to providers is accurate.

Condition: During our audit, we noted instances where the odometer readings on the driver manifests did not agree with the mileage billed to provider. The instances were both over billed and under billed mileage. The Company has mileage limits set in its billing software for certain charge codes to avoid substantial overbillings. Management also spot checks odometer readings and mileage data entry, however, there are no formal procedures in place for the review of the data input for odometer readings.

Effect: Errors in the amounts billed could result in revenue being misstated. Further, the Company could be liable to repay amounts that were overbilled.

Recommendation: We recommend that review procedures be implemented to ensure that the data input for odometer readings is accurate, and therefore, the amounts billed are accurate.

Views of member: The member of Pensacola Bay Transportation Company, LLC concurs with the recommendation. Review procedures are being implemented to ensure accurate data entry and accurate billing.

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR
STATE PROJECT AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY CHAPTER 10.650, RULES OF THE AUDITOR GENERAL**

To the Member
Pensacola Bay Transportation Company, LLC
Pensacola, Florida

Report on Compliance for Each Major State Project

We have audited Pensacola Bay Transportation Company, LLC's (the Company's) compliance with the types of compliance requirements described in the Department of Financial Services' State Projects Compliance Supplement that could have a direct and material effect on each of the Company's major state projects for the year ended December 31, 2013. The Company's major state projects are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Company's major state projects based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and Chapter 10.650, Rules of the Auditor General. The standard, Chapter 10.650, Rules of the Auditor General, requires 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 State projects occurred. An audit includes examining, on a test basis, evidence about the Company'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 state project. However, our audit does not provide a legal determination of the Company's compliance.

Opinion on Each State Project

In our opinion, the Company's complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major state projects for the year ended December 31, 2013.

Report on Internal Control over Compliance

Management of the Company is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Company's internal control over compliance with the types of requirements that could have a direct and material effect on each major state project to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major state project and to test and report on internal control over compliance in accordance with Chapter 10.650, Rules of the Auditor General, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Company'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 major state project on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a state project will not be prevented, or detected and corrected, on a timely basis.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with the type of compliance requirement of a state project that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs - state projects as 13-1 to be a significant deficiency.

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 results of that testing based on the requirements of Chapter 10.650, Rules of the Auditor General. Accordingly, this report is not suitable for any other purpose.

Braun Thornton Pacuta & Company, P.A.

Pensacola, Florida
October 3, 2014

SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE

PENSACOLA BAY TRANSPORTATION COMPANY, LLC

Year Ended December 31, 2013

State Agency, State Direct Projects	CSFA No.	Grant No.	Expenditures
DEPARTMENT OF TRANSPORTATION			
Florida Commission for the Transportation			
Disadvantaged:			
Trip and Equipment Grant Program	55.001	AQ165	\$ 286,718
Trip and Equipment Grant Program	55.001	AQ210	188,591
Trip and Equipment Grant Program	55.001	AQO30	273,648
Trip and Equipment Grant Program	55.001	AQO04	<u>167,950</u>
TOTAL EXPENDITURES OF STATE FINANCIAL ASSISTANCE			<u>\$ 916,907</u>

Note: The accrual basis of accounting was used to prepare this schedule.

SCHEDULE OF FINDING AND QUESTIONED COSTS - STATE PROJECTS

PENSACOLA BAY TRANSPORTATION COMPANY, LLC

Year Ended December 31, 2013

A. SUMMARY OF AUDIT RESULTS

1. The independent auditor's report expresses an unqualified opinion on Pensacola Bay Transportation Company, LLC's (the Company's) basic financial statements.
2. A significant deficiency in internal control disclosed during the audit of the financial statements is reported in the 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*. This significant deficiency is not considered a material weakness.
3. No instances of noncompliance material to the financial statements of the Company were disclosed during the audit.
4. A significant deficiency in internal control over a major state project is reported in the Independent Auditor's Report on Compliance for Each Major State Project and on Internal Control over Compliance Required by Chapter 10.650, Rules of the Auditor General.
5. The independent auditor's report on compliance with requirements that could have a direct and material effect on each state project for Pensacola Bay Transportation Company, LLC expresses an unqualified opinion.
6. Audit findings required to be reported relative to the major state projects for Pensacola Bay Transportation Company, LLC are reported in Parts C and D of this Schedule.

The projects tested as major projects included the following:

<u>State Project</u>	<u>State CSFA No.</u>	<u>Year</u>
Commission for the Transportation Disadvantaged Trip and Equipment Grant Program	55.001	2013

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

SCHEDULE OF FINDING AND QUESTIONED COSTS - STATE PROJECTS

PENSACOLA BAY TRANSPORTATION COMPANY, LLC

Year Ended December 31, 2013

B. FINDINGS - FINANCIAL STATEMENTS

**Finding
Number** **Finding**
13-1 Mileage Billed

Criteria: Internal controls should be in place to ensure that mileage billed to providers is accurate.

Condition: During our audit, we noted instances where the odometer readings on the driver manifests did not agree with the mileage billed to provider. The instances were both over billed and under billed mileage. The Company has mileage limits set in its billing software for certain charge codes to avoid substantial overbillings. Management also spot checks odometer readings and mileage data entry, however, there are no formal procedures in place for the review of the data input for odometer readings.

Context: During our compliance testing, we noted instances where the odometer readings on the driver manifests did not agree with the mileage billed to provider.

Effect: Errors in the amounts billed could result in revenue being misstated. Further, the Company could be liable to repay amounts that were overbilled.

Cause: The incorrect odometer reading entries resulted from human error.

Recommendation: We recommend that review procedures be implemented to ensure the data input for odometer readings is accurate, and therefore, the amounts billed are accurate.

Views of member: The member of Pensacola Bay Transportation Company, LLC concurs with the recommendation. Review procedures are being implemented to ensure accurate data entry and accurate billing.

SCHEDULE OF FINDING AND QUESTIONED COSTS - STATE PROJECTS

PENSACOLA BAY TRANSPORTATION COMPANY, LLC

Year Ended December 31, 2013

C. FINDINGS AND QUESTIONED COSTS - MAJOR STATE PROJECTS

**Finding
Number** **Finding**
13-1 **Mileage Billed**

Criteria: Internal controls should be in place to ensure that mileage billed to providers is accurate.

Condition: The Company has mileage limits set in its billing software for certain charge codes to avoid substantial overbillings. Management also spot checks odometer readings and mileage data entry, however, there are no formal procedures in place for the review of the data input for odometer readings.

Questioned Costs: Known questioned costs totaled \$290. Likely questioned costs, as projected using the known questioned costs and the total dollar amount of the selection, are estimated to exceed \$10,000.

Context: During our compliance testing, we noted instances where the odometer readings on the driver manifests did not agree with the mileage billed to provider. The instances were both over billed and under billed mileage.

Effect: Errors in the amounts billed could result in revenue being misstated. Further, the Company could be liable to repay amounts that were overbilled.

Cause: The incorrect odometer reading entries resulted from human error.

Recommendation: We recommend that review procedures be implemented to ensure the data input for odometer readings is accurate, and therefore, the amounts billed are accurate.

Views of member and planned corrective actions: The management of Pensacola Bay Transportation Company, LLC concurs with the recommendation. See the corrective action planned.

D. OTHER ISSUES

- (a) Management letter is required and presented.
- (b) No Schedule of Prior Audit Findings is required because there were no prior audit findings related to state projects.
- (c) Corrective Action Plan is required and presented.

**BROWN
THORNTON ♦ PACENTA
& Company, P.A.**

*Certified Public Accountants
Business & Financial Consultants*

Michael D. Thornton, Shareholder
Jan M. Pacenta, Shareholder
John R. Dunaway, Officer
Hardy N. Eubanks, III, Officer
Sean K. Quigley, Officer

MANAGEMENT LETTER

To the Member
Pensacola Bay Transportation Company, LLC
Pensacola, Florida

We have audited the financial statements of Pensacola Bay Transportation Company, LLC (the Company) as of and for the year ended December 31, 2013, and have issued our report thereon dated October 3, 2014.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the provisions of Section 215.97 Florida Statutes which prescribes the requirements for an audit conducted according to the Florida Single Audit Act; and Chapter 10.650, Rules of the Florida Auditor General. We have issued our 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; and Independent Auditor's Report on Compliance for Each Major State Project and Report on Internal Control over Compliance; Schedule of Findings and Questioned Costs*. Disclosures in those reports and schedule, which are dated October 3, 2014, should be considered in conjunction with this management letter.

Additionally, our audit was conducted in accordance with Chapter 10.650, Rules of the Auditor General, which requires disclosure in the management letter noncompliance with provisions of contracts or grant agreements, or abuse, that have occurred, or are likely to have occurred, that have an effect on the financial statements that is less than material but which warrants the attention of those charged with governance. In connection with our audit, we had the following finding:

During our audit, we noted instances where the odometer readings on the driver manifests did not agree with the mileage billed to provider. The instances were both over billed and under billed mileage. The Company has mileage limits set in its billing software for certain charge codes to avoid substantial overbillings. Management also spot checks odometer readings and mileage data entry, however, there are no formal procedures in place for the review of the data input for odometer readings.

Our management letter is intended solely for the information and use of the member, management, and the Florida Auditor General, and is not intended to be and should not be used by anyone other than these specified parties.

Brown Thornton Pacenta & Company, P.A.

October 3, 2014

CORRECTIVE ACTION PLAN - STATE PROJECTS
PENSACOLA BAY TRANSPORTATION COMPANY, LLC

Year Ended December 31, 2013

Finding: During our compliance testing, we noted instances where the odometer readings on the driver manifests did not agree with the mileage billed to provider. The instances were both over billed and under billed mileage. The Company has mileage limits set in its billing software for certain charge codes to avoid substantial overbillings. Management also spot checks odometer readings and mileage data entry, however, there are no formal procedures in place for the review of the data input for odometer readings.

Recommendation: We recommend that review procedures be implemented to ensure the data input for odometer readings is accurate, and therefore, the amounts billed are accurate.

Management Response: The management of Pensacola Bay Transportation Company, LLC concurs with the auditor's recommendation. Review procedures are being implemented to ensure accurate data entry and accurate billing.

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