

Muskogee County Transit System
Muskogee, Oklahoma

***REPORT ON AUDIT OF FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION***

For the Year Ended September 30, 2015

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MUSKOGEE COUNTY TRANSIT SYSTEM
Muskogee, Oklahoma

TABLE OF CONTENTS

For the Year Ended September 30, 2015

	<u>Page</u>
MANAGEMENT’S DISCUSSION AND ANALYSIS	
Management’s Discussion and Analysis	1
INDEPENDENT AUDITOR’S REPORT	
Independent Auditor’s Report.....	5
FINANCIAL STATEMENTS	
Statement of Net Position.....	8
Statement of Activities.....	9
Balance Sheet – Governmental Funds.....	10
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds.....	11
NOTES TO FINANCIAL STATEMENTS	
Notes to Financial Statements	12
INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL – GOVERNMENTAL AUDITING STANDARDS	
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 <i>Government Auditing Standards</i>	19
INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB-CIRCULAR A-133	
Independent Auditor’s Report on Compliance for each major program and on Internal Control Over Compliance Required by OMB Circular A-133.....	21
SUPPLEMENTAL INFORMATION	
Schedule of Expenditures of Federal Awards	23
Schedule of Expenditures of State Awards	24
Notes to Schedule of Expenditures of Federal and State Award.....	25
Status of Prior Audit Findings.....	26
Schedule of Findings and Questioned Costs	27

MANAGEMENT'S DISCUSSION AND ANALYSIS

MUSKOGEE COUNTY TRANSIT SYSTEM
Muskogee, Oklahoma

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)

For the Year Ended September 30, 2015

Our discussion and analysis of the Muskogee County Transit System's financial performance provides an overview of the Organization's financial activities for the fiscal year ended September 30, 2015. Please review it in conjunction with the Organization's basic financial statements which begin on page 8.

FINANCIAL HIGHLIGHTS

- Total net position experienced a decrease of 4% from 2014. (Table I)
- The Organization operates a substantial portion of its activities through federal, state and local funding. These grants and contracts totaled \$800,486 and accounted for approximately 51% of revenues.
- Revenues (\$1,583,679) decreased by \$202,440 (11.3%) – See Table II.
- Expenses (\$1,640,036) increased by \$82,161 (5.3%) – See Table II.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Activities (on pages 8 and 9) provide information about the activities of the Organization as a whole and present a longer-term view of the Organization's finances. Fund financial statements start on page 10. These statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the Organization's operations in more detail than the government-wide statements by providing information about the Organization's most financially significant funds. Currently, the Organization only utilizes one fund.

Reporting the Organization as a Whole

The Statement of Net Position and Statement of Activities

Our analysis of the Organization as a whole begins on page 2. One of the most important questions asked about the Organization's finances is "Is the Organization as a whole better off or worse as a result of the year's activities?" The Statement of Net Position and the Statement of Activities report information about the Organization as a whole and about its activities in a way that helps answer this question. These statements include all assets, deferred outflows, liabilities and deferred inflows using the accrual basis of accounting, which is similar to accounting used by most private-sector companies. Accrual of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Organization's *net position* and changes in them. You can think of the Organization's net position, the difference between assets and deferred outflows, what the Organization owns, and liabilities and deferred inflows, what the Organization owes, as one way to measure the Organization's financial health, or *financial position*. Over time, increases or decreases in the Organization's net position are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other financial factors, however, such as changes in the Organization's funding arrangements with federal and state grantors, availability of funding for capital projects, and continuing local support.

MUSKOGEE COUNTY TRANSIT SYSTEM
Muskogee, Oklahoma

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)

For the Year Ended September 30, 2015

Reporting the Organization's Most Significant Funds

Fund Financial Statements

Major Fund
General Operating

Our analysis of the Organization's major funds is below.

The fund financial statements begin on page 10 and provide detailed information about the most significant fund as a whole. Funds are established to help control and manage money for particular purposes (ex. various grants and capital projects). The Organization has only one governmental fund.

Governmental Funds: The Organization's fund is reported in governmental funds, which focus on how money flows into and out of those funds and balances left at year-end that are available for spending. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a *short-term view* of the Organization's operations and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Organization's programs. We describe the relationship (or differences) between government activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in a reconciliation accompanying the fund financial statements.

Notes to the Financial Statements: The notes provide additional information that is essential to a full understanding of the data provided in the government wide and fund financial statements. The notes to the financial statements can be found on page 12 of this report.

THE ORGANIZATION AS A WHOLE

The Organization's total net position changed from a year ago, decreasing \$56,357 from \$1,401,640 in 2014 to \$1,345,283 during 2015. (Table 1).

Table I
Net Position

	September 30,	
	2015	2014
Current Assets	\$ 572,491	\$ 574,340
Other Assets:		
Property and Equipment (Net)	932,959	1,019,130
Total Assets	1,505,450	1,593,470
Deferred Outflows of Resources	266	0
Accounts Payable & Accrued Expenses	123,696	191,830
Total Liabilities	123,696	191,830
Deferred Inflows of Resources	36,737	0
Net position:		
Net Investment in Capital Assets	932,959	1,019,130
Unrestricted	412,324	382,510
Total Net Position	\$ 1,345,283	\$ 1,401,640

MUSKOGEE COUNTY TRANSIT SYSTEM
Muskogee, Oklahoma

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)

For the Year Ended September 30, 2015

Table 2 compares the 2015 to the 2014 changes in net position.

Table II
Change in Net Position for 2015
Compared with 2014 Activity

	<u>2015</u>	<u>2014</u>	Increase (Decrease)	Change %
Program Revenues:				
Grant	\$ 800,486	\$ 981,825	\$ (181,339)	-18.5%
Contract	707,415	727,470	(20,055)	-2.8%
Fares	72,998	67,261	5,737	8.5%
Other	<u>2,780</u>	<u>9,563</u>	<u>(6,783)</u>	<u>-70.9%</u>
Total Revenues	<u>1,583,679</u>	<u>1,786,119</u>	<u>(202,440)</u>	<u>-11.3%</u>
Program Expenses:				
Salaries, Taxes and Fringe	885,511	844,394	41,117	4.9%
Professional Services	23,706	37,466	(13,760)	-36.7%
Travel	3,602	2,344	1,258	53.7%
Advertising	2,337	1,120	1,217	1.1%
Subscriptions and Memberships	16,842	10,339	6,503	62.9%
Training	465	325	140	43.1%
Insurance	147,515	110,509	37,006	33.5%
Building Maintenance and Repairs	9,727	6,125	3,602	58.9%
Supplies	11,942	9,580	2,362	24.7%
Telephone	31,301	12,526	18,775	149.9%
Utilities	18,377	15,645	2,732	17.5%
Postage	711	719	(8)	-1.1%
Fuel	124,619	222,258	(97,639)	-43.9%
Vehicle Maintenance and Repairs	111,562	63,812	47,750	74.8%
Miscellaneous	11,942	16,319	(4,377)	-26.8%
Toll Fees	3,360	3,192	168	5.3%
Interest, Penalties and Late Fees	220	1,482	(1,262)	-85.2%
Equipment Lease	2,544	2,128	416	19.5%
Depreciation	<u>233,753</u>	<u>197,592</u>	<u>36,161</u>	<u>18.3%</u>
Total Expenses	<u>1,640,036</u>	<u>1,557,875</u>	<u>82,161</u>	<u>5.3%</u>
Change in Net Position	(56,357)	228,244	(284,601)	-124.7%
Net Position, Beginning	<u>1,401,640</u>	<u>1,173,396</u>	<u>228,244</u>	<u>19.5%</u>
Ending Net Position	<u>\$ 1,345,283</u>	<u>\$ 1,401,640</u>	<u>\$ (56,357)</u>	<u>-4.0%</u>

Overall, the Organization had a 11.3% decrease in revenues and a 5.3% increase in expenses, resulting in a 4.0% decrease in net position.

MUSKOGEE COUNTY TRANSIT SYSTEM
Muskogee, Oklahoma

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)

For the Year Ended September 30, 2015

BUDGET VS. ACTUAL RESULTS

The Organization does not operate under an organization-wide, legally-adopted budget. However, project budgets are adopted and approved by those federal and state agencies that provide funding for the various projects.

CAPITAL ASSETS

Capital assets represent buildings and equipment used by the Organization to fulfill its mission to provide public transportation services. See Note 8 (page 17) of the accompanying notes to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S PLAN

The Organization receives funding from the Federal Transit Administration and the Oklahoma Department of Transportation and anticipates consistent funding during the subsequent year. Efforts will be made to offset any potential decreases in funding at the local level. Additionally, the Organization expects demand for services to remain consistent with prior periods.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Organization's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Mr. John Ford III, Executive Director, P. O. Box 2973, Muskogee, OK 74402

INDEPENDENT AUDITOR'S REPORT

Saunders & Associates, PLLC

Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Muskogee County Transit System

We have audited the accompanying financial statements of the governmental activities and the major fund of Muskogee County Transit System as of and for the year ended September 30, 2015 and the related notes to the financial statements, which collectively comprise the Muskogee County Transit System'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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit 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 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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and major fund of Muskogee County Transit System as of September 30, 2015, and the respective changes in financial position thereof for the year 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 1 through 4 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.

Management has omitted budgetary comparison information that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements are not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming opinions on the basic financial statements that collectively comprise the Muskogee County Transit System's basic financial statements. The schedule of expenditures of state awards is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards 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 also not a required part of the financial statements.

The schedules of expenditures of federal and state awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such 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 States of America. In our opinion, the schedules of expenditures of federal and state awards are fairly stated, in all material respects, in relation to the 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 June 21, 2016 on our consideration of the Muskogee County Transit System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Muskogee County Transit System's internal control over financial reporting and compliance.



SAUNDERS & ASSOCIATES, PLLC
Certified Public Accountants
Ada, Oklahoma

June 21, 2016

FINANCIAL STATEMENTS

MUSKOGEE COUNTY TRANSIT SYSTEM
Muskogee, Oklahoma

STATEMENT OF NET POSITION

September 30, 2015

	<u>Primary Government</u>
ASSETS	
Current Assets:	
Cash	\$ 262,387
Accounts Receivable	310,104
Total Current Assets	<u>572,491</u>
Noncurrent Assets:	
Property and Equipment	2,535,745
Less: Accumulated Depreciation	<u>(1,602,786)</u>
Total Noncurrent Assets	<u>932,959</u>
Total Assets	<u>1,505,450</u>
 DEFERRED OUTFLOWS OF RESOURCES	 <u>266</u>
LIABILITIES	
Current Liabilities:	
Accounts Payable & Accrued Expenses	<u>123,696</u>
Total Current Liabilities	<u>123,696</u>
 DEFERRED INFLOWS OF RESOURCES	 <u>36,737</u>
NET POSITION	
Net Investment in Capital Assets	932,959
Unrestricted	<u>412,324</u>
 TOTAL NET POSITION	 <u>\$ 1,345,283</u>

* The accompanying notes are an integral part of the financial statements.

MUSKOGEE COUNTY TRANSIT SYSTEM
Muskogee, Oklahoma

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2015

Functions/Programs	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Net (Expense) Revenue & Change in Net Assets Governmental Activities</u>
PRIMARY GOVERNMENT:					
Governmental Activities:					
General Operating	\$ 1,640,036	\$ 780,413	\$ 650,905	\$ 149,581	\$ (59,137)
Total Primary Government	<u>1,640,036</u>	<u>780,413</u>	<u>650,905</u>	<u>149,581</u>	<u>(59,137)</u>
General Revenues:					
Other Revenues					<u>2,780</u>
Total General Revenues					<u>2,780</u>
Change in Net Position					
Net Position Beginning					<u>1,401,640</u>
NET POSITION ENDING					<u>\$ 1,345,283</u>

* The accompanying notes are an integral part of the financial statements.

**MUSKOGEE COUNTY TRANSIT SYSTEM
Muskogee, Oklahoma**

BALANCE SHEET - GOVERNMENTAL FUNDS

September 30, 2015

	<u>General Operating</u>
ASSETS	
Cash	\$ 262,387
Accounts Receivable	<u>310,104</u>
Total Assets	<u>572,491</u>
 DEFERRED OUTFLOWS OF RESOURCES	
Total Deferred Outflows of Resources	<u>266</u>
 TOTAL ASSETS & DEFERRED OUTFLOWS OF RESOURCES	 \$ <u>572,757</u>
 LIABILITIES	
Accounts Payable & Accrued Expenses	\$ <u>123,696</u>
Total Liabilities	<u>123,696</u>
 DEFERRED INFLOWS OF RESOURCES	
Total Deferred Inflows of Resources	<u>36,737</u>
 FUND BALANCES	
Unassigned	<u>412,324</u>
Total Fund Balances	<u>412,324</u>
 TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	 \$ <u>572,757</u>

**Reconciliation of Total Governmental Fund Balances to
Net Position of Governmental Activities
September 30, 2015**

Total Governmental Fund Balance	\$ 412,324
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	<u>932,959</u>
 NET POSITION OF GOVERNMENTAL ACTIVITIES	 \$ <u>1,345,283</u>

* The accompanying notes are an integral part of the financial statements.

MUSKOGEE COUNTY TRANSIT SYSTEM
Muskogee, Oklahoma

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS**

For the Year Ended September 30, 2015

	<u>General Operating</u>
REVENUES	
Grants	\$ 800,486
Contracts	707,415
Fares	72,998
Other	<u>2,780</u>
Total Revenues	<u>1,583,679</u>
EXPENDITURES	
Salaries, Taxes & Fringe	885,511
Professional Services	23,706
Travel	3,602
Advertising	2,337
Subscriptions and Memberships	16,842
Training	465
Insurance	147,515
Building Maintenance & Repairs	9,727
Supplies	11,942
Telephone	31,301
Utilities	18,377
Postage	711
Fuel	124,619
Vehicle Maintenance & Repairs	111,562
Miscellaneous	11,942
Toll Fees	3,360
Equipment	150,126
Interest, Penalties & Late Charges	<u>220</u>
Total Expenditures	<u>1,553,865</u>
Revenues Over (Under) Expenditures	29,814
Fund Balance, September 30, 2014	<u>382,510</u>
FUND BALANCE - SEPTEMBER 30, 2015	<u><u>\$ 412,324</u></u>

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**
For the Year Ended September 30, 2015

Net Change in Governmental Fund Balances	\$ 29,814
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation (\$233,753) exceeded capital outlays of (\$143,582) in the current period.	<u>(86,171)</u>
Change in Net Position of Governmental Activities	<u><u>\$ (56,357)</u></u>

* The accompanying notes are an integral part of the financial statements.

NOTES TO FINANCIAL STATEMENTS

MUSKOGEE COUNTY TRANSIT SYSTEM
Muskogee, Oklahoma

NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2015

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. General Statement

The Organization's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). The more significant accounting policies established in GAAP and used by the Organization are discussed below.

The financial statements include:

- ** A Management's Discussion and Analysis (MD&A) section providing an analysis of the Organization's overall financial position and results of operations.
- ** Financial statements prepared using full accrual accounting for all of the Organization's activities, including capital assets.

B. Reporting Entity

On October 1, 2008, Board of County Commissioners dba Muskogee County Transit System was changed from a component unit of Muskogee County to Muskogee County Transit System, a public trust.

The sole activity of the Organization is the provision of public transportation services. The Organization provides transportation services in Muskogee County, Oklahoma. The Organization operates a rural demand-response public transportation system, which serves the county listed above, as well as an urban fixed route system.

The accompanying statements of the Organization have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The financial statements include all organizations, activities, and functions that comprise the Organization. Component units are legally separate entities for which the Organization (the primary entity) is financially accountable. Financial accountability is defined as the ability to appoint a voting majority of the organization's governing body and either (1) the Organization's ability to impose its will over the organization or (2) the potential that the organization will provide a financial benefit to, or impose a financial burden on, the Organization. Using these criteria, the Organization has no component units.

C. Government-Wide and Fund Financial Statements

The Organization's basic financial statements include both government-wide (reporting the Organization as a whole) and fund financial statements (reporting the Organization's major fund).

MUSKOGEE COUNTY TRANSIT SYSTEM
Muskogee, Oklahoma

NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2015

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Government-Wide

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the activities of the primary government.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include: 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Other items not properly included among program revenues are reported instead as *general revenues*.

This government-wide focus is more on the sustainability of the Organization as a whole, and the change in the Organization's net position resulting from current year activities.

Fund

The Organization uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The Organization only uses governmental funds.

Governmental funds are those through which most governmental functions typically are financed. Governmental funds reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purpose for which they may or must be used. The Organization's programs and services are funded primarily with federal and state grants.

The accompanying fund financial statements report the following major governmental funds:

General – This fund is the general operating fund of the Organization. It is used to account for all financial resources. It is currently the only fund utilized by the Organization.

The emphasis in fund financial statements is on the major governmental funds.

D. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

MUSKOGEE COUNTY TRANSIT SYSTEM
Muskogee, Oklahoma

NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2015

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Government fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Financial Statement Amounts

Grants and Entitlements – Interests associated with the current fiscal period are all considered susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered measurable and available only when the Organization receives cash.

Fund Balance Classification – The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the Organization is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

- Non-spendable: This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. Typically, items such as investments held for resale, inventories, and prepaid items are classified as being non-spendable as these items are not expected to be converted to cash or are not expected to be converted to cash within the short term. The Organization did not report non-spendable fund balances for the year ended September 30, 2015.
- Restricted: This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation. The organization did not report restricted fund balances for the year ended September 30, 2015.
- Committed: This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the governing body of the Organization. These amounts cannot be used for any other purpose unless the Organization removes or changes the specified use by taking the same type of action that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements. The Organization did not report committed fund balances for the year ended September 30, 2015.
- Assigned: This classification includes amounts that are constrained by the Organization's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the Organization or through the governing body delegating this responsibility to the Organization manager through the budgetary process. This classification also includes the remaining positive fund balance for all governmental funds except for the General fund. The Organization did not report assigned fund balances for the year ended September 30, 2015.

MUSKOGEE COUNTY TRANSIT SYSTEM
Muskogee, Oklahoma

NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2015

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

- Unassigned: This classification includes the residual fund balance for the General Fund. The Unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of Assigned fund balance amounts.

The Organization would typically use restricted fund balances first, followed by committed resources, and then assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend unassigned resources first to defer the use of these other classified funds.

Revenues – Exchange and Non-Exchange Transactions – Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year.

Non-exchange transactions, in which the Organization receives value without directly giving value in return, includes grants and donations. On an accrual basis, revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the Organization must provide local resources to be used for a specific purpose, and expenditure requirements, in which the resources are provided to the Organization on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must be available before it can be recognized.

Expenses/Expenditures – On an accrual basis of accounting, expenses are recognized at the time they are incurred. The measurement focus of governmental fund accounting is on decrease in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable.

Cash and Cash Equivalents – Cash and cash equivalents consist of demand deposits maintained at financial institutions insured by the Federal Deposit Insurance Corporation (FDIC). Deposits are carried at cost.

Capital Assets – Muskogee County Transit System follows the practice of capitalizing all major expenditures for land, buildings, equipment, and leasehold improvements. Such assets are recorded at cost, or if acquired by gift, at fair value at date of receipt. Depreciation is provided over the estimated useful lives of the assets on a straight-line basis which is in conformity with accounting principles generally accepted in the United States of America. The lives generally used are as follows:

Buildings	30 Years
Equipment	5-7 Years
Buses and Trolleys	7-10 Years

MUSKOGEE COUNTY TRANSIT SYSTEM
Muskogee, Oklahoma

NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2015

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Deferred Outflows of Resources – The Organization reports decreases in net position that relate to future periods as deferred outflows of resources in a separate section of its government-wide statement of net position. Deferred outflows of resources representing prepayment of obligations in future periods totaled \$266 at September 30, 2015.

Deferred Inflows of Resources – The Organization’s governmental funds report a separate section for deferred inflows of resources. This separate financial statement element reflects an increase in net position that applies to a future period. The organization will not recognize the related revenues until a future event occurs. Deferred inflows of resources affecting the financial statement in the current year were insurance proceeds received in the current period and will offset future expenditures. At September 30, 2015, deferred inflows totaled \$36,737.

E. Budgeting – Muskogee County Transit System does not operate under an organization-wide legally-adopted budget. Therefore, budgetary comparison information has not been included. However, individual projects and grants are required to operate within budget constraints. Budget to actual results are closely monitored.

NOTE 2: COMPENSATED ABSENCES

The Organization accrues a liability for compensated absences. Full-time employees accrue 160 hours for 1 to 5 years of service and 200 hours for 6 plus years of service. Part-time employees accrue 80 hours for 1-5 years of service and 100 hours for 6 plus years of service. Only 80 hours will carry over to the following year and only 200 hours will be paid upon voluntary termination. Compensated absences payable in one year at September 30, 2015 totaled \$32,866.

NOTE 3: 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 certain reported amounts and disclosures. Actual results could differ from those estimates.

NOTE 4: NET POSITION

Net position presents the difference between assets and deferred outflows, and liabilities and deferred inflows, in the statement of net position. Net investment in capital assets is reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are legal limitations imposed on their use. There were no restrictions on ending net position at September 30, 2015.

NOTE 5: ECONOMIC DEPENDENCY

The Organization receives a significant portion of its revenue from funds provided through federal and state grants. These amounts are all appropriated each year by the federal and state governments. If significant budget cuts are made at the federal and/or state level, the amount of the funds received could be reduced significantly and have an adverse impact on its operations. Federal and state grant revenues comprised approximately 51% of the Organization’s revenues for the year.

MUSKOGEE COUNTY TRANSIT SYSTEM
Muskogee, Oklahoma

NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2015

NOTE 6: RISK MANAGEMENT

The Organization is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended September 30, 2015, the Organization carried insurance through various commercial carriers to cover all risks of losses. The Organization had no settled claims resulting from these risks that exceeded its commercial coverage during the year.

NOTE 7: CONTINGENT LIABILITIES

As noted above, the Organization participates in a number of federal and state assisted programs. These programs are audited in accordance with *Government Auditing Standards* and the *Single Audit Act Amendments of 1996*. Audits of prior years have not resulted in any significant disallowed costs; however, grantor agencies may provide for further examinations. Based on prior experience, management believes that further examinations would not result in any significant disallowed costs.

NOTE 8: FIXED ASSETS

The following summarizes the Organization's activities involving fixed assets for the year ended September 30, 2015.

	General Operating			Balance 09/30/15
	Balance 09/30/14	Additions	Dispositions	
Property and Equipment				
Buildings	\$ 425,000	\$ 45,425	\$ 0	\$ 470,425
Equipment	186,706	102,157	0	288,863
Buses and Trolleys	<u>1,776,457</u>	<u>0</u>	<u>0</u>	<u>1,776,457</u>
Total Fixed Assets	<u>2,388,163</u>	<u>147,582</u>	<u>0</u>	<u>2,535,745</u>
Accumulated Depreciation				
Buildings	85,002	14,672	0	99,674
Equipment	15,559	52,637	0	68,196
Buses and Trolleys	<u>1,268,472</u>	<u>166,444</u>	<u>0</u>	<u>1,434,916</u>
Total Depreciation	<u>1,369,033</u>	<u>233,753</u>	<u>0</u>	<u>1,602,786</u>
Net Fixed Assets	<u>\$ 1,019,130</u>	<u>\$ (86,171)</u>	<u>\$ 0</u>	<u>\$ 932,959</u>

Depreciation expense recorded in the Statement of Activities totaled \$233,753 for the year ended September 30, 2015. Additions primarily consisted of vehicle accessories/equipment and vehicle shelters.

MUSKOGEE COUNTY TRANSIT SYSTEM
Muskogee, Oklahoma

NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2015

NOTE 9: RECEIVABLES

Receivables as of September 30, 2015 were as follows:

	<u>General Operating</u>
Charges for Services;	
RTAP	\$ 479
Connors College	530
Cherokee Nation	4,804
Muskogee County Commissioners	22,500
Nutrition	1,147
Sooner Ride (Logisticare)	36,033
Department of Human Services (TANF)	<u>49,190</u>
	<u>114,683</u>
Operating Grants and Contributions:	
Oklahoma Department of Transportation (State Revolving Fund)	130,944
Oklahoma Department of Transportation (Section 5311)	<u>64,477</u>
	<u>195,421</u>
Total	<u>\$ 310,104</u>

All receivables are classified as current as they are expected to be received within the next operating cycle.

NOTE 10: ACCOUNTS PAYABLE AND ACCRUED EXPENSES

The following table lists the current obligations of the Organization at September 30, 2015.

	<u>Vendors</u>	<u>Salaries & Benefits</u>	<u>Compensated Absences</u>	<u>Total</u>
Governmental Activities	\$ <u>41,870</u>	\$ <u>48,960</u>	\$ <u>32,866</u>	\$ <u>123,696</u>

NOTE 11: EQUIPMENT LEASES

Muskogee County Transit leases various office equipment for use in operations on a month-to-month basis. Total rental and maintenance charges for the leased equipment was \$2,545 for the year ended September 30, 2015.

NOTE 12: DATE OF MANAGEMENT'S REVIEW

Management of Muskogee County Transit System has evaluated subsequent events through June 21, 2016, which is the date the financial statements were available to be issued.

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

Saunders & Associates, PLLC

Certified Public Accountants

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Website: www.saunderscpas.com

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 Trustees
Muskogee County Transit System

We have audited the financial statements of the governmental activities and major fund of Muskogee County Transit System as of and for the year ended September 30, 2015, which collectively comprise Muskogee County Transit System's basic financial statements and have issued our report thereon dated June 21, 2016. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States of America.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Muskogee County Transit System'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*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting and compliance with applicable provisions of laws, regulations, contracts, and grant agreements and the results of our testing, and to provide an opinion on Muskogee County Transit System's compliance but not to provide an opinion on the effectiveness of Muskogee County Transit System's internal control over compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Muskogee County Transit System's compliance and its internal control over compliance. Accordingly, this report is not suitable for any other purpose.

Saunders & Associates PLLC

SAUNDERS & ASSOCIATES, PLLC
Certified Public Accountants
Ada, Oklahoma

June 21, 2016

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

Saunders & Associates, PLLC

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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 Trustees
Muskogee County Transit System

Report on Compliance for Each Major Program

We have audited Muskogee County Transit Systems compliance 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 Muskogee County Transit System's major federal program for the year ended September 30, 2015. Muskogee County Transit System's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Muskogee County Transit System'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 Muskogee County Transit System'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 Muskogee County Transit System's compliance.

Opinion on Each Major Federal Program

In our opinion, Muskogee County Transit System 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 September 30, 2015.

Report on Internal Control Over Compliance

Management of Muskogee County Transit System 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 Muskogee County Transit System's internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and 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 Muskogee County Transit System'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.



SAUNDERS & ASSOCIATES, PLLC
Certified Public Accountants
Ada, Oklahoma

June 21, 2016

SUPPLEMENTAL INFORMATION

**MUSKOGEE COUNTY TRANSIT SYSTEM
Muskogee, Oklahoma**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended September 30, 2015

Grantor/Pass-Through Grantor/ Contract Title	Federal CFDA	Grant Period	Pass-Through Grantor's Identifying Number	Expenditures
<u>U. S. DEPARTMENT OF TRANSPORTATION</u>				
<u>Passed-Through the Oklahoma Dept. of Transportation</u>				
Section 5311, Rural Public Transportation	20.509	10/01/14-09/30/15	RT201514	\$ <u>519,961</u>
Total U.S. Dept. of Transportation Passed Through the Oklahoma Department of Transportation				<u>519,961</u>
Total U.S. Department of Transportation				<u>519,961</u>
 TOTAL EXPENDITURES OF FEDERAL AWARDS				 \$ <u><u>519,961</u></u>

* See accompanying notes to the schedules of expenditures of federal and state awards

**MUSKOGEE COUNTY TRANSIT SYSTEM
Muskogee, Oklahoma**

SCHEDULE OF EXPENDITURES OF STATE AWARDS

For the Year Ended September 30, 2015

<u>Grantor/Pass-Through Grantor/ Contract Title</u>	<u>Grant Period</u>	<u>Grant ID</u>	<u>Expenditures</u>
<u>Oklahoma Dept. of Transportation</u>			
Public Transit Revolving Fund	2015/2016	RF2016-15	\$ <u>130,944</u>
Total Oklahoma Dept. of Transportation			<u>130,944</u>
TOTAL STATE AWARDS			\$ <u><u>130,944</u></u>

* See accompanying notes to the schedules of expenditures of federal and state awards

MUSKOGEE COUNTY TRANSIT SYSTEM
Muskogee, Oklahoma

NOTES TO SCHEDULES OF EXPENDITURES OF FEDERAL AND STATE AWARDS

For the Year Ended September 30, 2015

NOTE 1: BASIS OF PRESENTATION

The preceding schedules of expenditures of federal and state awards includes the federal and state grant activity of Muskogee County Transit System, Inc. and is presented on the accrual basis of accounting. The information presented in the schedule of expenditures of federal awards is prepared in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

NOTE 2: CONTINGENT LIABILITIES

Muskogee County Transit System, Inc. participates in a federally assisted program. This program is audited in accordance with *Government Auditing Standards* and the *Single Audit Act Amendments of 1996*, in accordance with the required levels of Federal Financial Assistance. Audits of prior years have not resulted in any significant disallowed costs; however, grantor agencies may provide for further examinations. Based on prior experience, management believes that further examinations would not result in any significant disallowed costs.

NOTE 3: RELATIONSHIP TO FINANCIAL REPORTS

Amounts reported in the preceding schedules may not agree with the amounts reported in the related financial reports filed with grantor agencies because of accruals made in the schedule, which will be included in future reports filed with the agencies.

**MUSKOGEE COUNTY TRANSIT SYSTEM
Muskogee, Oklahoma**

STATUS OF PRIOR AUDIT FINDINGS

September 30, 2015

None reported.

MUSKOGEE COUNTY TRANSIT SYSTEM
Muskogee, Oklahoma

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended September 30, 2015

Section 1 – Summary of Auditor’s Results

Financial Statements:

Type of Auditor’s Report Issued: Unmodified.

Internal Control Over Financial Reporting:

Material Weakness(es) identified? Yes No

Significant deficiencies identified not considered to be material weaknesses? Yes None Reported

Noncompliance material to financial statements noted? Yes No

Federal Awards:

Internal Control Over Major Programs:

Material weakness(es) identified? Yes No

Significant deficiencies identified not considered to be material weakness(es)? Yes None Reported

Type of auditor’s report issued on compliance for major programs: Unmodified.

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)? Yes No

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

Auditee qualified as low-risk auditee? Yes No

Identification of Major Programs:

<u>CFDA #</u>	<u>PROGRAM TITLE</u>
20.509	Section 5311 – Rural Public Transportation

Section II – Financial Statement Findings and Questioned Costs:

None reported.

Section III – Federal Awards Findings and Questioned Costs:

None reported.