CAPITAL AREA TRANSIT SYSTEM

REPORT TO MANAGEMENT

DECEMBER 31, 2018

P&N

Postlethwaite & Netterville

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A Professional Accounting Corporation

May 28, 2019

The Commissioners and Management
Capital Area Transit System
Baton Rouge, Louisiana

In planning and performing our audit of the financial statements of the Capital Area Transit System (the System) for the year ended December 31, 2018, we considered the System's internal controls and compliance with laws and regulations having a material effect on financial reporting in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure or on compliance.

The objective of internal control is to provide reasonable, but not absolute, assurance as to the safeguarding of assets against loss from unauthorized use or disposition, and the reliability of the financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that the cost of a system of internal accounting control should not exceed the benefits derived and also recognizes that the evaluation of these factors necessarily requires estimates and judgments by management.

No matter how good a system, there are inherent limitations that should be recognized in considering the potential effectiveness of internal accounting. In the performance of most control procedures, errors can result from misunderstanding of instructions, mistakes of judgment, carelessness, or other personal factors. Control procedures whose effectiveness depends upon segregation of duties can be circumvented by collusion. Similarly, control procedures can be circumvented intentionally by management either with respect to the execution and recording of transactions or with respect to the estimates and judgments required in the preparation of financial statements. Further, projection of any evaluation of internal accounting control to future periods is subject to the risk that the degree of compliance with the procedures may deteriorate. We say this simply to suggest that any system needs to be constantly reviewed and improved where necessary.

However, during the course of our audit, we became aware of the following matters that are opportunities for strengthening internal controls, enhancing operating efficiencies or other matters for consideration by management. The following paragraphs summarize our comments and suggestions regarding those matters. This letter does not affect our report dated May 28, 2019 on the financial statements of the System.

A. Written Policies and Procedures

Condition:

During the performance of our audit procedures, we noted the written policies and procedures over federal procurement regulations contained references to specific dollar amounts used in determining which methods of procurement are allowed. Those thresholds have increased and the policy in no longer accurate. In addition, certain policies did not contain the required level of detail or elements expected for best practices as recommended by the Louisiana Legislative Auditor or where never adopted by the Board of Commissions and remained in draft form.

A. <u>Written Policies and Procedures</u> (continued)

Recommendation:

We recommend that the System review its policies and procedures to ensure they are updated to reference applicable regulations rather than referring to specific dollar amounts, contain the necessary detail for employees to understand how to address key transactions to the organization and are adopted timely.

Management's Response:

The System's (CATS) management created a Policy Committee in 2018, comprised of CEO, COO, CAO, Communications Director, and its Sr. Project Manager as coordinator and facilitator.

Recently, a HR Director was hired, after several months where the position was vacant during the freeze. The HR Director, with several years' experience and expertise, will take over leadership of the Policy Committee.

Additionally, recently, Procurement was removed from the Finance department and placed under the direct oversight of the System's CAO, who was charged with seeking immediate improvement in its operations, policies, and procedures, inclusive of staffing requirements.

Together, working in unison, those policies that are dependent on specific dollar amounts, are being prioritized for review and corrective action; a process will be put in place via "compliance" office, will be monitoring for "timeliness". These policies and related procedures are being distributed to all employees and made part of the Employees Portal located on its website.

Additionally, grant policies, procedures, and in particular, grant drawdowns, will be synchronized with Procurement policies and procedures, with timely regulation reviews in order to comply with federal and local regulations and prevent any current or retroactive drawdown lacking in compliance with any and all federal and local regulations, e.g. the SAM search, and any potential updates by government policy regulators.

It was necessary to create this Policy committee due to a material lack of policies and procedures discovered by current management; some policies were outdated, but many were not evident. The makeup of the committee required the attention of senior management, after it was determined policies and procedures was lacking across a considerable cross section of the System…apparently this lacking has accumulated over the last decade or more when funding was severely lacking to support optimal operations.
.Since the creation of the Policy Committee, the System's board of commissioners used its "policy committee"
Since the creation of the Policy Committee, the System's board of commissioners used its "policy committee" to review and approve for the full board's consideration of final approval. Several polices have been approved by the board's Policy Committee which meets bi-monthly…and several are either in draft form, or is being developed for approval.

The new HR Director for the System is now in charge of the Policy committee and has been charged with reviewing and prioritizing those draft policies in order to expedite their approval.

B. Number of Cash Accounts

Condition:

During the performance of our audit procedures, we noted the System maintains 13 cash accounts. While the number of accounts to be maintained can vary depending on the needs of the organization and for compliance with laws and regulations, maintaining too many accounts can result in inefficiencies and the opportunity for improprieties to occur and not be detected timely.

Recommendation:

We recommend that the System review its cash accounts to ensure that only the accounts necessary for the efficient operations of the System and to comply with laws and regulations.

Management's Response:

We agree the number of cash accounts maintained by the System is not necessary. The new Controller, when hired, will be charged to reduce materially the number of bank accounts. The number of the System's bank accounts will be reduced and synchronized and timely reconciliations via the Financial Edge finance system is estimated to be resolved and completed in 60 to 90 days.

C. Review of Capital Assets

Condition:

During the performance of our audit procedures, we noted the System maintains bus shelters on its depreciation listing that contain general descriptions and appear to encompass more than one asset. The majority of these assets are fully depreciated. Maintenance of capital asset records in an appropriate level of detail is required to properly identify individual assets and their location.

Recommendation:

We recommend that the System review its capital asset records to remove any bus shelters which are no longer property of the System and seek to identify the location of each of the assets in order to determine if they remain in service.

Management's Response:

While the current CEO worked as a consultant and Project Manager via the MV Transportation contract, he is aware that 100 new shelters were installed, and that about 177 existing shelters were refurbished; he recalls that there were reports with the locations, design drawings, construction and assembly costs via contractors for all of those shelters; there should be enough information and data available to likely determine that the remainder of shelters not included in this inventory can be formally removed, and the ones noted can be noted appropriately for inventory as required.

C. Review of Capital Assets (continued)

The CEO, former COO/Project Manager of MV Transportation, in conjunction with the System's Facilities and Transit Amenities Manager and the Sr. Projects Manager are responsible for the Capital Assets Management function; they will review and identify all capital assets to determine whether the assets should be removed from the Capital Assets Records as well as update the data in the CATS Financial Edge Software. The process with be completed in 120 to 180 days.

D. Capital Lease Reporting

Condition:

During the performance of our audit procedures, we noted the System did not comply with the reporting requirements under the terms of the conditions of a capital lease agreement with a financial institution. This could result in modifications to the debt terms or requiring the debt to be paid in full on demand of the financial institution.

Recommendation:

We recommend that the System review the terms of the agreement with the financial institution and immediately comply with any reporting guidelines and establish appropriate internal controls to ensure future reporting is done on a timely basis.

Management's Response:

The CEO and System's Director of Finance, and consultant Controller will immediately review the Capital Lease Agreement and will determine and document procedures so that the appropriate documentation with any future payment (next due July 1, 2019) will be handled in compliance with all of the federal, state, and local requirements. All future payments will satisfy the Bus Lease Contract which states the documentation must be received within 210 days after the end of its fiscal year. The review of those terms will start immediately and full compliance will be completed in the next 30 days.

E. Finance Department Structure

Condition:

During the performance of our audit procedures, we noted that due to turnover during the fiscal year, duties are not assigned to team members in the Finance Department in the most efficient and effective manner.

Recommendation:

While we noted no segregation of duties matters, we do recommend that the System review division of duties within the Finance Department and assign job functions in order that the Department may function in the most efficient manner.

E. Finance Department Structure (continued)

Management's Response:

The System's CEO has examined the organizational structure, including the Finance Department, has met with the Director of Finance, the consultant Controller, and new HR Director, and has started a process to fulfill staffing requirements for Finance as soon as the permanent Controller is hired, which is expected to occur within the next 30 to 60 days. The training of existing Finance employees, the cross training of Finance employees, the completion of the Finance policies and procedures manual, and completion of hiring new employees will be completed in the next 120 to 180 days.

F. Information Technology User Access

Condition:

During the performance of our audit procedures, we noted that user access for one terminated employee was not removed in a timely manner. In addition, we noted that there is no formal process in place for there to be user access reviews performed on a regular basis.

Recommendation:

We recommend that procedures be implemented to ensure that user access rights are removed for all employees on a timely basis. Additionally, we recommend that a formal process be implemented for user access reviews to be performed on a timely basis.

Management's Response:

The System's new Controller, in conjunction with the Director of Finance, the new Human Resources Director, and the IT Business Process analyst for systems will form a team to develop and refine, document, and implement policy and procedures to ensure proper and timely monitoring of all personnel changes, including timely removal of all access for terminated employees. This team will begin within the next 30 days. The policies and procedures will be done in the next 90 to 120 days.

G. Procurement

Condition:

During the performance of our audit procedures, we noted that the purchase of ADA compliant vans was procured under state contract, a method allowed under state law. While the System must use its own documented procurement procedures which reflect applicable state laws and regulations, they must ensure the method of procurement conforms to applicable federal law and the procurement standards under Uniform Guidance.

G. Procurement (continued)

Recommendation:

We recommend that the System review the procedures used by the Louisiana Office of State Procurement and document whether they believe those procedures are appropriate to comply with federal regulations.

Management's Response:

Please see section A. Those policies and procedures noted there will be reviewed for current compliance with the recommendations of the Louisiana Legislative Auditor, Louisianan Office of State Procurement and with applicable federal laws and regulations; and add any revisions to the CATS Procurement Procedure and those related to grant expenditures and draw-downs will be completed in the next 30 days.

H. Car Allowances

Condition:

During the performance of our audit procedures, we noted that fifteen employees are provided with car allowance benefits of approximately $300 per month each. While this benefit may be appropriate for certain employees given the personal use of their vehicles for business purposes, the allowances should be reviewed to ensure all personnel receiving this benefit are traveling in miles in excess of the cost-benefit of a per mileage reimbursement.

Recommendation:

We recommend that the policies and procedures related to car allowance benefits be reviewed to ensure that the benefit is provided only to those employees for whom it is cost-effective and is needed for a business purpose.

Management's Response:

The System's CEO implemented an immediate cancellation in May, 2019, for all car allowances; the System's CEO also commissioned a Compensation Study early in 2019, by an expert compensation consultant, this is expected to be completed within the next 90 days

I. Short Term Debt Approval

Condition:

During the performance of our audit procedures, we noted that the System entered into several short-term debt agreements for the financing of insurance premiums which did not have the appropriate language to exempt this financing from approval by the Louisiana State Bond Commission.

I. Short Term Debt Approval (continued)

Recommendation:

We recommend that policies and procedures be implemented to ensure that all financing agreements are approved by the finance department prior to their execution and that appropriate language is included in the financing agreement or proper approval must be obtained from the Louisiana State Bond Commission prior to the execution of the agreements.

Management's Response:

CATS' Interim Consultant Controller will be charged with drafting policy and procedure language to ensure that all of the System's financing agreements are in compliance with all federal and state requirements prior to execution of such. Any of the System's financing arrangements will be required to be approved by the System's controller. The policy will be drafted, documented, and implemented with the next 30 to 60 days.

We have already discussed these comments and suggestions with management, and we will be pleased to discuss them in further detail at your convenience. We would also welcome any opportunity to perform any additional study of these matters or to assist you in implementing the recommendations. We would also like to thank the System staff for their cooperation with us during the performance of the audit.

This letter is intended solely for the information and use of the System, management of the System and the Louisiana Legislative Auditor and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

Postlethwaite & Netterville

CAPITAL AREA TRANSIT SYSTEM

FINANCIAL STATEMENTS

DECEMBER 31, 2018

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A Professional Accounting Corporation
www.pncpa.com

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A Professional Accounting Corporation

INDEPENDENT AUDITORS' REPORT

Board of Commissioners
Capital Area Transit System
Baton Rouge, Louisiana

Report on Financial Statements

We have audited the accompanying financial statements of the business-type activities and the aggregate remaining fund information of the Capital Area Transit System (the System), a component unit of the City of Baton Rouge - Parish of East Baton Rouge, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the 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.

Auditors' Responsibility

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

Postlethwaite & Netterville

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate remaining fund information of the Capital Area Transit System as of December 31, 2018, and the respective changes in financial position and, where applicable, cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Period Financial Statements

The financial statements of the Capital Area Transit System as of December 31, 2017, were audited by other auditors whose report dated April 25, 2018, expressed an unmodified opinion on those statements. As discussed in Note 12 to the financial statements, the System has adjusted its 2017 financial statements for certain corrections of accounting errors. The other auditors reported on the financial statements before the retrospective adjustment.

As part of our audit of the 2018 financial statements, we also audited adjustments described in Note 12 that were applied to restate the 2017 financial statements. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the 2017 financial statements of the System other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2017 financial statements as a whole.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 – 8, the schedule of changes in total pension liability and related ratios on page 38, the schedule of contributions on page 39, and the schedule of investment returns on page 40 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Capital Area Transit System's basic financial statements. The schedule of expenditures of federal awards on page 47 is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of compensation, benefits, and other payments to agency head on page 41, as required by Louisiana Revised Statute (LRS) 24:513A, is also presented for purposes of additional analysis and is not a required part of the basic financial statements.

The schedule of expenditures of federal awards and the schedule of compensation, benefits, and other payments to agency head 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 audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards and the schedule of compensation, benefits, and other payments to agency head are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards,* we have also issued our report dated May 28, 2019, on our consideration of Capital Area Transit System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 System's internal control over financial reporting and compliance.

Postlethwaite & Netterville

May 28, 2019
Baton Rouge, Louisiana

CAPITAL AREA TRANSIT SYSTEM

MANAGEMENT DISCUSSION AND ANALYSIS

DECEMBER 31, 2018

As financial management of the Capital Area Transit System (the System) we offer readers of these financial statements an overview and analysis of the System's financial activities. This document focuses on the current year's activities, resulting changes, and currently known facts in comparison with the previous two years of financial information.

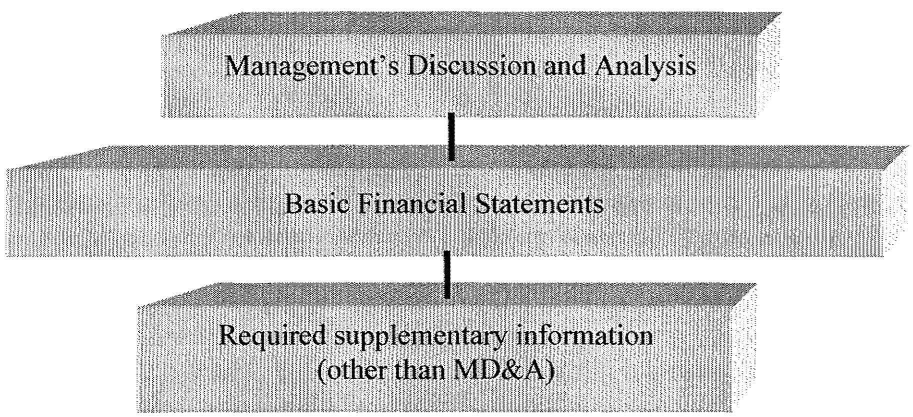
Financial Highlights

The System's net position was $31,976,567, as of December 31, 2018, representing a decrease of $2,526,219, or 7.3%, from that of December 31, 2017. The net position at December 31, 2017 was 34,502,786 which was an increase of $248,460, or approximately .7%, from December 31, 2016. A substantial portion of the net position is invested in capital assets.

Loss before capital contributions was $5,627,648, $841,647 and $1,936,195 for 2018, 2017 and 2016, respectively.

Overview of the Financial Statements

This financial report consists of three parts: management's discussion and analysis (this section), the basic financial statements (including the notes to the financial statements), and required supplementary information.



The financial statements provide both long-term and short-term information about the System's overall financial status. The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements required by Governmental Accounting Standards Board (GASB). The System maintains two different funds: a proprietary fund and a fiduciary fund.

The System is a political subdivision of the State of Louisiana which is independently governed by a Board of Commissioners authorized by state statute. For financial statement purposes, the System is determined to be a component unit of the City of Baton Rouge - Parish of East Baton Rouge (City-Parish) under criteria established by GASB Statement No. 14 as amended by GASB Statement No. 61.

Proprietary Fund. The System has one type of proprietary fund, an enterprise fund, which is used to report the same functions presented as business-type activities; for the System, the fund accounts for all transit activity.

The System's proprietary fund financial statements are prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. Under this basis of accounting, revenues are recognized in the period in which they are earned, expenses are recognized in the period in which they are incurred, and depreciation of assets is recognized in the statement of revenues, expenses, and changes in net position.

The statement of net position reports the System's net position. Net position, which is the difference between the System's assets, deferred outflows, and liabilities and deferred inflows, is one way to measure the System's financial health or position. The net position is classified into three categories: net investment in capital assets, restricted, and unrestricted. The System's restricted net position consists of its net pension asset.

Fiduciary Fund. The System has one type of fiduciary fund, a pension trust fund. The fiduciary fund assets are not available to finance transit operations. The accounting used for fiduciary funds is much like that used for proprietary funds.

Basic Financial Statements

The basic financial statements present information for the System as a whole, in a format designed to make the statements easier for the reader to understand. The statements in this section include the statements of net position; the statements of revenues, expenses, and changes in net position; and the statements of cash flows.

The statements of net position present the current and long-term portions of assets and liabilities separately. The difference between total assets and total liabilities is net position and may provide a useful indicator of whether the financial position of the System is improving or deteriorating.

The statements of revenues. expenses. and changes in net position present information showing how the System's net position changed as a result of current year operations. Regardless of when cash is affected, all changes in net position are reported when the underlying transactions occur. As a result, there are transactions included that will not affect cash until future fiscal periods.

The statements of cash flows present information showing how the System's cash changed as a result of current year operations. The statements of cash flows are prepared using the direct method and include the reconciliation of operating loss to net cash used in operating activities (indirect method).

Financial Analysis of the System

The table below summarizes the System's net position as of December 31, 2018, 2017 and 2016:

Condensed Statements of Net Position
as of December 31, 2018, 2017 and 2016

	2018	2017 (Restated)	2016
Assets			
Current and other assets	$ 23,459,966	$ 21,268,066	$ 23,904,336
Capital assets	21,326,648	20,385,075	17,968,153
Net pension asset	606,171	1,435,415	-
Total assets	45,392,785	43,088,556	41,872,489
Deferred outflows - pension related	697,096	151,884	854,100
Liabilities			
Current liabilities	6,371,100	1,218,406	5,394,539
Non-current liabilities			
Due within one year	1,861,361	1,859,825	712,395
Due in more than one year	5,613,518	4,685,765	2,092,972
Total liabilities	13,845,979	7,763,996	8,199,906
Deferred inflows - pension related	267,335	973,658	272,357
Net position			
Net investment in capital assets	17,956,232	16,446,485	17,968,153
Restricted for pension asset	606,171	1,435,415	-
Unrestricted	13,414,164	16,620,886	16,286,173
Total net position	$ 31,976,567	$ 34,502,786	$ 34,254,326

The System's total net position increased from $34,254,326 at December 31, 2016 to $34,502,786 at December 31, 2017 and then decreased to $31,976,567 at December 31, 2018.

The fluctuations in net position between 2016/2017 and 2017/2018 are primarily the result of fluctuations in the timing of grant revenues associated with when supporting grants are approved and the changes in the actuarial valuation with respect to the defined benefit plan. Additionally, the System's primary revenue is a 10.6 millage ad valorem tax passed on April 21, 2012. This revenue increased in 2017 as a result of changes in property tax assessments. There were no reassessments done in 2018. Approximately 56%, 48% and 52% of the System's net position as of December 31, 2018, 2017 and 2016, respectively, reflects investment in capital assets less any outstanding debt used to acquire those assets (primarily transportation vehicles). The System uses these assets to provide services to the public, consequently these assets are not available for future spending. Although the System's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The table below summarizes the changes in net position as of December 31, 2018, 2017 and 2016:

Condensed Statements of Changes in Net Position
for the years ended December 31, 2018, 2017 and 2016

	2018	2017 (Restated)	2016
OPERATING REVENUE			
Charges for services	$ 2,171,492	$ 2,097,194	$ 2,062,973
Advertising revenue	637,153	644,386	398,902
Total operating revenue	2,808,645	2,741,580	2,461,875
DIRECT OPERATING EXPENSES			
Operating expenses	29,136,981	27,658,461	27,471,513
Depreciation	2,749,810	2,761,434	2,543,356
Total direct operating expenses	31,886,791	30,419,895	30,014,869
LOSS FROM OPERATIONS	(29,078,146)	(27,678,315)	(27,552,994)
NON-OPERATING REVENUES (EXPENSES)			
Interest and other expenses	(124,979)	(94,875)	(26,558)
Interest and other income	267,626	104,114	48,636
Hotel/motel tax	1,269,725	1,164,611	1,412,340
Ad valorem tax revenue	18,184,331	18,363,377	16,862,111
Government operating grants:			
Federal operating subsidy	3,175,696	6,543,191	6,571,672
Planning and technical study grants	128,099	206,250	198,598
Transfers from Primary Government	550,000	550,000	550,000
	23,450,498	26,836,668	25,616,799
LOSS BEFORE CAPITAL CONTRIBUTIONS	(5,627,648)	(841,647)	(1,936,195)
CAPITAL CONTRIBUTIONS	3,101,429	1,090,107	6,184,485
INCOME (LOSS) AFTER CAPITAL CONTRIBUTIONS	(2,526,219)	248,460	4,248,290
NET POSITION, BEGINNING OF YEAR, Restated	34,502,786	34,254,326	30,006,036
NET POSITION, END OF YEAR, Restated	$ 31,976,567	$ 34,502,786	$ 34,254,326

The System's operating revenues remained relatively consistent between 2017 and 2018. Operating revenues between 2016 and 2017 increased $279,705 or approximately 11%. This was primarily a result of an increase in advertising efforts.

Direct operating expenses increased by $1,466,896, or approximately 5%, from $30,419,895 to $31,886,791 between 2017 and 2018. This increase is attributable to an increase in supplies, fuel and bus related costs. These costs are attributable to repairs costs and contracted transportation. Direct operating expenses increased by $405,026 or approximately 1%, from $30,014,869 to $30,419,895 between 2016 and 2017. This change is primarily attributable to the recording of pension costs associated with the gross up of collection of ad valorem tax revenues.

Non-operating grant revenue declined from 2017 to 2018 due to the Federal government shutdown which delayed the approval of the System's 2018/2019 grant funding and ultimately delayed in recognition of revenue despite costs being incurred.

Beginning net position was restated to correct for amounts due from the federal government related to expenses incurred and eligible for reimbursement and to restrict the System's net position for the net pension asset totaling $1,435,415 at December 31, 2017. In addition, the restriction previously reported of $317,464 for cash balances was removed as there were no external restrictions on the use of those funds at December 31, 2017.

Capital Asset and Debt Administration

The System's capital assets, net of accumulated depreciation, totaled $21,326,648, $20,385,075 and $17,968,153 as of December 31, 2018, 2017 and 2016, respectively. Capital assets include structures, bus shelters, buses and equipment. Capital asset additions were $3,739,467, or approximately 18% of the book value of all capital assets in 2018 and $5,361,276 or approximately 26% of the book value of all capital assets in 2017. Additions primarily result from the purchase of buses and other transportation vehicles.

At the end of the calendar year 2018, the System had a capital lease payable outstanding of $3,370,416, compared to $3,938,590 as of December 31, 2017. This decrease reflects principal payments on the lease payable that were made according to the repayment schedule. No debt was issued during 2018. Long-term debt also includes the System's self-insurance claims payable of $3,680,023 and $2,198,406 at December 31, 2018 and 2017, respectively. Claims payable fluctuate as a result of timing of the reporting of claims and the number and dollar amount of claims outstanding.

Financial Outlook

On April 21, 2012, the voters of the municipalities of Baton Rouge and Baker approved a 10.6 mill ad valorem tax. This tax is to be levied for a period of ten years that began in 2013. Estimated net taxes to be collected for 2019 are $18.1 million. Taxes to be collected will be net of the collection fee of 4.5% and required contributions to state pension plans. This dedicated revenue source provides budgetary stability to the System and serves as a primary source of revenues to support operations and provide the local matching funds as required under the Federal grant terms.

Contacting the System's Management

This financial report is designed to provide the community, the Metropolitan Council of the City- Parish, and other interested parties with a general overview of the System's finances and to demonstrate the System's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the System at (225) 389-8920.

BASIC FINANCIAL STATEMENTS

CAPITAL AREA TRANSIT SYSTEM
BATON ROUGE, LOUISIANA

STATEMENTS OF NET POSITION
DECEMBER 31, 2018 AND 2017

	2018	2017 (Restated)
CURRENT ASSETS		
Cash and cash equivalents	$ 793,067	$ 1,075,537
Accounts receivable, net	588,740	420,399
Ad valorem tax receivable, net	17,300,802	17,291,859
Due from other governments	4,266,214	1,967,923
Prepaid expenses	105,341	88,205
Inventory	405,802	424,143
Total current assets	23,459,966	21,268,066
NON-CURRENT ASSETS		
Capital assets, net of accumulated depreciation	21,326,648	20,385,075
Net pension asset	606,171	1,435,415
Total non-current assets	21,932,819	21,820,490
Total assets	45,392,785	43,088,556
DEFERRED OUTFLOWS OF RESOURCES - Pension related	697,096	151,884
Total assets and deferred outflows of resources	$ 46,089,881	$ 43,240,440

The accompanying notes are an integral part of this financial statement.

	2018	2017 (Restated)
CURRENT LIABILITIES		
Accounts payable and accrued expenses	$ 6,371,100	$ 1,218,406
Accrued compensated absences	424,440	408,594
Claims payable and related liabilities	855,488	883,056
Capital lease payable	581,433	568,175
Total current liabilities	8,232,461	3,078,231
NON-CURRENT LIABILITIES		
Claims payable and related liabilities, less current portion	2,824,535	1,315,350
Capital lease payable, less current portion	2,788,983	3,370,415
Total non-current liabilities	5,613,518	4,685,765
Total liabilities	13,845,979	7,763,996
DEFERRED INFLOWS OF RESOURCES - Pension related	267,335	973,658
NET POSITION		
Net investment in capital assets	17,956,232	16,446,485
Restricted	606,171	1,435,415
Unrestricted	13,414,164	16,620,886
Total net position, as restated	31,976,567	34,502,786
Total liabilities, deferred inflows of resources and net position	$ 46,089,881	$ 43,240,440

CAPITAL AREA TRANSIT SYSTEM
BATON ROUGE, LOUISIANA

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017 (Restated)
OPERATING REVENUE		
Charges for services	$ 2,171,492	$ 2,097,194
Advertising revenue	637,153	644,386
Total operating revenue	2,808,645	2,741,580
DIRECT OPERATING EXPENSES		
Personnel services and fringe benefits	17,604,042	17,956,382
Retirement contributions to other plans	534,435	532,257
Supplies, fuel and other bus related expenses	5,955,798	3,139,292
Contractual services and liability costs	5,038,956	6,000,576
Depreciation	2,749,810	2,761,434
Miscellaneous	3,750	29,954
Total direct operating expenses	31,886,791	30,419,895
LOSS FROM OPERATIONS	(29,078,146)	(27,678,315)
NON-OPERATING REVENUES (EXPENSES)		
Interest expense	(88,099)	(56,843)
Loss on disposal of capital assets	(36,880)	(38,032)
Interest income	131,317	11,282
Other revenue	136,309	92,832
Hotel/motel tax	1,269,725	1,164,611
Ad valorem tax revenue	18,184,331	18,363,377
Government operating grants:		
Federal operating subsidy	3,175,696	6,543,191
Planning and technical study grants	128,099	206,250
Operating transfers from primary government	550,000	550,000
Total non-operating revenues (expenses)	23,450,498	26,836,668
LOSS BEFORE CAPITAL CONTRIBUTIONS	(5,627,648)	(841,647)
CAPITAL CONTRIBUTIONS	3,101,429	1,090,107
INCOME (LOSS) AFTER CAPITAL CONTRIBUTIONS	(2,526,219)	248,460
NET POSITION, BEGINNING OF YEAR	34,502,786	34,254,326
NET POSITION, END OF YEAR, AS RESTATED	$ 31,976,567	$ 34,502,786

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

CAPITAL AREA TRANSIT SYSTEM
BATON ROUGE, LOUISIANA

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	$ 2,003,151	$ 1,864,435
Receipts from other sources	637,153	644,386
Payments to suppliers and others	(4,359,238)	(12,858,786)
Payments for employees and payroll taxing agencies	(18,010,487)	(18,368,423)
Net cash used in operating activities	(19,729,421)	(28,718,388)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Operating subsidies received from other governments	1,012,958	4,789,712
Ad valorem taxes	17,640,953	17,045,560
Payments on short-term borrowing	-	(100,000)
Hotel/motel tax	1,269,725	1,620,481
Other revenue	136,309	92,832
Operating transfers from primary government	550,000	550,000
Net cash provided by non-capital financing activities	20,609,945	23,998,585
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital contributions received	3,101,429	3,908,212
Payments on capital leases	(568,174)	(279,210)
Acquisition of capital assets	(3,739,467)	(998,588)
Interest paid on capital debt	(88,099)	(56,843)
Net cash provided by (used in) capital and related financing activities	(1,294,311)	2,573,571
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	131,317	11,282
Net cash provided by investing activities	131,317	11,282
NET DECREASE IN CASH AND CASH EQUIVALENTS	(282,470)	(2,134,950)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,075,537	3,210,487
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 793,067	$ 1,075,537

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

CAPITAL AREA TRANSIT SYSTEM
BATON ROUGE, LOUISIANA

STATEMENTS OF CASH FLOWS
FOR THE YEAS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017 (Restated)
RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES		
Loss from operations	$ (29,078,146)	$ (27,678,315)
Adjustments to reconcile net operating loss to net cash used in operating activities		
Depreciation	2,749,810	2,761,434
Bad debt expense	3,750	29,954
Retirement contributions to other plans	534,435	532,257
Change in accounts receivable	(168,341)	(232,759)
Change in prepaid expenses	(17,136)	12,287
Change in inventory	18,341	163,152
Change in net pension asset	829,244	(1,896,418)
Change in deferred outflows	(206,574)	363,578
Change in deferred inflows	(1,044,961)	1,039,939
Change in accounts payable and accrued expenses	5,168,540	(3,980,950)
Change in provision for claims liability	1,481,617	167,453
Net cash used in operating activities	$ (19,729,421)	$ (28,718,388)

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

CAPITAL AREA TRANSIT SYSTEM
BATON ROUGE, LOUISIANA

STATEMENTS OF FIDUCIARY NET POSITION
DECEMBER 31, 2018 AND 2017

ASSETS

	2018	2017
Cash and cash equivalents	$ 1,727,476	$ 1,236,583
Contributions receivable	75,649	77,290
Investments:		
Equities	9,059,736	9,965,113
Fixed income	823,353	837,608
Annuities	852,150	901,075
Total assets	12,538,364	13,017,669

LIABILITIES

	2018	2017
Total liabilities	-	-
Net position	$ 12,538,364	$ 13,017,669

The accompanying notes are an integral part of this financial statement.

CAPITAL AREA TRANSIT SYSTEM
BATON ROUGE, LOUISIANA

STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION
DECEMBER 31, 2018 AND 2017

	2018	2017
ADDITIONS		
Contributions:		
Employer contributions	$ 720,360	$ 684,668
Employee contributions	604,736	607,307
Total contributions	1,325,096	1,291,975
Investment income:		
Interest and dividend income	222,650	205,740
Class action settlements	-	578
Net change in fair value	(883,914)	1,853,402
	(661,264)	2,059,720
Less: investment expense	(142,420)	(126,621)
Net investment income (loss)	(803,684)	1,933,099
Total additions	521,412	3,225,074
DEDUCTIONS		
Benefit payments	615,135	534,895
Employee refunds	237,181	174,467
Administrative expenses	148,401	124,891
Total deductions	1,000,717	834,253
CHANGE IN NET POSITION	(479,305)	2,390,821
NET POSITION, BEGINNING OF YEAR	13,017,669	10,626,848
NET POSITION, END OF YEAR	$ 12,538,364	$ 13,017,669

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

1. Summary of Significant Accounting Policies

Capital Area Transit System is a corporation that was created by East Baton Rouge Parish (the Parish) to provide bus transportation services. In 2004, the Louisiana State Legislature enacted House Bill 1682, Act 581, to recognize the System as a political subdivision and provide that all its assets are public property.

Financial Reporting Entity

The Governmental Accounting Standards Board (GASB) is the accepted standards-setting body for establishing governmental accounting and financial reporting. GASB Codification Section 2100, establishes criteria for determining the governmental reporting entity and component units that should be included within the reporting entity. The basic criteria are as follows:

1. Legal status of the potential component unit
2. Financial accountability:
    a) The primary government appoints a voting majority of the potential component unit's governing body (and) the primary government is able to impose its will on the potential component unit (or)
    b) When a potential component unit is fiscally dependent on the primary government regardless of whether the organization has separately elected officials or boards.
3. Financial benefit/burden relationship between the primary government and the potential component unit
4. Misleading to exclude (See paragraph 111 of Section 2100 of the GASB Codification)

Based on the previous criteria, the System is considered a discretely presented component unit of the financial reporting entity of the City of Baton Rouge - Parish of East Baton Rouge. The accompanying financial statements reflect the activity of the System.

Based on the previous criteria, the System's management has included the Capital Area Transit System Employees' Pension Trust Fund as a blended component unit within the financial statements of the System. The Capital Area Transit System Employees' Pension Trust Fund (the Plan) exists for the benefit of current and former System employees who are members of the Plan. The Plan is governed by an equal number of Employer Trustees and Union Trustees. Currently, the Plan is governed by a four-member board composed of two members representing the Employer Trustees and two members elected as Union Trustees. The Plan is funded by the investment of the contributions from the System and member employees who are obligated to make contributions to the Plan. The Plan does not issue a separate audit report.

Basis of Presentation and Accounting

The System's basic financial statements consist of the Proprietary Fund and the Pension Trust Fund, and the related notes to the financial statements. The statements are prepared in accordance with accounting principles generally accepted in the United States of America as applied to governmental units and promulgated by the Government Accounting Standards Board (GASB) *Codification of Governmental Accounting and Financial Reporting Standards*.

1. **Summary of Significant Accounting Policies** (continued)

Basis of Presentation and Accounting (continued)

The Proprietary Fund and the Pension Trust Fund financial statements are reported using the economic resource measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability has been incurred, regardless of the timing of the related cash flows. Property taxes are recognized when a legally enforceable claim arises. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The accounts of the System are organized and operated on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. Funds are maintained consistent with legal and managerial requirements. Funds can be classified into two categories: enterprise and fiduciary. The System has no governmental funds. A further explanation of the funds and their reporting classifications follows:

Proprietary Fund

Enterprise Fund - Enterprise funds are used to account for operations: (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation and amortization) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenue earned, expenses incurred, and/or changes in net position is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. Operating expenses of proprietary funds include the costs of services, administrative expenses and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Fiduciary Fund

The Pension Trust Fund is used to account for the accumulation of contributions for a defined benefit, single employer pension plan providing retirement benefits to qualified employees.

The Pension Trust Fund's financial statements are prepared on the accrual basis of accounting. Contributions from the System and its employees are recognized as revenue in the period in which employees provide service to the System. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan.

1. **Summary of Significant Accounting Policies** (continued)

Cash and Investments

Cash and cash equivalents can include demand deposit account balances, certificates of deposit and U.S. government securities with maturities of 90 days or less from the date purchased.

Investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Annuities are reported at contract/reporting value based on a discounted cash flow valuation. The corporate equity mutual funds are valued using net asset value per share.

Inventories

Inventories, principally repair parts and supplies, are stated at cost, which approximates market. Cost is determined by the average cost method.

Capital Assets

Capital Assets are recorded at historical cost. The System maintains a $5,000 threshold for capitalizing assets. Depreciation is charged to expense over the estimated useful lives of the assets and is determined using the straight-line method. Expenditures for maintenance and repairs which do not materially extend the useful life of the asset are charged to expense as incurred. Useful lives for equipment used in computing depreciation range from 3 years to 15 years.

Federal Grants and Dedicated Taxes

Federal grants are made available to the System for the acquisition of public transit facilities, buses, and other transit equipment. Unrestricted operating grants and grants restricted as to purpose, but not contingent on the actual expenditures of funds, are recognized at that point in time when the right to the funds becomes irrevocable. Where the expenditure of funds is the prime factor for determining the eligibility for the grant proceeds, the revenue is recognized at the time when the expenditure is incurred.

In addition to federal grants, the System is the recipient of monies established under LRS 47:302.29(B) and LRS 47:322.1, which set aside the Louisiana state sales tax on hotel occupancy. These monies are provided to the East Baton Rouge Parish Community Improvement Fund (Improvement Fund). The System's share of these funds shall not be used to displace, replace, or supplant funds previously appropriated or otherwise used for urban mass transit purposes. The monies in the Improvement Fund are appropriated annually by the Louisiana State Legislature. In addition, the System also receives monies from the East Baton Rouge Enhancement Fund (Enhancement Fund), which has similar restrictions and was created by the Louisiana State Legislature.

1. Summary of Significant Accounting Policies (continued)

Compensated Absences

Administrative employees earn paid time off in varying amounts according to continuing years of service as follows:

Years of Service	Equivalent Days	Accrual Rate Per Pay Period
0 - 1	20.00	6.15
1 - 5	22.00	6.77
5 - 12	25.00	7.69
12 - 20	30.00	9.23
20+	35.00	10.77

Administrative employees are allowed to accrue up to 400 hours of paid time off. Once the threshold of four hundred hours is met, the employee will not be able to accrue any additional paid time off unless they take some of their accrued time or sell hours to fall below the threshold.

Through June 2018, union employees earned paid time off in varying amounts according to continuing years of service as follows:

Years of Service	Equivalent Days	Accrual Rate Per Pay Period
0 - 1	13.00	4.00
1 - 5	16.25	5.00
5 - 12	19.50	6.00
12 - 20	26.00	8.00
20+	34.00	10.46

With the new collective bargaining agreement, effective June 2018, union employees began to earn paid time off in varying amounts according to continuing years of service as follows:

Years of Service	Days	Equivalent Hours
0 - 1	5.00	40.00
1 - 5	10.00	80.00
5 - 12	15.00	120.00
12 - 20	20.00	160.00
20+	25.00	200.00

Any unused paid time off not taken by December 31st is not carried over. The balance at year end for union employees must be paid by April 1st of the following calendar year.

1. Summary of Significant Accounting Policies (continued)

Estimates

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

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Capital Area Transit System Employees' Pension Trust Fund and additions to/deductions from the fund's fiduciary net position have been determined on the same basis as they are reported by the Pension Trust Fund. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms.

Net Position

Net position represents the difference between assets plus deferred outflows and liabilities plus deferred inflows. Net investment in capital assets consists of capital assets, net of accumulated depreciation reduced by the outstanding balance of any debt proceeds used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use by external parties such as creditors, grantors, laws or regulations of other governments. Restricted net position reflects the System's net pension asset.

When expenses are incurred for purposes for what both restricted and unrestricted amounts are available, the System uses restricted amounts first, followed by unrestricted amounts.

Deferred Outflows/Inflows of Resources

The Statement of Financial Position will often report a separate section for deferred outflows and (or) deferred inflows of financial resources. Deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. Deferred inflows of resources represent an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

Receivables

Uncollectible amounts due for customer receivables are recognized as bad debts through the establishment of an allowance account at the time information becomes available which would indicate the inability to collect the particular receivable. The allowance was $159,737 at December 31, 2017. Management has determined that all amounts are collectible at December 31, 2018.

2. Ad Valorem Taxes

The 1974 Louisiana Constitution (Article 7 Section 18) provided that land and improvements for residential purposes be assessed at 10% of fair market value; other property and electric cooperative properties, excluding land, are to be assessed at 15%; and public service properties, excluding land, are to be assessed at 25% of fair market value. Fair market value is determined by the elected assessor of the parish on all property subject to taxation except public service properties, which are valued by the Louisiana Tax Commission (LRS 47:1957). The correctness of assessments by the assessor is subject to review and certification by the Louisiana Tax Commission. The assessor is required to reappraise all property subject to taxation at intervals of not more than four years.

On April 21, 2012, a 10.6 mill ad valorem tax which expires in 2023 was passed by the citizens of the City of Baton Rouge and the City of Baker.

The 2018 property tax calendar is as follows:

Levy date:	May 15, 2018
Millage rates adopted:	May 15, 2018
Tax bills mailed:	November, 2018
Due date:	December 31, 2018
Lien date:	September, 2019

State law requires the sheriff of each parish to collect property taxes in the calendar year in which the assessment is made. Property taxes become delinquent January 1 of the following year. If taxes are not paid by the due date, taxes bear interest at the rate of 1.25% per month until the taxes are paid. After notice is given to the delinquent taxpayers, the sheriff is required by the Constitution of the State of Louisiana to sell the least quantity of property necessary to settle the taxes and interest owed.

Property taxes are considered measurable in the calendar year of the tax levy. Accordingly, the entire tax roll less an estimate for uncollectible taxes is recorded as taxes receivable in the current calendar year. Uncollectible taxes are those taxes which based on past experience will not be collected in the subsequent year and are primarily due to subsequent adjustments to the tax roll.

Property taxes are recognized in the year of the levy net of uncollectible amounts.

Ad valorem tax receivable is recorded net of estimated uncollectible amounts and collection fees. The allowance for uncollectible accounts was $479,442 and $479,142 at December 31, 2018 and 2017, respectively. Collection fees were $862,995 and 862,457 for 2018 and 2017, respectively.

The Louisiana Industrial Ad Valorem Tax Exemption program (Louisiana Administrative Code, Title 13, Chapter 5) is a state incentive program which abates, up to ten years, local ad valorem taxes on a manufacturer's new investment and annual capitalized additions related to the manufacturing site. Applications to exempt qualified property for five years are approved by the Board of Commerce and Industry. The exemption may be renewed for an additional five years.

2. Ad Valorem Taxes (continued)

The System is subject to certain property tax abatements granted by the Louisiana State Board of Commerce and Industry (the "State Board"), a state entity governed by board members representing major economic groups and gubernatorial appointees. Abatements to which the government may be subject include those issued for property taxes under the Industrial Tax Exemption Program ("ITEP") and the Restoration Tax Abatement Program ("RTAP"). For the year ending December 31, 2018, the government participated in the Industrial Tax Exemption Program.

Under the ITEP, as authorized by Article 7, Section 21(F) of the Louisiana Constitution and Executive Order Number JBE 2016-73, companies that qualify as manufacturers can apply to the State Board for a property tax exemption on all new property, as defined, used in the manufacturing process. Under the ITEP, companies are required to promise to expand or build manufacturing facilities in Louisiana, with a minimum investment of $5 million. The exemptions are granted for a 5-year term and are renewable for an additional 5-year term upon approval by the State Board. In the case of the local government, these abatements have resulted in reductions of property taxes, which the tax assessor administers as a temporary reduction in the assessed value of the property involved. The abatement agreements stipulate a percentage reduction of property taxes, which can be as much as 100 percent.

Taxes abated under ITEP for the years ended December 31, 2018 and 2017 were approximately $259,000 and $530,000, respectively.

3. Cash, Cash Equivalents, and Investments

At December 31, 2018 and 2017, the System's cash balances consist of deposits in financial institutions as follows:

	Proprietary Enterprise Fund	Fiduciary Pension Trust Fund	Total
December 31, 2018			
Cash on hand in banks	$ 871,069	$ -	$ 871,069
Money market accounts	-	1,727,476	1,727,476
Total cash and cash equivalents	$ 871,069	$ 1,727,476	$ 2,598,545
December 31, 2017			
Cash on hand and in banks	$ 1,075,507	$ -	$ 1,075,507
Money market accounts	-	1,236,583	1,236,583
Total cas and cash equivalents	$ 1,075,507	$ 1,236,583	$ 2,312,090

Deposits in financial institutions can be exposed to custodial credit risk. Custodial credit risk for deposits is the risk that in the event of financial institution failure, the System's deposits may not be returned. To guard against this risk, under state law, deposits must be secured by federal deposit insurance or the pledge of securities owned by the fiscal agent bank. The market value of the pledged securities plus the federal deposit insurance must at all times equal or exceed the amount on deposit with the fiscal agent. The System had no custodial credit risk as of December 31, 2018 or 2017.

3. Cash, Cash Equivalents, and Investments (continued)

Securities that may be pledged as collateral consist of obligations of the U.S. Government and its agencies, obligations of the State of Louisiana and its municipalities and school districts.

The System is authorized by LRS 39:1211-1245 and 33:2955 to invest temporarily idle monies in various risk-averse instruments including U.S. Government direct and agency obligations, certificates of deposit of qualified financial institutions, certain debt mutual funds, the Louisiana Asset Management Pool (LAMP) and other investments. The proprietary fund of the System had no investments as of December 31, 2018 and 2017.

Investments held by the Pension Fund are invested in marketable equity, fixed income and/or real estate securities in accordance with policy and state law.

Investments

As of December 31, 2018 and 2017, assets classified as investments existed only in the Pension Trust Fund (the Trust). As of December 31, 2018, the maturities of the Pension Trust Fund's investments in debt securities were as follows:

		Investment Maturities (in Years)			
	Fair Value	Less than 1	1 - 5	6 - 10	More than 10
U.S. treasury and agency bonds	$461,089	$49,295	$349,510	$ 62,284	$ -
Corporate bonds	362,264	20,940	219,553	121,771	-
Total	$823,353	$70,235	$569,063	$184,055	$ -

Interest Rate Risk. In accordance with its investment policy, the Pension Trust Fund manages its exposure to declines in fair value by limiting the weighted average maturity of its investment portfolio to less than ten years with a maximum maturity of 30 years for any single security.

Credit Risk. The investment policy of the Pension Trust Fund limits investments in commercial paper and corporate bonds to ratings of A-1 and BBB or higher as rated by the nationally recognized statistical rating organizations (NRSROs). As of December 31, 2018 and 2017, the Pension Trust Fund held no commercial paper investments. The Pension Trust Fund's investments in domestic corporate bonds as of December 31, 2018 and 2017 varied between ratings of A and AAA, consistent with the investment policy. The Pension Trust Fund's investments in U.S. Agencies all carry the explicit guarantee of the U.S. government.

Concentration of Credit Risk. The Pension Trust Fund's investment policy does not allow for an investment in any one issuer that is in excess of 15% of the fund's total investments, and no more than 30% of total investments in any one industry.

Custodial Credit Risk - Investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the Pension Trust Fund will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Investments are exposed to custodial credit risk if the securities are uninsured and unregistered and are either held by the counterparty, or by the counterparty's trust department or agent, but not in the Pension Trust Fund's name. At December 31, 2018 and 2017, all of the Pension Trust Fund's investments were held by an agent in the name of the Pension Trust Fund.

3. Cash, Cash Equivalents, and Investments (continued)

Fair Value of Investments

The System's investments measured and reported at fair value are classified according to the following hierarchy:

- Level 1 - Investments reflect prices quoted in active markets.
- Level 2 - Investments reflect prices that are based on a similar observable asset either directly or indirectly, which may include inputs in markets that are not considered to be active.
- Level 3 - Investments reflect prices based upon unobservable sources.

The categorization of investments within the hierarchy is based upon the pricing transparency of the instrument and should not be perceived as the particular investment's risk.

The following tables set forth by level, within the fair value hierarchy, the System's assets at fair value as of December 31, 2018 and December 31, 2017:

		Fair Value Measurements Using:		
	December 31, 2018	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value level				
Debt securities				
U.S. Treasury and agency bonds	$ 461,089	$ 461,089	$ -	$ -
Corporate bonds	362,265	362,265	-	-
Equity securities				
Corporate stocks	7,880,528	7,880,528	-	-
Alternative investments				
Annuities	852,150	-	-	852,150
Total investments by fair value level	9,556,032	$ 8,703,882	$ -	$ 852,150
Investments measured at NAV:				
Corporate equity mutual fund	1,179,207			
Total investments at fair value	$10,735,239			

3. Cash, Cash Equivalents, and Investments (continued)

	December 31, 2017	Fair Value Measurements Using: Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value level				
Debt securities				
U.S. Treasury and agency bonds	$ 442,799	$ 442,799	$ -	$ -
Corporate bonds	394,809	394,809	-	-
Equity securities				
Corporate stocks	8,477,972	8,477,972	-	-
Alternative investments				
Annuities	901,075	-	-	901,075
Total investments by fair value level	10,216,655	$ 9,315,580	$ -	$ 901,075
Investments measured at NAV:				
Corporate equity mutual fund	1,487,141			
Total investments at fair value	$11,703,796			

The redemption terms for investments measured at net asset value (NAV) per share as of December 31, 2018 and 2017 are as follows:

- Redemption frequency Daily
- Redemption notice period 2 – 15 Days

4. Receivables - Due from Other Governments

Receivables due from other governments at December 31, 2018 and 2017, were as follows:

	2018	2017
Federal transit administration	$ 3,934,606	$ 1,967,923
Hotel/motel tax	331,608	-
Total	$ 4,266,214	$ 1,967,923

5. Capital Assets

A summary of changes in capital assets follows:

	December 31, 2018			
	Beginning of Year	Additions	Deletions	End of Year
Equipment, primarily transportation vehicles	$ 41,544,120	$ 3,739,467	$ (9,247,522)	$ 36,036,065
Accumulated depreciated	(21,159,045)	(2,749,810)	9,199,438	(14,709,417)
Total	$ 20,385,075	$ 989,657	$ (48,084)	$ 21,326,648

	December 31, 2017			
	Beginning of Year	Additions	Deletions	End of Year
Construction in progress	$ 129,295	$ -	$ (129,295)	$ -
Equipment, primarily transportation vehicles	37,011,976	5,361,276	(829,132)	41,544,120
Accumulated depreciated	(19,173,118)	(2,761,430)	775,503	(21,159,045)
Total	$ 17,968,153	$ 2,599,846	$ (182,924)	$ 20,385,075

Depreciation expense for the years ended December 31, 2018 and 2017, totaled $2,749,810 and $2,761,430, respectively. The City-Parish owns the terminal, administrative office building, and related land which are used by the System for its operations. The City-Parish provides these facilities and land to the System at no charge through an operating agreement.

6. Accounts Payable and Accrued Expenses

The accounts payable and accrued expenses at December 31, 2018 and 2017, were as follows:

	2018	2017
Vendors	$ 6,083,979	$ 869,804
Accrued salaries and benefits	287,121	348,602
Total	$ 6,371,100	$ 1,218,406

7. Pension Plan

Plan Description

The Capital Area Transit System Employees' Pension Trust Fund is a single-employer defined benefit pension plan that provides pensions for all employees covered by the Collective Bargaining Agreement.

Membership - Any individual employed by Capital Area Transit System (CATS), for whom contributions to the Plan are required to be made in accordance with the terms of the Collective Bargaining Agreement, and other clerical and administrative employees of CATS who agree to make the required contributions to the Plan effective February 1, 1973, or within ninety days of the commencement of their employment with CATS, if later; or any employee of the Union.

As of December 31, 2018 and 2017, pension plan membership consisted of the following:

	2018	2017
Inactive plan members or beneficiaries currently receiving benefits	76	73
Inactive plan members entitled to but not yet receiving benefits	134	123
Active plan members	203	196
Total	413	392

Benefits Provided - A participating employee is eligible to receive a normal retirement benefit on the first of the month after which he has attained age sixty-two and completed ten years of service. The monthly retirement benefit payable to an employee is equal to 1.2% of the member's average final compensation for each year of creditable service through January 31, 1991; and 1.4% of the member's average final compensation for each year of creditable service thereafter. The annual retirement benefit may not exceed the lesser of $75,000 or 100% of the average final compensation.

A participating employee is eligible to receive an early retirement benefit on the first of the month after which he has attained age fifty-five and completed fifteen years of service, five of which are completed after February 1, 1973. The monthly early retirement benefit payable to an employee is 1.2% of the member's average final compensation for each year of creditable service through January 31, 1991; and 1.4% of the member's average final compensation for each year of creditable service thereafter, reduced by one-half of one percent for each calendar month by which the early retirement date precedes the normal retirement date.

7. **Pension Plan** (continued)

Plan Description (continued)

In the event an employee's employment is terminated for any reason other than retirement, he is entitled to a refund of his employee contributions plus interest at two percent per annum. Once an employee who was hired on or after October 24, 2001 terminates and withdraws his employee contributions, he forfeits any right to the accrued benefit derived from employer contributions.

The normal form of benefit is a Three Year Certain and Continuous annuity. In the event a retiree dies before receiving thirty-six monthly payments from the Fund, the beneficiary will be entitled to the balance of the thirty-six payments. In lieu of receiving the normal form of benefit, a married employee is given the opportunity to elect or to decline to have his benefit paid in the form of a Joint and Survivor annuity. In no event, under this form of benefit, will the annuity payable to the survivor be less than one-half of, or greater than the amount of the annuity payable during the joint lives of the employee and his spouse. Such Joint and Survivor annuity must be the actuarial equivalent of a Three Year Certain and Continuous annuity payable to the employee. Unless a married employee elects otherwise in writing, their normal or early retirement benefit will be paid in the form of a Joint and 50% Survivor annuity.

A participating employee who becomes totally and permanently disabled after the completion of ten years of service, as determined and reported by the Board of Trustees, is entitled to a monthly disability benefit. The monthly disability pension payable to an employee is his accrued benefit. The benefit is payable no earlier than the first day of the sixth month following the month in which total and permanent disability began and will continue during total disability for life.

In the event of the death of an active employee prior to retirement eligibility, his surviving spouse is due a monthly benefit equal to 50% of the employee's vested accrued benefit as of the date of death. If there is no surviving spouse, the benefit will be payable to the surviving dependent children under the age of eighteen, or age twenty-two if the child is a full-time student of an accredited college, university, or vocational-technical institution.

If an employee dies, having elected the Joint and Survivor benefit, while eligible to retire but not yet actually retired, then the surviving spouse will receive a benefit in accordance with the option in effect as of the date of death.

In the event that a member dies and has no surviving spouse or child eligible for monthly benefits, a refund of employee contributions plus interest at two percent per annum will be due to their estate or named beneficiary.

Contributions - According to the Plan Document, all contributions required to fund the Plan, on a sound actuarial basis, will be made by the Employer and each Participating Employee as determined under the Collective Bargaining Agreement. All benefits will be provided from the Plan, and will be attributable to employer and employee contributions. Contributions are expressed as a percentage of covered payroll. The contribution rates in effect for the year ended December 31, 2018 were 8% for the System and 7% for covered employees. The employer contributions for the years ended December 31, 2018, 2017 and 2016 were $720,360, $684,668, and $669,552, respectively.

7. **Pension Plan** (continued)

Deferred Retirement Option Program

In lieu of terminating employment and accepting a retirement allowance, any participant of this plan who has been eligible for retirement, including early retirement, for at least one year, may elect to participate in the Deferred Retirement Option Plan (DROP). The election to participate in the DROP may be made only once, for a period not to exceed three years. Upon commencement of participation in the plan, membership in the Plan continues and the member's status changes to inactive. During participation in the DROP, neither employer nor employee contributions are payable. The monthly retirement benefits that would have been payable, had the person elected to cease employment and receive a service retirement allowance, are paid into the DROP account. This fund does not earn interest while a person is participating in the DROP. In addition, no cost of living increases are payable to participants until employment which made them eligible to become members of the Plan has been terminated for at least one full year.

Upon termination of employment prior to or at the end of the specified period of participation, a participant in the plan may receive, at his option, a lump sum from the account equal to the payments into the account or systematic disbursements from his account in any manner approved by the Board of Trustees. The monthly benefits that were being paid into the DROP account will begin to be paid to the retiree. If a participant dies during participation in the plan, a lump sum equal to his account balance in the DROP account is paid to his named beneficiary or, if none, to his estate. If employment is not terminated at the end of the period specified for participation, payments into the DROP account cease and the person resumes active contributing membership in the plan. All amounts which remain credited to the individual's subaccount after termination of participation in the DROP will be credited with interest at the end of each plan year at a rate equal to the realized return of the retirement plan's trust portfolio for that plan year as certified by the retirement plan actuary in his actuarial report, less an amount to be calculated at the same rate of payment that applies to the management of the fund's investment portfolio.

Upon termination of employment, the monthly benefits which were being paid into the participant's subaccount begin to be paid to the retiree and he shall receive a supplemental benefit based on his additional service rendered since termination of participation in the DROP. The supplemental benefit shall be calculated based only on the years of additional service since DROP participation and a final average compensation calculated by joining the service rendered immediately prior to participating in the DROP with that after DROP participation to find the highest five consecutive years of compensation.

In no event shall the supplemental benefit exceed an amount which, when combined with the original benefit, equals 100% of the average compensation figure used to calculate the supplemental benefit.

The System has no participants in DROP as of December 31, 2018 and 2017.

7. Pension Plan (continued)

Investments

Investment Policy - The Plan's policy in regard to the allocation of invested assets is established and may be amended by the Plan's Board by a majority vote of its members. It is the policy of the Plan's Board to pursue an investment strategy that reduces risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The Plan's investment policy discourages the use of cash equivalents, except for liquidity purposes, and aims to refrain from dramatically shifting asset class allocations over short time spans. The following was the Board's adopted asset allocation policy as of December 31, 2018 and 2017:

Asset Class	Target Allocation
Domestic Large Cap Growth Equity	15%
Domestic Large Cap Value Equity	15%
Domestic Small to Mid Cap Growth Equity	8%
Internation Equity	15%
Domestic Investment Grade Fixed Income	25%
Convertible Bonds	10%
Cash and Cash Equivalents	10%
Real estate investment trusts	2%
Total	100%

Rate of Return - For the year ended December 31, 2018, the annual money-weighted rate of return (loss) on pension plan investments, net of pension plan investment expense, was -5.98 percent. The money-weighted rate of return (loss) expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Net Pension Liability and Expense

The components of the Net Pension Liability of the Plan as of December 31, 2018 and 2017, are as follows:

	2018	2017
Total pension liability	$ 11,932,193	$ 11,582,254
Plan fiduciary net position	12,538,364	13,017,669
Net pension asset	$ (606,171)	$ (1,435,415)
Plan fiduciary net position as a total percentage of the total pension liability	105.08%	112.39%

For the years ended December 31, 2018 and 2017, the Pension expense for the System is $298,169 and $192,779, respectively.

7. Pension Plan (continued)

Actuarial Methods and Assumptions

The Total Pension Liability is based on the Individual Entry Age Normal actuarial cost method as described in Statement No. 67 of the Governmental Accounting Standards Board (GASB). Calculations were made as of December 31, 2018 and were based on December 31, 2018 data. The current year actuarial assumptions utilized are based on the assumptions used in the December 31, 2018 actuarial funding valuation which (with the exception of mortality) were based on the results of an actuarial experience study performed in 2015, unless otherwise specified. All assumptions selected were determined to be reasonable and represent expectations of future experience for the fund.

The total pension liability was determined by an actuarial valuation as of December 31, 2018 and 2017, using the following actuarial assumptions, applied to all periods included in the measurement:

	December 31, 2018		December 31, 2017	
Actuarial cost method	The Individual Entry Age Normal		The Aggregate Actual Cost Method	
Asset valuation method	The actuarial value of assets has been set equal to the market value of the assets		The actuarial value of assets has been set equal to the market value of the assets	
Inflation	2.25%		2.50%	
Projected salary increases, including inflation and merit increases	Years of Service	Salary Growth Rate	Years of Service	Salary Growth Rate
	1	17.00%	1	17.00%
	2	10.00%	2	10.00%
	3 - 10	5.25%	3 - 10	5.25%
	11 and over	3.75%	11 and over	3.75%
Investment rate of return (discount rate)	6.00% net of pension plan investment expense, including inflation		6.00% net of pension plan investment expense, including inflation	

Mortality Rates - In the case of mortality, since the System's size is so small, no credible experience could be established for mortality. In the absence of such experience, mortality rates for active employees were based on the RP-2000 Employee Tables with a setback of four years for males and set back of three years for females. Mortality for retirees and beneficiaries was based on the RP-2000 Combined Healthy Table with Blue Collar Adjustment projected to 2032 using Scale AA. The RP-2000 Disabled Lives Mortality Table (set back five years for males and set back three years for females) was selected for disabled annuitants.

7. **Pension Plan** (continued)

Actuarial Methods and Assumptions (continued)

In order to determine future expected returns, standard deviation of returns, and correlations between asset classes, forecast information from the Plan's investment consultant and other national investment consultants were gathered. From these forecasts, an average estimated real rate of return for key asset classes was compiled along with average expected standard deviations and correlations. The target asset allocations (shown below) for were combined with the consultant average expected returns, standard deviations, and correlations in order to produce an expected geometric rate of return for the portfolio over a long-term period (i.e., 30 years). It was determined that a reasonable range for the assumed rate of return was - 5.97% to 6.97% with a net portfolio adjusted nominal expected rate of return of 6.47%. As a result, no change was deemed necessary in the 6% return assumption since it lies within the reasonable range. The average assumed long-term inflation rate was 2.43%. This was added to the real rates of return to determine expected long-term nominal rates of return for each asset class. Best estimates of arithmetic real rates of return for each major asset class included in the Plan's target asset allocation as of December 31, 2018 are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return
Cash and Cash Equivalents	1%
U.S. Investment Grade Corporate Fixed Income	2%
U.S. High Yield Fixed Income	4%
International Core Fixed Income	1%
U.S. Large Cap Equities	6%
U.S. Small Cap Equities	6%
U.S. Mid Cap Equities	6%
International Developed Equities	6%
Emerging Market Equities	9%
REITs	6%

Discount Rate - The discount rate used to measure the total pension liability was 6.00 percent. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that CATS contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

7. Pension Plan (continued)

Actuarial Methods and Assumptions (continued)

Sensitivity to Changes in the Discount Rate – The following presents the Net Pension Liability of the System calculated using the discount rate of 6.00%, as well as what the System's Net Pension Liability would be if it were calculated using a discount rate that is one percentage point lower (5.00%) or one percentage point higher (7.00%) than the current rate (assuming all other assumptions remain unchanged):

	1% Decrease 5.00%	Current Discount Rate 6.00%	1% Increase 7.00%
Net pension (asset) liability	$ 848,217	$ (606,171)	$ (1,822,731)

Expected Remaining Service Lives – The effects of certain other changes in the Net Pension Liability are required to be included in pension expense over the current and future periods. The effects of the Total Pension Liability of (1) changes of economic and demographic assumptions or of other inputs and (2) differences between expected and actual experience are required to be included in pension expense in a systematic and rational manner over a closed period equal to the average of the expected remaining service lives of all employees that are provided with benefits through the pension plan (active and inactive employees), determined as of the beginning of the measurement period. The effect on the Net Pension Liability of differences between the projected earnings on pension plan investments and actual experience with regard to those earnings is required to be included in pension expense in a systematic and rational manner over a closed period of five years, beginning with the current period.

The Expected Remaining Service Lives (ERSL) for the current year are:

Beginning of Year	ERSL (in Years)
2018	3
2017	4

7. Pension Plan (continued)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

The System reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources at December 31, 2018 and 2017:

	2018	2017
Deferred outflows of resources		
Difference between expected and actual experience	$ -	$ 48,174
Changes in assumptions	-	103,710
Difference between projected and actual earnings	697,096	-
Total	$ 697,096	$ 151,884
Deferred inflows of resources		
Difference between expected and actual experience	$ (267,335)	$ (286,731)
Changes in assumptions	-	-
Difference between projected and actual earnings	-	(686,927)
Total	$ (267,335)	$ (973,658)

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

2019	$ 94,991
2020	(46,573)
2021	62,476
2022	318,867
Total	$ 429,761

8. Deferred Compensation Plan

The System offers its employees participation in the Louisiana Public Employees' Deferred Compensation Plan (Compensation Plan), created by Louisiana Revised Statutes and in accordance with Section 457 of the Internal Revenue Code. The Compensation Plan is available to all full-time employees and permits them to defer a portion of their salary until future years. The assets of the Compensation Plan are held in trust for the exclusive benefit of the participants and their beneficiaries. The custodian thereof. for the exclusive benefit of the participants, holds the custodial account for the beneficiaries of this plan, and the assets may not be diverted to any other use. The administrators are agents of the employer for purposes of providing direction to the custodian of the custodial account from time to time for the investment of the funds held in the account, transfer of assets to or from the account, and all other matters. The System contributions are based on 8% of eligible wages. For the years ended December 31, 2018 and 2017, the contributions to the plan were $117,738 and $106,741, respectively.

9. Commitments and Contingencies

Grant Commitments

Grant agreements under which the System receives federal financial assistance which requires the System to match 15% to 25% of dollars received. For the year ended December 31, 2018, the System has provided local funds to meet matching requirements. In future years, the System will have to provide additional local funds to meet the matching requirements of existing grants. Similar commitments existed as of December 31, 2017.

Lease Commitment

The System is currently leasing office space on a month-to-month basis for approximately $10,844 per month.

Tire Purchase Contract

The System has entered into a contract for the purchase of bus tires. The effective dates of the contract is September 1, 2017 through August 31, 2020. The vendor has agreed to provide tires at a fixed cost per tire plus a rate per mile. The System originally estimated costs to be $600,000 over the term of the contract. Tire cost expense was approximately $98,000 and $38,000 for the years ended December 31, 2018 and 2017, respectively.

Grant Disallowances

The System participates in federally assisted grant programs. The programs are subject to compliance audits under the single audit approach. Such audits could lead to requests for reimbursement by the grantor agency for expenditures disallowed under terms of the grants.

10. Self-Insurance and Legal Claims

The System is exposed to various risks of loss related to torts; theft of damage to, and destruction of assets; errors and omissions injuries to employees; and natural disasters. The System manages the its workers comp and general liability portions of its exposure to losses through a self-insurance program.

At December 31, 2018 and 2017, accrued claims liabilities of $3,680,023 and $2,198,406, respectively, were included in the Proprietary Fund's statements of net position, as follows:

	2018	2017
Current portion	$ 855,488	$ 883,056
Long-term portion	2,824,535	1,315,350
Total	$ 3,680,023	$ 2,198,406

The accruals, which are based upon the advice of counsel, are, in the opinion of management, sufficient to provide for all probable claims liabilities that are able to be estimated at December 31, 2018 and 2017. In addition, the claims will not be paid until appropriated by the System.

10. Self-Insurance and Legal Claims (continued)

Changes in claims liability during the years ended December 31, 2018 and 2017, were as follows:

	2018	2017
Beginning of year liability	$ 2,198,406	$ 2,030,953
Current year claims and changes in estimates	2,729,146	1,563,370
Claim payments	(1,247,529)	(1,395,917)
End of year liability	$ 3,680,023	$ 2,198,406

Effective September 2018 the System purchased an insurance policy through September 2019 which covers auto physical damage up to $2,500,000, subject to a $50,000 deductible per vehicle per occurence. An endorsement was added in December 2018 to cover the 11 buses purchased during 2018.

11. Capital Lease Obligations

The System is the lessee of 10 transit buses under a lease agreement with a financial institution. This lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of the minimum lease payments as of the inception date which was June 1, 2017. Lease terms include 14 semiannual payments of $328,137 with interest at 2.31%. At December 31, 2018, book value of leased equipment, net of depreciation, was $3,924,897.

Changes in the capital lease liability during the years ended December 31, 2018 and 2017, were as follows:

	2018	2017
Beginning of year liability	$ 3,938,590	$ -
Lease proceeds	-	4,217,800
Principal payments	(568,174)	(279,210)
End of year liability	$ 3,370,416	$ 3,938,590

Minimum future lease payments under these capital leases as of December 31, 2018 are:

Year Ended December 31,	Amount
2019	$ 656,274
2020	656,274
2021	656,274
2022	656,274
2023	656,274
2024	328,137
Total minimum lease payments	3,609,507
Less: amount representing interest	(239,091)
Present value of minimum lease payments	$ 3,370,416

12. Prior Period Adjustment

Beginning net position was restated to correct for amounts due from the federal government related to expenses incurred and eligible for reimbursement and to restrict the System's net position for the net pension asset totaling $1,435,415 at December 31, 2017. In addition, the restriction previously reported of $317,464 for cash balances was removed as there were no external restrictions on the use of those funds at December 31, 2017. The effects of the restatements are noted below.

	Amounts as Previously Reported	Adjustment/ Reclassification	Amounts as Restated
Total Non-Operating Revenues (Expenses)	$ 25,413,004	$ 891,407	$ 26,304,411
Income (Loss) After Capital Contributions	$ (642,947)	$ 891,407	$ 248,460
Net Investment in Capital Assets	$ 16,446,485	$ -	$ 16,446,485
Restricted Net Position	317,464	1,117,951	1,435,415
Unrestricted	16,847,430	(226,544)	16,620,886
Total Net Position, December 31, 2017	$ 33,611,379	$ 891,407	$ 34,502,786

13. Effect of Deferred Amounts on Net Position

The unrestricted net position amounts of $13,414,164 and $16,620,886 for the years ended December 31, 2018 and 2017, respectively, include the effects of deferring the recognition of pension expense from the differences between expected and actual experience, changes in assumptions and projected and actual earnings of the System's single employer defined benefit plan. The $151,884 balance of the deferred outflows of resources as of December 31, 2017 and the $267,335 and $286,731 balances of the deferred inflows of resources as of December 31, 2018 and 2017, respectively will be recognized as increases or decreases to pension expense over the remaining average service life of the participants in the pension plan for the differences in expected and actual experience and changes in assumptions. The $697,096 balance of the deferred outflows of resources as of December 31, 2018 and the $686,927 balance of the deferred inflows of resources as of December 31, 2017 will be recognized as increases or decreases to pension expense over the remaining five-year period applicable to the differences between project and actual earnings of the pension plan.

14. Concentrations

Substantially all non-management employees are covered under a collective bargaining agreement.

15. Subsequent Event

In March 2019, the Board authorized the CEO to move forward with entering into a contract for the construction of another transit facility. The costs for the construction of the facility are approximately $525,000. Additionally, the Pension Board approved decreasing the vesting period from 10 to 7 years. The effect on the financial statements is not determinable at this time.

REQUIRED SUPPLEMENTARY INFORMATION

CAPITAL AREA TRANSIT SYSTEM
BATON ROUGE, LOUISIANA

SCHEDULE OF CHANGES IN TOTAL PENSION LIABILITY AND RELATED RATIOS

	2018	2017	2016	2015	2014
TOTAL PENSION LIABILITY					
Service cost	$ 705,207	$ 694,880	$ 609,044	$ 577,109	$ 444,547
Interest	712,051	685,993	661,807	684,863	638,511
Changes in benefit terms	-	-	-	-	-
Differences between expected and actual experience	(215,003)	(177,108)	(141,782)	(332,043)	255,430
Changes of assumptions	-	-	-	414,840	-
Benefit payments	(615,135)	(534,895)	(545,869)	(507,571)	(542,297)
Refunds of member contributions	(237,181)	(174,467)	(375,062)	(348,156)	(122,221)
Other	-	-	9,620	1,348	-
Net change in total pension liability	$ 349,939	$ 494,403	$ 217,758	$ 490,390	$ 673,970
TOTAL PENSION LIABILITY - BEGINNING	11,582,254	11,087,851	10,870,093	10,379,703	9,705,733
TOTAL PENSION LIABILITY - ENDING (a)	$ 11,932,193	$ 11,582,254	$ 11,087,851	$ 10,870,093	$ 10,379,703
PLAN FIDUCIARY NET POSITION					
Contributions - member	$ 604,736	$ 607,307	$ 589,279	$ 553,162	$ 448,920
Contributions - employer	720,360	684,668	669,552	657,058	515,424
Net investment income (loss)	(803,684)	1,933,099	562,303	(238,834)	536,268
Benefit payments	(615,135)	(534,895)	(545,869)	(507,571)	(542,297)
Refunds of member contributions	(237,181)	(174,467)	(375,062)	(348,156)	(122,221)
Administrative expenses	(148,401)	(124,891)	(114,605)	(102,373)	(104,336)
Other	-	-	9,620	1,348	-
Net change in plan fiduciary net position	$ (479,305)	$ 2,390,821	$ 795,218	$ 14,634	$ 731,758
PLAN FIDUCIARY NET POSITION - BEGINNING	13,017,669	10,626,848	9,831,630	9,816,996	9,085,238
PLAN FIDUCIARY NET POSITION - ENDING (b)	$ 12,538,364	$ 13,017,669	$ 10,626,848	$ 9,831,630	$ 9,816,996
NET PENSION (ASSET) LIABILITY - ENDING (a - b)	$ (606,171)	$ (1,435,415)	$ 461,003	$ 1,038,463	$ 562,707
PLAN FIDUCIARY NET POSITION AS A PERCENTAGE OF THE TOTAL PENSION LIABILITY (ASSET)	105.08%	112.39%	95.84%	90.45%	94.58%
COVERED PAYROLL	$ 9,004,500	$ 8,558,350	$ 8,369,400	$ 8,213,225	$ 6,442,800
NET PENSION (ASSET) LIABILITY AS A PERCENTAGE OF COVERED PAYROLL	-6.73%	-16.77%	5.51%	12.64%	8.73%

Notes to Schedule:

Changes of assumptions:

Investment Rate
2015 - rate changed from 6.50% to 6.00%.

Inflation
2017 - decrease from 3.00% to 2.50%
2018 - decrease from 2.50% to 2.00%

Salary Increases
2015 - rate changed from flat 5.50% to scale based on years of service:
1 year of service - 17.00%
2 years of service - 10.00%
3 - 10 years of service - 5.25%
11 years and over - 3.75%

Mortality Table
2014 - For disabled annuitants RP-2000 Disabled Lives Mortality Table set back five years for males and three years for females.
2015 - For disabled annuitants RP-2000 Disabled Lives Mortality Table set back two years for males and one year for females.
2016 - For disabled annuitants RP-2000 Disabled Lives Mortality Table set back five years for males and three years for females.

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

CAPITAL AREA TRANSIT SYSTEM
BATON ROUGE, LOUISIANA

SCHEDULE OF CONTRIBUTIONS

	2018	2017	2016	2015	2014
Actuarily determined contribution	$ 18,909	$ 240,490	$ 373,275	$ 330,993	$ 324,152
Contributions in relation to the actuarilly determined contribution	720,360	684,668	669,552	657,058	515,424
Contribution deficiency (excess)	$ (701,451)	$ (444,178)	$ (296,277)	$ (326,065)	$ (191,272)
Covered payroll	$ 9,004,500	$ 8,558,350	$ 8,369,400	$ 8,213,225	$ 6,442,800
Contributions as a percentage of covered payroll	8.00%	8.00%	8.00%	8.00%	8.00%

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

CAPITAL AREA TRANSIT SYSTEM
BATON ROUGE, LOUISIANA

SCHEDULE OF INVESTMENT RETURNS

	2018	2017	2016	2015	2014
Annual money-weighted rate of return (loss), net of investment expense	-5.98%	16.35%	5.49%	-2.41%	5.67%

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

OTHER SUPPLEMENTARY INFORMATION

CAPITAL AREA TRANSIT SYSTEM
BATON ROUGE, LOUISIANA

SCHEDULE OF COMPENSATION, BENEFITS, AND OTHER PAYMENTS TO AGENCY HEAD FOR THE YEAR ENDED DECEMBER 31, 2018

Chief Executive Officer   William Deville

Purpose		Amount
Salary	$	157,155
Benefits - insurance		5,414
Benefits - cell phone		744
Car allowance		3,600
	$	166,913

P&N
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INDEPENDENT AUDITORS' 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 Commissioners
Capital Area Transit System
Baton Rouge, Louisiana

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States, the financial statements of the business-type activities and the aggregate remaining fund information of Capital Area Transit System (the System), a component unit of the City of Baton Rouge - Parish of East Baton Rouge, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the System's basic financial statements, and have issued our report thereon dated May 28, 2019.

Internal Control Over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described as items 2018-001 and 2018-002 in the accompanying schedule of findings and questioned costs to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described as items 2018-003, 2018-004, 2018-005, 2018-006 and 2018-007 in the accompany schedule of findings and questioned costs to be significant deficiencies.

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Compliance and Other Matters

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

Responses to Findings

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

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 System'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 System's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Postlethwaite & Netterville

Baton Rouge, Louisiana
May 28, 2019

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Board of Commissioners
Capital Area Transit System
Baton Rouge, Louisiana

Report on Compliance for Each Major Federal Program

We have audited Capital Area Transit System's (the System) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the System's major federal programs for the year ended December 31, 2018. The 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.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for the 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 the audit requirements of Title 2 U.S. Code *of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).Those standards and the Uniform Guidance 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 the 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 the System's compliance with those requirements.

Opinion on Each Major Federal Program

In our opinion, the 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 December 31, 2018.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance. which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2018-008. Our opinion on each major federal program is not modified with respect to these matters.

The System's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The System's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of the 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 the System's internal control over compliance with types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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 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 a combination of deficiencies, in internal control, 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 preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified a certain deficiency in internal control over compliance as described in item 2018-008 of the accompanying schedule of findings and questioned costs that we consider to be a material weakness. We identified a certain deficiency in internal control over compliance as described in item 2018-009 of the accompanying schedule of findings and questioned costs that we consider to be a significant deficiency.

The System's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The System's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Postlethwaite & Netterville

Baton Rouge, Louisiana
May 28, 2019

CAPITAL AREA TRANSIT SYSTEM
BATON ROUGE, LOUISIANA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2018

Federal Grantor/ Program Title	CFDA Number	Grant Number	Expenditures (Repayments)	Passed through to Sub-recipients
Federal Transportion Administration				
2007 - 2009 New Freedom Grant	20.521	LA-57-X012	$ 180,685	$ -
2011 & 2012 New Freedom Grant	20.521	LA-57-X043	346,729	-
Total New Freedom Program			527,414	-
Federal Transit Cluster:				
Flexed Congestion Mitigation and Air Quaity	20.507	LA-95-0003	506,215	-
2015 (Section 5307) Formula Grant	20.507	LA-90-0437	15,207	-
2016 (Section 5307) Formula Grant	20.507	LA-2016-026	154,359	-
2017 (Section 5307) Formula Grant	20.507	LA-2017-026	1,098,420	-
Formula Grant 2015/2016 for Preventative Maintenance	20.507	LA-2018-001	700,000	-
Total Federal Transit - Formula Grants			2,474,201	-
2016 Rolling Stock - Section 5339 Formula Apportionment	20.526	LA-2016-023	544,113	-
2017 Rolling Stock - Section 5339 Formula Apportionment	20.526	LA-2017-027	301,129	-
2017 Bus + Bus Facilities Section 5339 Discretionary Grant	20.526	LA-2019-002	2,301,664	-
2018 Rolling Stock - Section 5339 Formula Apportionment	20.526	LA-2019-004	256,703	-
Total Bus and Bus Facilities Formula Program			3,403,609	-
Total Federal Transit Cluster			5,877,810	-
Total Federal Expenditures			$ 6,405,224	$ -

CAPITAL AREA TRANSIT SYSTEM

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

DECEMBER 31, 2018

NOTE A – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Capital Area Transit System and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE B – DE MINIMIS COST RATE

During the year ended December 31, 2018, the Capital Area Transit System did not elect to use the 10% de minimis cost rate as covered in §200.414 of the Uniform Guidance.

NOTE C – AMOUNTS PASSED THROUGH TO SUBRECIPIENTS

During the year ended December 31, 2018, the Capital Area Transit System did not pass through any federal funding to subrecipients.

NOTE D – RECONCILIATION TO THE BASIC FINANCIAL STATEMENTS

The following is a reconciliation of the Schedule of Expenditures of Federal Awards (SEFA) to the basic financial statements:

Federal operating subsidy	$ 3,175,696
Planning and technical study grants	128,099
Capital contributions	3,101,429
Total expenditures of federal awards	$ 6,405,224

CAPITAL AREA TRANSIT SYSTEM
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
DECEMBER 31, 2018

A. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	Unmodified
Material weaknesses identified?	Yes
Significant deficiencies identified?	Yes
Noncompliance material to the financial statements noted?	No

Federal Awards

Internal control over major programs:

Material weaknesses identified?	Yes
Significant deficiencies identified?	Yes
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 2 CFR §200.516(a)?	Yes

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
Federal Transit Cluster:	
20.507	Transit Formula Grants
20.526	Rolling Stock Grants

Dollar threshold used to distinguish between type A and type B programs:	$750,000
Auditee qualified as low-risk auditee?	No

B. Financial Statements Findings

2018-001 **Condition of Books and Records**

Criteria: A system of internal controls over financial reporting should be established to ensure that policies and procedures exist over the System's ability to initiate, record, process, and report financial data consistent with the assertions embodied in the annual financial statements, which for the System, is that the financial statements are prepared in accordance with generally accepted accounting principles (GAAP). In addition, to ensure the accuracy of accounting records and serve as a means to detect improper activity, all accounts should have supporting schedules and/or reconciliations to provide necessary details of what is contained in the account.

Condition: We assisted management in drafting the year-end financial statements, related note disclosures, and the schedule of expenditures of federal awards required for the year-end financial reporting and the recording of the transactions to reconcile certain asset and liability accounts at year-end as a result of the lack of supporting schedules and reconciliations. A working trial balance and general ledger support were provided to assist in this preparation. However, during our audit we noted that numerous balance sheet accounts required adjustment in order for them to properly reflect end of year balances. This included the following accounts: cash, inventory, prepaid expenses, accounts receivable, accounts payable, compensated absences and salaries/benefits payable.

Cause: An accounting system conversion in January 2018 and turnover in several key positions resulted in the above condition.

Effect: The System did not reconcile cash, inventory, prepaid expenses, accounts receivable, accounts payable, compensated absences and salaries/benefits payable to supporting documents throughout the year. The lack of reconciliation caused the balance sheet to be materially misstated. Adjustments had to be provided to the System after year end in order to properly state the account balances. Management and the Board of Commissioners cannot properly oversee the financial condition of the System without proper financial reporting.

Recommendation: The System should ensure properly trained staffing is maintained to complete year-end close out procedures on a timely basis to allow sufficient time for the auditor to complete their procedures in accordance with *Governmental Auditing Standards*.

View of Responsible Official:

The result of the hard budget freeze in 2018, combined with the mandatory finance system conversion, starting January, 2018, and subsequent turnover of key personnel in Finance by May, 2018, led to having the balance sheet and other statements being materially misstated. Subsequently, management recommended that all statements be stamped "draft", until management contracted a financial consultant to review and reconcile all financial records and the new finance system reporting for accuracy.

Near the end of the 4th quarter of 2018, after a hard freeze was instituted in 2018, Management contracted with a consultant and subsequently hired a temporary Controller, to review and reconcile all of 2018 financial reports and the reporting process; the major goal to have all 2018 financial statements registered into the new accounting software system accurately as soon as possible. Management, in the meantime, has its best accounting analyst, keep up with oversight of payroll and accounts payable functions, as well as cash flow...leading to a scrubbed budget and reduction in expenditures for 2017 and 2018, of nearly $3 million, compared to an approved budget of $30 million in 2016.

Management has begun the process to hire a permanent "Controller", with the experience and expertise to train and oversee existing staff, review staff functions, and determine expertise needed, and begin a cross training process for all key finance positions. The Controller will be expected to review and update current financial policies and procedures, and develop new policies as needed. Controller will be expected to implement and update all financial policies in order to achieve a permanent system of documented internal controls for continued accurate financial reporting.

Time for planned leave for Finance staff during year end close/audit must be limited and scheduled in advance.

These actions will help resume and ensure that month end and year end close out procedures are completed on a timely basis and will allow sufficient time for the auditor to complete their procedures.

B. Financial Statements Findings (continued)

2018-002 **Bank Account Reconciliations**

Criteria: To ensure the accuracy of accounting records and serve as a means to detect potential improper activity, the general ledger accounting records should be reconciled to bank account statements on a timely basis.

Condition: General ledger accounts were not reconciled to bank account statements for a significant portion of the fiscal year.

Cause: An accounting system conversion in January 2018 and turnover in several key positions resulted in the general ledger cash accounts not being reconciled on a timely basis.

Effect: Without this task being performed regularly, accounting records may be inaccurate and improper activity may not be detected.

Recommendation: We recommend that the System adopt procedures to ensure that cash accounts are reconciled to the bank statements on a monthly basis.

View of Responsible Official:

See 2018-001 response.Between the consultant controller and the permanent Controller to be hired, in conjunction with our Business Process analyst, (along with our Finance Software system customer service team) oversight and confirmation of the monthly bank reconciliations tasks and all financial reporting will be converted and reconciled to our Financial Edge system within the next 60 to 90 days.

Started immediately with the expectation to be completed by year end, all Finance functions, policies and procedures will be documented as Finance Department and Accounting Manuals, in both electronic and printed versions

Additionally, until a permanent Controller is hired, Finance will be required to confirm in writing on a monthly basis, a confirmation memo showing evidence that all bank account reconciliations have been completed.

Immediate steps will be taken by the new Controller to reduce the number of bank accounts, in order to increase efficiency of staff and reduce the amount of reporting and reconciliations to be prepared monthly.

B. Financial Statements Findings (continued)

2018-003 Inventory Reconciliations

Criteria: To ensure the accuracy of accounting records and serve as a means to detect potential improper activity, the general ledger accounting records should be reconciled to the inventory subsidiary records on a timely basis.

Condition: General ledger accounts were not reconciled to the inventory subsidiary records during the fiscal year.

Cause: An accounting system conversion in January 2018 and turnover in several key positions resulted in the general ledger inventory accounts not being reconciled on a timely basis.

Effect: Without this task being performed regularly, accounting records may be inaccurate and improper activity may not be detected.

Recommendation: We recommend that the System adopt procedures to ensure that inventory accounts are reconciled to the inventory count sheets on a timely basis, but no later than quarterly.

View of Responsible Official:

Management will create a monthly inventory procedure/reconciliation process with all departments involved for the remainder of the year. The Directors of the departments involved will meet and have appropriate personnel assigned duties and responsibilities as needed to make this a routine operation until management is satisfied that all compliance measures and reconciliation procedures are successful and with the TAM requirements as well.

This process has to start and be implemented as soon as possible, targeted to start in next 60 to 90 days maximum.

B. Financial Statements Findings (continued)

2018-004 **Pension Plan Census Data**

Criteria: The measurement of certain financial elements of a defined benefit plan is dependent on a plan members' demographic data, which is often referred to as census data. The accuracy and completeness of this census data is key to ensuring the valuation of the future benefit liability of the pension plan is accurate.

Condition: We noted 22 employees were not enrolled on a timely basis in to the defined benefit pension plan. Additionally, methods for tracking changes in census data demographics and a process of reporting the plan administrator, was not adequately established.

Cause: Turnover in key personnel in the human resources department, the lack of established written procedures and the lack of proper training of personnel resulted in inaccurate census data.

Effect: Employees were required to make up past contributions to the defined benefit pension plan which resulted in additional recordkeeping errors and a significant amount of time was required to review and verify the census data by the plan administrator.

Recommendation: We recommend that the System adopt written procedures to ensure the accuracy of employee records for pension plan purposes so that new employees and changes in plan member demographics are reported accurately and on a timely basis.

View of Responsible Official:

The Controller and new Director of Human Resources have been assigned the responsibilities to reconcile the procedures between HR and Payroll where all personnel changes are synchronized unilaterally, starting with HR. That policy and procedure will be documented as working manual securing consistency and accurate and timely accountability regardless of personnel changes. This will also provide an accurate and dependable exchange of needed reliable personnel data to the Pension Administrator on a regular and timely basis. This item is planned to be implemented immediately, and will be completed within 60 to 90 days.

Existing software systems will be reviewed by our Business Analyst for improved efficiency, control, and confidentiality, seeking a reliable and consistent exchange of personnel data among staff, and the Pension Administrator.

B. Financial Statements Findings (continued)

2018-005 Recordkeeping Associated with Employee Leave

Criteria: To ensure the accuracy of the compensated absences liability and to verify that employees are allowed to take leave only for time earned, procedures and controls should be implemented to ensure that leave time is tracked and reviewed each pay period.

Condition: We noted 25 employees were allowed to take more than their accrued leave time available resulting in 159 hours of time taken but not yet earned or approximately $2,800. Additionally, accurate and complete reporting is not maintained to document the accrued leave.

Cause: Turnover in key personnel in the human resources department and lack of proper training of personnel resulted in inaccurate documentation not being maintained of an employee's leave liability.

Effect: Without this task being performed, employees are allowed to take more than their allotted leave time available and the liability associated with this benefit is not being accurately reflected in the financial reports of the system.

Recommendation: We recommend that the System adopt written procedures and develop appropriate internal controls to ensure that employees are only allowed to take leave for time earned and that accurate and complete reports are maintained to reflect the compensated absence liability. In addition, for financial reporting purposes those amounts should be updated and journal entries recorded monthly.

View of Responsible Official:

See 2018-004 response; additionally, note that special attention and procedures have to be established whereby union contract personnel pay rate changes are reviewed and accounted for in advance of the budget year, all pay changes must be monitored for each payroll for accuracy and timely implementation; policies have now been approved to prevent negative leave balances with a minimum above zero for the protection of the employee as well. The procedures to implement and maintain the procedures manual will be assigned to Controller and HR Director and completed in 60 to 90 days.

B. Financial Statements Findings (continued)

2018-006 Billing of Self-Generated Revenues

Criteria: The System generates revenue from the advanced sale of passenger fare ride passes and advertising. To ensure the accuracy of the amounts due to the System and timely receipt of payments from customers, account billing should be performed on a monthly basis. In addition, any amounts owed from customers in excess of thirty days should be monitored.

Condition: The System did not timely bill customers for services provided during the year.

Cause: Turnover in the Finance department and the accounting software conversion in January 2018 resulted in customer billing not occurring until December of 2018.

Effect: Without this task being performed, there is not timely collection of revenue earned or accurate financial reporting maintained.

Recommendation: We recommend that the System adopt procedures and controls to ensure that self-generated revenue is billed on a regular monthly basis.

View of Responsible Official:

This function will be removed from the Payroll Accountant. The Controller, will work with Sales and Revenue staff, IT Business Process analyst, the best way to achiever timely billing and collections. Policies and procedures will be documented as stated in earlier responses, a policy and procedure manual to follow.

B. Financial Statements Findings (continued)

2018-007 **Documentation of Approved Pay Rates in Payroll File**

Criteria: Establishment of a payroll file enables accounting personnel to pay the employee without accessing employee confidential information which is maintained in a personnel file. Accounting and Finance personnel can keep payroll records in a secure location. Proper internal controls to ensure proper payment to employees would require that payroll files be updated with proper documentation to support wage rates paid to personnel.

Condition: *This is a repeat finding from the prior year.* During our testing of internal controls over payroll, we noted for 15 out of 40 individuals selected for testing, pay rates did not agree to the supporting documentation in their file of the current rate of pay although it appeared the increased pay rates were just an annual cost of living adjustment. In addition, we noted for 16 out of 40 individuals tested no documentation existed for the approval of the current rate of pay.

Cause: Turnover in key personnel in the human resources and finance departments and the lack of written policies and procedures resulted in the lack of documentation in payroll files.

Effect: The System does not have the documentation to support wages being paid to all employees to determine they were appropriately approved and in accordance with all union contracted terms.

Recommendation: We recommend that the System adopt written policies and procedures to ensure that documentation of approved pay rates is maintained.

View of Responsible Official:

See responses to 2018-004, 2018-005 and 2018-006.

C. Findings and Questioned Costs for Federal Awards

United States Department of Transportation (DOT)

20.521 **New Freedom Grant (Grant No (s): LA-57-4012; LA-57-4043)**
20.507 **Federal Transit Formula Grant (Grant No (s): LA-2017-026; LA-2017-027)**

2018-008 **Cash Management**

Criteria: When entities are funded on a reimbursement basis, program costs must be paid for by the entity before reimbursement is requested from the Federal Government. Cost allocable to one federal award may not be charged to another federal award.

Condition: Costs charged to the New Freedom Grant (20.521) and reimbursed by the Federal Government were also included in the population of costs used to determine amounts to be drawn down for preventative maintenance costs under the Federal Transit Formula Grant (20.507). Since the System incurred significantly more eligible costs over the grant period than what was reimbursed by the Federal Government under both grant awards, there are no questioned costs.

Cause: The current system of internal control established over grant draw-downs is not properly designed to ensure all grants are considered and appropriately removed from the total costs used in analyzing the eligible costs as part of the reimbursements/draw down of federal assistance on the Federal Transit Formula Grant.

Effect: The System may be reimbursed or drawn down funding for which they may not be entitled.

Recommendation: We recommend the System review its current processes and determine the best method for ensuring all grants are tracked in a central location to avoid this in the future.

View of Responsible Official:

While the Grants Administration position went vacant during the 2018 hiring freeze, CATS was able to hire a well-qualified Grants Manager, who is capable of doing the catch up activities needed, and is already bringing resolution the issues that have evolved earlier. The new Grants Manager has a positive FTA Region relationship with its staff, and has begun to work closely with them and they have helped to resolve some of the items already in 2019. We have assigned a full time staff person to assist with the Grants function, which will help us centralize the accounting for grants, separate, but synchronized with Finance department reporting.

Additionally, the Capital Improvement Director, organizationally, is now a part of the Grants Manager and Service Planning unit, which should create better accountability and communications between and among program and project managers, internal and external, as needed. Until the technology assessment and enterprise system is identified and installed, authorization to obtain an off the shelf software has been requested and will be allowed once management is convinced that documented policies and procedures are in place.

C. Findings and Questioned Costs for Federal Awards

2018-009 Suspension and Debarment

Criteria: Non-Federal entities are prohibited from contracting with or making sub-awards under covered transactions to parties that are suspended or debarred. "Covered transactions" include those procurement contracts for goods and services awarded under a non-procurement transaction (e.g., grant or cooperative agreement) that are expected to equal or exceed $25,000.

Condition: While testing compliance with the Federal program criteria regarding suspension and debarment, out of a population of 21 vendors, 3 were sampled and haphazardly selected for testing, we were unable to obtain documentation to support that the System verified that 1 of these vendors were not suspended, debarred, or otherwise excluded from doing business on federally funded contracts. However, based on a search on sam.gov this vendor was not identified as being debarred from federal programs.

Questioned Costs: Not applicable.

Cause: The System was not aware that payments made to this vendor were being funded through reimbursement of federal awards.

Effect: Without verification and documentation of the procedures over these requirements inadvertent payments to vendors who are not allowed to contract with the federal government may occur.

Recommendation: We recommend the System review its current process for compliance with this federal regulation and establish a control to ensure all vendors reimbursed or paid with federal funds are searched on sam.gov annually to ensure the System is not contracting with a party which may have been suspended or debarred.

View of Responsible Official:

The System will institute a policy whereby any eligible historical costs that will be reimbursed by federal funds, will include a prior check on the sam.gov web site for Suspension and Debarment; if we find that any vendors listed in the proposed reimbursement drawdown, are suspended or debarred, that cost will remain paid with local funds.

2017-001 Timely Deposit of Terminal Receipts

Criteria: Effective controls over cash receipts require that monies be safeguarded and deposited on a timely basis. Louisiana Revised Statute 39:1212 requires that all deposits shall be deposited daily whenever practicable.

Condition: During our testing of cash collections, we noted that terminal receipts were not being deposited on a daily basis.

Cause: Terminal receipts are deposited into the safe at the terminal, but bank deposit of collections was delayed.

Effect: Noncompliance with Louisiana Revised Statute 39:1212.

Recommendation: In 2017, management instituted procedures whereby terminal receipts would be counted in the same manner as bus fares. We recommend that management monitor collections to ensure that terminal receipts are deposited timely.

Management 's Response: CATS is actively monitoring the results of the new procedures written in 2017, where terminal receipts are being counted in the same manner as bus fares in CATS' money room. The terminal count report and a copy of the terminal deposit slip are emailed to the Director of Finance on a daily basis, immediately after the terminal money count is complete. In addition, CATS has been receiving daily reports from the bank confirming the deposits. This new verification procedure ensures that terminal deposits are made daily. The finding is expected to be formally closed by July 1, 2018.

Current Status: Resolved.

2017-002 Testing of Payroll Disbursements

Criteria: Proper controls over payroll require that personnel files be updated on a timely basis.

Condition: We performed a test of 30 payroll disbursements. Of the 30 disbursements tested, we noted that the pay rate for 14 employees was different from that in the personnel file.

Cause: Unknown.

Effect: Ineffective internal controls over personnel files.

Recommendation: We recommend that the System adopt policies and procedures to ensure that internal controls are effective over payroll and that pay rates per the personnel files are updated and agree to actual pay rate.

2017-002 **Testing of Payroll Disbursements** (continued)

Management's Response: CATS' Controller will conduct a complete review of all active personnel files in August 2018 to verify that required documentation in each personnel file matches data on its payroll documentation. This will correct all prior documentation by September 1, 2018.

CATS is developing procedural checklists for the Human Resources Department personnel to use for completing processes. Each checklist will include each item that is required to be obtained or developed for that process. When an item has been appropriately handled, the employee completing that task will sign his/her name next to the task to identify who has performed the task. When all tasks on the checklist have been completed, the checklist will be filed in the appropriate personnel file. This checklist will ensure that documentation is correctly gathered and maintained in the files going forward.

The Controller will conduct semi-annual reviews of controls in the Human Resources Department. Each review will conclude with a written report to the Chief Administrative Officer.

Current Status: Not resolved. See 2018-007.

C. Findings and Questioned Costs for Federal Awards

2017-003 **Financial Management Oversight Review {CFDA 20.507)**

Criteria: There are various Codes of Federal Regulations pertaining to the United States Federal Transit Administration (FTA) that should be followed.

Condition: The financial management oversight review report dated January 10, 2014 identified the following significant deficiency which remains unresolved:

The insurance coverage provided does not address rolling stock.

Cause: The System has experienced turnover in key positions in early 2013. Prior to 2013, staffing was limited due to financial constraints.

Effect: Ineffective internal controls over the administration of FTA grants.

Recommendation: The following recommendation by item number was included in the financial management oversight review report dated January 10, 2014:

The System should determine and document the extent of its insurance coverage for rolling stock.

Management's Response: CATS has been working on finding the most cost effective solution to this finding. The Chief Administrative Officer has indicated that the proposed resolution to this item will be brought to the Board at its July 2018 meeting.

Current Status: Resolved.