CAPITAL AREA TRANSIT SYSTEM

Annual Financial Statements

December 31, 2016 and 2015

LAPORTE
CPAs & BUSINESS ADVISORS

Contents

Contents (Continued)

LaPorte, APAC
5100 Village Walk | Suite 300
Covington, LA 70433
985.892.5850 | Fax 985.892.5956
LaPorte.com

Independent Auditor's Report

To the 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 major fund of Capital Area Transit System (the System), a component unit of the City of Baton Rouge - Parish of East Baton Rouge, and the Capital Area Transit System Employees' Pension Trust Fund (a fiduciary fund of the System), as of and for the years ended December 31, 2016 and 2015, 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.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities, the major fund of the System and the Capital Area Transit System Employees' Pension Trust Fund as of December 31, 2016 and 2015, and the respective changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, beginning on page 5, and the required supplementary information under Governmental Accounting Standards Board (GASB) Statement No. 67, beginning on page 39, 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 audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the Capital Area Transit System's and the Capital Area Transit System Employees' Pension Trust Fund's basic financial statements. The schedule of expenditures of federal awards 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 schedules of compensation, benefits, and other payments to agency head, as required by Louisiana Revised Statute (LRS) 24:513 A, are also presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedule of expenditures of federal awards and the schedules 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 schedules 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 16, 2017, on our consideration of Capital Area Transit System's and the Capital Area Transit System Employees' Pension Trust Fund'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.

LaPorte

A Professional Accounting Corporation

Covington, LA
May 16, 2017

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis

The Management's Discussion and Analysis of Capital Area Transit System's (the System) financial performance presents a narrative overview and analysis of the System's financial activities for the years ended December 31, 2016 and 2015. This document focuses on the current year's activities, resulting changes, and currently known facts in comparison with the prior year's information. Please read this document in conjunction with the additional information contained in the financial statements.

Financial Highlights

The System's net position was $34,079,541, as of December 31, 2016, representing an increase of $4,073,505, or 13%, from that of December 31, 2015. A substantial portion of the net position is invested in capital assets.

Net loss before capital contributions was $(2,110,980) and $(1,101,449), for 2016 and 2015, respectively.

Overview of the Financial Statements

This financial report consists of four parts: management's discussion and analysis (this section), the basic financial statements, 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) Statement No. 67. 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 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 basic proprietary fund statements can be found on pages 11 through 15 of this report.

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. All assets and liabilities associated with the operation of the System are included in the statement of net position.

The statement of net position reports the System's net position. Net position, which is the difference between the System's assets and liabilities, 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.

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. The basic fiduciary fund statements can be found on pages 16 and 17 of this report.

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) as required by GASB 34.

Financial Analysis of the System

Net Position

The System's total net position increased from $30,006,036 at December 31, 2015 to $34,079,541 at December 31, 2016.

The increase in net position is primarily due to the 10.6 mill ad valorem tax passed on April 21, 2012 and capital contributions of $6,184,485 from the Federal Transportation Administration. Restricted assets represent cash reserved to meet current fiduciary liabilities, primarily related to self insured vehicle and workers' compensation claims. The System does not own land and buildings; rather, the City-Parish provides the System with the use of its administrative building and terminal facility.

Long-term liabilities decreased from $2,860,191 to $2,092,972, mainly as a result of current year payments for the capital lease obligations entered into during 2004 for the upgrade to the bus fleet. The final payment on the lease was made in 2016.

The table below summarizes the System's net position as of December 31, 2016 and 2015:

	2016	2015
Unrestricted Assets	**$ 23,640,178**	$ 21,232,010
Restricted Assets	**264,158**	879,581
Total Current Assets	**23,904,336**	22,111,591
Equipment, Net	**17,968,153**	12,824,566
Total Assets	**41,872,489**	34,936,157
Deferred Outflows of Resources		
Pension	**854,100**	1,183,443
Total Assets and Deferred Outflows of Resources	**$ 42,726,589**	$ 36,119,600
Current Liabilities	**$ 6,281,719**	$ 3,004,341
Long-Term Claims Payable and Related Liabilities	**1,418,558**	1,365,162
Long-Term Other Liabilities	**674,414**	1,495,029
Total Liabilities	**8,374,691**	5,864,532
Deferred Inflows of Resources		
Pension	**272,357**	249,032
Net Position		
Net Investment in Capital Assets	**17,968,153**	12,020,664
Restricted	**264,158**	879,581
Unrestricted	**15,847,230**	17,105,791
Total Net Position	**34,079,541**	30,006,036
Total Liabilities, Deferred Inflows of Resources, and Net Position	**$ 42,726,589**	$ 36,119,600

Changes in Net Position

The System's operating revenues increased from the prior year amount of $2,326,845 to $2,461,875, which was an increase of $135,030, or 5%. This consistency is primarily attributable to the sustainability of transportation contracts and overall customer ridership.

Direct operating expenses increased by $1,617,665, or 6%, from $28,476,389 to $30,198,498. This increase is attributable to the implementation of the System's expansion of routes and services. Net non-operating revenues in 2016 increased by $473,104, or 2%, from $25,152,539 to $25,625,643. This increase was primarily attributable to increases in operating grants and property tax revenues.

The table below summarizes the changes in net position as of December 31, 2016 and 2015:

	2016	2015
Operating Revenue		
Charges for Services	**$ 2,062,973**	$ 2,097,877
Advertising Revenue	**398,902**	228,968
Total Operating Revenue	**2,461,875**	2,326,845
Direct Operating Expenses		
Operating Expenses	**27,609,647**	25,547,480
Depreciation	**2,543,356**	2,928,909
Bad Debt Expense	**36,651**	104,444
Total Direct Operating Expenses	**30,189,654**	28,580,833
Loss from Operations	**(27,727,779)**	(26,253,988)
Non-Operating Revenues (Expenses)		
Interest Income	**9,496**	9,592
Interest Expense	**(26,558)**	(60,824)
Government Operating Grants	**6,770,270**	6,767,094
Hotel/Motel Tax	**1,412,340**	1,347,465
Ad Valorem Tax Revenue	**16,862,111**	16,467,310
Other Revenue	**39,140**	71,902
Operating Transfers from Primary Government	**550,000**	550,000
Total Non-Operating Revenues (Expenses)	**25,616,799**	25,152,539
Loss before Capital Contributions	**(2,110,980)**	(1,101,449)
Capital Contributions	**6,184,485**	3,092,156
Net Income after Capital Contributions	**4,073,505**	1,990,707
Net Position, Beginning of Year	**30,006,036**	28,015,329
Net Position, End of Year	**$ 34,079,541**	$ 30,006,036

Capital Assets

During the year ended December 31, 2016, capital assets, net of depreciation, increased by $5,143,587, which was mainly due to capital additions of $7,686,943, which exceeded depreciation of $2,543,356.

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 2017 are $17 million ($16.6 million from the City of Baton Rouge and $0.4 million from the City of Baker). 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 for operating funds.

During 2017, the System will use the tax proceeds as stated above, including providing the local match for federal grants.

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
Statements of Net Position - Proprietary Fund
December 31, 2016 and 2015

	2016	2015
Assets		
Current Assets		
Cash and Cash Equivalents	**$ 2,946,329**	$ 3,374,639
Accounts Receivable, Net	**217,594**	95,538
Property Tax Receivable	**16,506,299**	16,120,292
Due from Other Governments	**3,282,169**	1,042,080
Prepaid Expenses	**100,492**	73,723
Inventory	**587,295**	525,738
Total Current Assets	**23,640,178**	21,232,010
Restricted Assets		
Cash and Cash Equivalents	**264,158**	879,581
Total Restricted Assets	**264,158**	879,581
Capital Assets		
Equipment, Net	**17,968,153**	12,824,566
Total Capital Assets	**17,968,153**	12,824,566
Total Assets	**41,872,489**	34,936,157
Deferred Outflows of Resources		
Pension	**854,100**	1,183,443
Total Assets and Deferred Outflows of Resources	**$ 42,726,589**	$ 36,119,600

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

CAPITAL AREA TRANSIT SYSTEM
Statements of Net Position - Proprietary Fund (Continued)
December 31, 2016 and 2015

	2016	2015
Liabilities		
Current Liabilities		
Accounts Payable and Accrued Expenses	**$ 5,427,050**	$ 1,242,074
Accrued Compensated Absences	**142,274**	244,124
Claims Payable and Related Liabilities	**612,395**	614,241
Capital Lease Payable	**-**	803,902
Note Payable, Current	**100,000**	100,000
Total Current Liabilities	**6,281,719**	3,004,341
Long-Term Liabilities		
Accrued Compensated Absences, Less Current Portion	**213,411**	366,186
Note Payable, Less Current Portion	**-**	100,000
Claims Payable and Related Liabilities, Less Current Portion	**1,418,558**	1,365,162
Net Pension Liability	**461,003**	1,028,843
Total Long-Term Liabilities	**2,092,972**	2,860,191
Total Liabilities	**8,374,691**	5,864,532
Deferred Inflows of Resources		
Pension	**272,357**	249,032
Net Position		
Net Investment in Capital Assets	**17,968,153**	12,020,664
Restricted	**264,158**	879,581
Unrestricted	**15,847,230**	17,105,791
Total Net Position	**34,079,541**	30,006,036
Total Liabilities, Deferred Inflows of Resources, and Net Pension	**$ 42,726,589**	$ 36,119,600

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

CAPITAL AREA TRANSIT SYSTEM
Statements of Revenues, Expenses, and Changes in Net Position - Proprietary Fund
For the Years Ended December 31, 2016 and 2015

	2016	2015
Operating Revenue		
Charges for Services	$ 2,062,973	$ 2,097,877
Advertising Revenue	398,902	228,968
Total Operating Revenue	2,461,875	2,326,845
Direct Operating Expenses		
Personal Services and Fringe Benefits	17,699,119	15,741,128
Supplies, Fuel, and Other Bus-Related Expenses	2,980,288	3,109,270
Contractual Services and Liability Costs	6,930,240	6,697,082
Depreciation and Amortization	2,543,356	2,928,909
Bad Debt Expense	36,651	104,444
Total Direct Operating Expenses	30,189,654	28,580,833
Loss from Operations	(27,727,779)	(26,253,988)
Non-Operating Revenues (Expenses)		
Interest Income	9,496	9,592
Interest Expense	(26,558)	(60,824)
Hotel/Motel Tax	1,412,340	1,347,465
Ad Valorem Tax Revenue	16,862,111	16,467,310
Other Revenue	39,140	71,902
Government Operating Grants		
Federal Operating Subsidy	6,571,672	6,762,302
Planning and Technical Study Grants	198,598	4,792
Operating Transfers from Primary Government	550,000	550,000
Total Non-Operating Revenues (Expenses)	25,616,799	25,152,539
Loss before Capital Contributions	(2,110,980)	(1,101,449)
Capital Contributions	6,184,485	3,092,156
Net Income after Capital Contributions	4,073,505	1,990,707
Net Position, Beginning of Year	30,006,036	28,015,329
Net Position, End of Year	$ 34,079,541	$ 30,006,036

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

CAPITAL AREA TRANSIT SYSTEM
Statements of Cash Flows - Proprietary Fund
For the Years Ended December 31, 2016 and 2015

	2016	2015
Cash Flows from Operating Activities		
Receipts from Customers	$ 1,904,266	$ 2,052,495
Receipts from Other Sources	398,902	228,968
Payments to Suppliers and Others	(5,827,673)	(9,695,334)
Payments to Employees and Payroll Taxing Agencies	(18,095,326)	(15,984,802)
Net Cash Used in Operating Activities	(21,619,831)	(23,398,673)
Cash Flows from Non-Capital Financing Activities		
Operating Subsidies Received from Other Governments	7,012,122	7,164,498
Ad Valorem Taxes	16,476,104	15,974,461
Payments on Short-Term Borrowing	(100,000)	(100,000)
Hotel/Motel Tax	1,324,640	1,430,933
Other Revenue	39,140	71,902
Operating Transfers from Primary Government	550,000	550,000
Net Cash Provided by Non-Capital Financing Activities	25,302,006	25,091,794
Cash Flows from Capital and Related Financing Activities		
Capital Contributions Received	3,733,712	3,092,156
Payments on Capital Leases	(803,902)	(765,739)
Acquisition of Capital Assets	(7,630,411)	(3,077,294)
Interest Paid on Capital Debt	(34,803)	(68,678)
Net Cash Used in Capital and Related Financing Activities	(4,735,404)	(819,555)
Cash Flows from Investing Activities		
Interest Received	9,496	9,592
Net Cash Provided by Investing Activities	9,496	9,592
Net (Decrease) Increase in Cash and Cash Equivalents	(1,043,733)	883,158
Cash and Cash Equivalents, Beginning of Year	4,254,220	3,371,062
Cash and Cash Equivalents, End of Year	$ 3,210,487	$ 4,254,220

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

CAPITAL AREA TRANSIT SYSTEM
Statements of Cash Flows - Proprietary Fund (Continued)
For the Years Ended December 31, 2016 and 2015

	2016	2015
Reconciliation of Cash as Listed on the Balance Sheet		
Unrestricted Cash	**$ 2,946,329**	$ 3,374,639
Restricted Cash	**264,158**	879,581
Total Cash and Cash Equivalents	**$ 3,210,487**	$ 4,254,220
Reconciliation of Net Operating Loss to Net Cash Used in Operating Activities		
Loss from Operations	**$ (27,727,779)**	$ (26,253,988)
Adjustments to Reconcile Net Operating Loss to Net Cash Used in Operating Activities		
Depreciation	**2,543,356**	2,928,909
Bad Debt Expense	**36,651**	104,444
Increase in Accounts Receivable	**(158,707)**	(45,382)
(Increase) Decrease in Prepaid Expenses	**(26,769)**	88,467
(Increase) Decrease in Inventory	**(61,557)**	106,282
Decrease (Increase) in Deferred Outflows of Resources	**329,343**	(943,450)
Increase in Deferred Inflows of Resources	**23,325**	249,032
Increase (Decrease) in Accounts Payable and Accrued Expenses	**3,938,596**	(346,579)
(Decrease) Increase in Net Pension Liability	**(567,840)**	466,136
Increase in the Provision for Claims Liability	**51,550**	247,456
Net Cash Used in Operating Activities	**$ (21,619,831)**	$ (23,398,673)

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

CAPITAL AREA TRANSIT SYSTEM
Statements of Fiduciary Net Position - Pension Trust Fund
December 31, 2016 and 2015

		2016		2015
Assets				
Cash and Cash Equivalents	**$**	**705,168**	$	599,820
Contributions Receivable		**69,435**		73,519
Investments				
Equities		**7,987,790**		7,183,644
Fixed Income		**1,021,966**		1,006,488
Alternative Investments		**-**		142,364
Annuities		**842,489**		825,795
Total Investments		**9,852,245**		9,158,291
Total Assets	**$**	**10,626,848**	$	9,831,630
Net Position Restricted for Pensions	**$**	**10,626,848**	$	9,831,630

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

CAPITAL AREA TRANSIT SYSTEM
Statements of Changes in Fiduciary Net Position - Pension Trust Fund
For the Years Ended December 31, 2016 and 2015

	2016	2015
Additions		
Contributions		
Employer Contributions	$ 596,912	$ 553,162
Employee Contributions	671,539	657,058
Irregular Contributions	-	1,348
Total Contributions	1,268,451	1,211,568
Investment Income (Loss)		
Investment and Dividend Income	209,007	223,256
Class Action Settlements	697	2,865
Net Change in Fair Value	465,931	(365,581)
	675,635	(139,460)
Less: Investment Expense	(113,332)	(99,374)
Net Investment Income (Loss)	562,303	(238,834)
Total Additions	1,830,754	972,734
Deductions		
Benefits	545,869	582,908
Employee Refunds	375,062	272,819
Administrative Expenses	114,605	102,373
Total Deductions	1,035,536	958,100
Net Increase in Net Position	795,218	14,634
Net Position Restricted for Pensions, Beginning of Year	9,831,630	9,816,996
Net Position Restricted for Pensions, End of Year	$ 10,626,848	$ 9,831,630

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

Note 1. Summary of Significant Accounting Policies

The accounting and reporting policies of Capital Area Transit System (the System) conform to accounting principles generally accepted in the United States of America applicable to governments. Such accounting and reporting procedures also conform to the requirements of Louisiana Revised Statutes (LRS) and to the guidance set forth in the *Louisiana Governmental Audit Guide*, and to the industry audit guide, *Audits of State and Local Governmental Units*. The following is a summary of significant accounting policies.

Report Issued Under Separate Coverage

The Capital Area Transit System's financial statements are an integral part of the City of Baton Rouge - Parish of East Baton Rouge's (City-Parish) Comprehensive Annual Financial Report (CAFR). The System has an operating agreement with the City-Parish that addresses the use of City-Parish facilities, as well as other operating matters.

Financial Reporting Entity

Capital Area Transit System is a corporation 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. The Metropolitan Council exercises oversight over the System by approving fare changes and by approving operating subsidies from the City-Parish's General Fund. Operating subsidies are also provided through federal grants. The fiscal year for the System and the City-Parish government is the calendar year. Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, established criteria for determining which component units should be considered part of the City of Baton Rouge - Parish of East Baton Rouge for financial reporting purposes. The basic criteria are as follows:

1. Legal status of the potential component unit including the right to incur its own debt, levy taxes and charges, expropriate property in its own name, sue and be sued, and the right to buy, sell, and lease property in its own name.

2. Whether the City-Parish governing the System (Metropolitan Council or Mayor President) appoints a majority of board members of the potential component unit.

3. Fiscal interdependency between the City-Parish and the potential component unit.

4. Imposition of will by the City-Parish on the potential component unit.

5. Financial benefit/burden relationship between the City-Parish and the potential component unit.

Note 1. Summary of Significant Accounting Policies (Continued)

Financial Reporting Entity (Continued)

Based on the previous criteria, the System is considered a component unit of the City of Baton Rouge - Parish of East Baton Rouge. In addition, 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.

Measurement Focus, Basis of Accounting, and Presentation

The accounting policies of the System conform to accounting principles generally accepted in the United States of America as applicable to governments. The proprietary fund and the pension trust fund financial statements are reported using the economic resource measurement focus and the accrual basis of accounting. The System uses fund accounting to report its financial position and results of operations. The operations of each fund are accounted for with a set of self balancing accounts that comprise its assets, liabilities, net position, revenue, and expenses. 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.

Accordingly, the System maintains its records on the accrual basis of accounting. Revenue from operations, investments, and other sources are recorded when earned. Revenue received in advance is reflected as deferred revenue. Expenses (including depreciation and amortization) of providing services to the public are accrued when incurred.

Note 1. Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Presentation (Continued)

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.

Restricted Assets and Liabilities

Certain assets, consisting of cash and cash equivalents, are segregated and classified as restricted assets which may not be used except in accordance with contractual terms, under certain conditions. These assets consist of a bank account restricted for insurance and held by the State of Louisiana and cash related to federal grants and related matching requirements.

Investments

Investments are stated at fair value. The change in fair value is recognized in operations.

Inventories

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

Equipment

Equipment is recorded at cost. Depreciation or amortization 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 for certain office equipment to 12 years for rolling stock.

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 expense of funds is the prime factor for determining the eligibility for the grant proceeds, the revenue is recognized at the time when the expense is incurred.

Note 1. Summary of Significant Accounting Policies (Continued)

Federal Grants and Dedicated Taxes (Continued)

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.

Compensated Absences

Employees earn vacation and sick leave in varying amounts according to continuing years of service as follows:

Years of Service	Vacation	Sick
0	None	1 Day per Month
1	7 Days per Year	1 Day per Month
2	13 Days per Year	1 Day per Month
6	17 Days per Year	1 Day per Month
15	24 Days per Year	1 Day per Month

Vacation must be taken by December 31st, or it is lost for the union employees. For the non-union employees, unused vacation can be carried forward to the next year. Sick leave is accumulated without time limitations and there is no limitation as to the amount paid upon termination or retirement. Vacation and sick leave are accrued as earned.

Claims and Judgments

The System provides for losses, including any anticipated related expenses, resulting from claims and judgments. A liability for such losses (including related out-of-pocket expenses) is reported when it is probable that a loss has occurred and the amount can be reasonably estimated.

Cash Flows

For the purposes of the statements of cash flows, cash and cash equivalents include all highly liquid investments with a maturity of three months or less.

Impact of Recently Adopted Accounting Principles

In February 2015, the Governmental Accounting Standards Board (GASB) issued Statement No. 72, *Fair Value Measurement and Application* (GASB 72). This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. This Statement was implemented by the System in the year ended December 31, 2016.

Note 1. Summary of Significant Accounting Policies (Continued)

Impact of Recently Adopted Accounting Principles (Continued)

In August 2015, the GASB issued Statement No. 77, *Tax Abatement Disclosures.* This Statement provides for disclosure of tax abatements in the financial statements of governments. This Statement was implemented by the System in the year ended December 31, 2016.

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 at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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 fund. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Equity Classifications

In accordance with GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as amended by GASB No. 63, net position is classified into three components: net investment in capital assets, restricted, and unrestricted.

These classifications are defined as follows:

- *Net Investment in Capital Assets* - This component of net position consists of the historical cost of capital assets, including any restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets, plus deferred outflows of resources, less deferred inflows of resources related to those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

Note 1. Summary of Significant Accounting Policies (Continued)

Equity Classifications (Continued)

- *Restricted* - This component of net position consists of assets that have constraints that are externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or constraints imposed by law through constitutional provisions or enabling legislation.

- *Unrestricted* - This component of net position consists of net position that does not meet the definition of "restricted" or "net investment in capital assets."

Operating vs. Non-Operating Revenue

The System recognizes rider fares, contracted fare services, and advertising revenue as operating. All other revenues, including tax revenues, federal and state grants, and operating subsidies from the primary government are recognized as non-operating.

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 uncollectibility of the particular receivable. The allowance was $162,601, at December 31, 2016.

Ad valorem tax receivable is recorded net of estimated uncollectible amounts and collection fees. The allowance for uncollectible accounts at December 31, 2016, was $459,768, and the allowance for collection fees was $823,394. The allowance for uncollectible accounts at December 31, 2015, was $449,297, and the allowance for collection fees was $804,351. The collection fee charged by the East Baton Rouge Parish Sheriff was 4.5%, for the years ended December 31, 2016 and 2015.

Note 2. Ad Valorem Taxes

On April 21, 2012, a 10.6 mill ad valorem tax which expires in 2021 was passed by the citizens of the City of Baton Rouge and the City of Baker. Ad valorem taxes are levied each November 1st on the assessed value listed as of the prior January 1st for all real estate, merchandise, and moveable property located in the Parish. Assessed values are established by the East Baton Rouge Parish Assessor's Office and the State Tax Commission at percentages of actual value as specified by Louisiana law. A reevaluation of all property is required to be completed no less than every four years and was last completed in 2016.

Note 3. Cash, Cash Equivalents and Investments

Cash and Cash Equivalents

The System's cash and cash equivalents consisted of the following as of December 31, 2016 and 2015:

	2016		
	Proprietary Enterprise Fund	**Fiduciary Pension Trust Fund**	**Total**
Cash on Hand and in Banks	**$ 3,210,487**	**$ -**	**$ 3,210,487**
Money Market Accounts	**-**	**705,168**	**705,168**
Total Cash and Cash Equivalents	**$ 3,210,487**	**$ 705,168**	**$ 3,915,655**

	2015		
	Proprietary Enterprise Fund	Fiduciary Pension Trust Fund	Total
Cash on Hand and in Banks	$ 4,254,220	$ -	$ 4,254,220
Money Market Accounts	-	599,820	599,820
Total Cash and Cash Equivalents	$ 4,254,220	$ 599,820	$ 4,854,040

Proprietary fund cash and cash equivalents of $3,210,487 and $4,254,220 included $3,210,487 and $3,374,639 of unrestricted assets and $705,168 and $879,581 of restricted assets as of December 31, 2016 and 2015, respectively.

Custodial Credit Risk - Deposits. In the case of deposits, this is the risk that in the event of a bank failure, the System’s deposits may not be recovered. Neither the System nor the Pension Trust Fund, a blended component unit, has a deposit policy for custodial credit risk. Throughout the course of the year, the System’s deposits may be exposed to custodial credit risk. Deposits were secured by federal deposit insurance coverage (FDIC) up to $250,000. The remaining deposits, which were exposed to custodial credit risk, were secured by the pledge of securities owned by the fiscal agent bank.

State statutes authorize the System's Proprietary Fund to invest in direct United States Treasury obligations; bonds, debentures, notes, or other indebtedness issued or guaranteed by U.S. Government Instrumentalities which are federally sponsored or federal agencies that are backed by the full faith and credit of the United States; short-term repurchase agreements; and time certificates of deposit at financial institutions, state banks, and national banks having their principal offices in Louisiana.

Note 3. Cash, Cash Equivalents, and Investments (Continued)

Investments

As of December 31, 2016 and 2015, assets classified as investments existed only in the Pension Trust Fund (the Trust). The assets of the Trust are invested in accordance with the investment policy of the Plan. Those assets are as follows:

	Fair Values	
	2016	2015
U.S. Treasury and Agency Bonds	**$ 540,302**	$ 245,109
Corporate Bonds	**481,664**	761,379
Corporate Stocks	**6,886,654**	6,759,478
Preferred Stocks	**-**	194,230
Equity Mutual Fund	**1,101,136**	229,936
Alternative Investments	**-**	142,364
Annuities	**842,489**	825,795
Total	**$ 9,852,245**	$ 9,158,291

As of December 31, 2016, the debt 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	$ 540,302	$ -	$ 350,398	$ 189,904	$ -
Corporate Bonds	481,664	-	279,291	202,373	-
Total	$1,021,966	$ -	$ 629,689	$ 392,277	$ -

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, 2016 and 2015, the Pension Trust Fund held no commercial paper investments. The Pension Trust Fund's investments in domestic corporate bonds as of December 31, 2016 and 2015 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.

Note 3. Cash, Cash Equivalents and Investments (Continued)

Investments (Continued)

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, 2016 and 2015, all of the Pension Trust Fund's investments were held by an agent in the name of the Pension Trust Fund.

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. Assets classified in Level 1 of the fair value hierarchy are valued directly from a predetermined primary external pricing vendor. Assets classified in Level 2 are subject to pricing by an alternative pricing source due to lack of information available by the primary vendor. Assets classified in Level 3, due to lack of an independent pricing source, are valued using an internal fair value as provided by the investment manager.

Note 3. Cash, Cash Equivalents and Investments (Continued)

Fair Value of Investments (Continued)

The following table sets forth by level, within the fair value hierarchy, the System's assets at fair value as of December 31, 2016:

		Fair Value Measurements Using:		
	12/31/2016	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	$ 540,302	$ -	$ 540,302	$ -
Corporate Bonds	481,664	-	481,664	-
Equity Securities				
Corporate Stocks	6,886,654	6,886,654	-	-
Corporate Equity Mutual Fund	1,101,136	1,101,136	-	-
Alternative Investments				
Annuities	842,489	-	-	842,489
Total Investments by Fair Value Level	$ 9,852,245	$ 7,987,790	$ 1,021,966	$ 842,489

Note 4. Receivables - Due from Other Governments

Receivables due from other governments at December 31, 2016 and 2015, were as follows:

	2016	2015
Federal Transit Administration	**$ 2,826,299**	$ 673,910
Hotel/Motel Tax	**455,870**	368,170
Total	**$ 3,282,169**	$ 1,042,080

Note 5. Capital Assets

A summary of changes in capital assets follows:

	January 1, 2016	Additions	Deletions	December 31, 2016
Construction in Progress	**$ -**	**$ 129,295**	**$ -**	**$ 129,295**
Equipment, Primarily Transportation Vehicles	**33,021,629**	**7,557,648**	**(3,567,301)**	**37,011,976**
Accumulated Depreciation	**(20,197,063)**	**(2,543,356)**	**3,567,301**	**(19,173,118)**
Total	**$ 12,824,566**	**$ 5,143,587**	**$ -**	**$ 17,968,153**

	January 1, 2015	Additions	Deletions	December 31, 2015
Construction in Progress	$ 350,523	$ -	$ (350,523)	$ -
Equipment, Primarily Transportation Vehicles	30,212,454	3,427,527	(618,352)	33,021,629
Accumulated Depreciation	(17,886,506)	(2,928,909)	618,352	(20,197,063)
Total	$ 12,676,471	$ 498,618	$ (350,523)	$ 12,824,566

Depreciation expense for the years ended December 31, 2016 and 2015, totaled $2,543,356 and $2,928,909, 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.

Note 6. Accounts, Salaries, and Other Payables

The payables at December 31, 2016 and 2015, were as follows:

	2016	2015
Accounts Payable	**$ 5,106,399**	$ 986,768
Accrued Salaries	**268,651**	163,799
Accrued Expenses	**52,000**	83,262
Accrued Interest	**-**	8,245
Total	**$ 5,427,050**	$ 1,242,074

Note 7. Working Capital

Operations of the System are subsidized by the federal and local governments through various cash grants and appropriations. These subsidies are reported under the caption of non-operating revenue as government operating grants and as operating transfers from the City-Parish in the statements of revenues, expenses, and changes in net position.

Note 8. Pension Plan

Plan Description

The Capital Area Transit System Employees' Pension Trust Fund is a defined benefit pension fund that provides retirement allowances and other benefits. The following summary of plan provisions is for general informational purposes only and does not constitute a guarantee of benefits. The provisions contained within this section are as of December 31, 2016.

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, 2016 and 2015, pension plan membership consisted of the following:

	2016	2015
Inactive Plan Members or Beneficiaries Currently Receiving Benefits	**70**	68
Inactive Plan Members Entitled to but not yet Receiving Benefits	**112**	91
Active Plan Members	**204**	196
Total	**386**	355

Funding - 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.

Contribution Refunds - 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.

.

Retirement Benefits - 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.

Note 8. Pension Plan (Continued)

Plan Description (Continued)

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.

Optional Allowances - 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.

Disability Benefits - 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.

Survivor Benefits - 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.

Note 8. Pension Plan (Continued)

Plan Description (Continued)

Deferred Retirement Option Plan - 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 System 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 System 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 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.

Note 8. Pension Plan (Continued)

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

For the year ended December 31, 2016, the System recognized pension expense of $444,515. At December 31, 2016, the System reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

December 31, 2016	**Deferred Outflows**	**Deferred Inflows**
Difference Between Expected and Actual Experience	**$ 112,032**	**$ 272,357**
Changes in Assumptions	**207,420**	**-**
Difference Between Projected and Actual Earnings	**534,648**	**-**
Total	**$ 854,100**	**$ 272,357**

December 31, 2015	Deferred Outflows	Deferred Inflows
Difference Between Expected and Actual Experience	$ 176,135	$ 249,032
Changes in Assumptions	311,130	-
Difference Between Projected and Actual Earnings	696,178	-
Total	$ 1,183,443	$ 249,032

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

2017	$ (245,366)
2018	(229,212)
2019	(107,165)
Total	$ (581,743)

Actuarial Methods and Assumptions

The Total Pension Liability is based on the Individual Entry Age Normal actuarial cost method as described in GASB 67. Calculations were made as of December 31, 2016 and were based on December 31, 2016 data. The current year actuarial assumptions utilized are based on the assumptions used in the December 31, 2016 actuarial funding valuation which (with the exception of mortality) were based on the results of an actuarial experience study performed in 2009, unless otherwise specified. All assumptions selected were determined to be reasonable and represent expectations of future experience for the fund.

Note 8. Pension Plan (Continued)

Actuarial Methods and Assumptions (Continued)

The following actuarial assumptions apply to all periods included in the measurement of Total Pension Liability as of December 31, 2016:

Valuation Date	December 31, 2016
Actuarial Cost Method	The Aggregate Actuarial Cost Method
Amortization Method	N/A
Remaining Amortization Period	N/A
Asset Valuation Method	The actuarial value of assets has been set equal to the market value of assets.
Actuarial Assumptions Investment Rate of Return (Discount Rate)	6.00%, net of pension plan investment expense, including inflation.

Projected Salary Increases,
Including Inflation and
Merit Increases

Years of Service	Salary Growth Rate
1	17.00%
2	10.00%
3 - 10	5.25%
11 and Over	3.75%

Inflation	2.50%

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 set back 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.

Note 8. Pension Plan (Continued)

Actuarial Methods and Assumptions (Continued)

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 on 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 employees 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 is:

Beginning of Year	**ERSL (in Years)**
2016	4

Net Pension Liability and Expense

The components of the Net Pension Liability of the Plan as of December 31, 2016 and 2015, are as follows:

	2016	2015
Total Pension Liability	**$ 11,087,851**	$ 10,870,093
Plan Fiduciary Net Position	**10,626,848**	9,841,250
Net Pension Liability	**$ 461,003**	$ 1,028,843
Plan Fiduciary Net Position as a Total Percentage of the Total Pension Liability	**95.84%**	90.54%

Note 8. Pension Plan (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 Liability (Asset)	$ 1,798,665	$ 461,003	$ (659,964)

Note 9. 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.

Note 10. Commitments and Contingencies

Grant Commitments

Grant agreements under which the System receives federal financial assistance require the System to match 15% to 25% of dollars received. For the year ended December 31, 2016, 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, 2015.

Note 11. 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 its exposure to losses through a self insurance program. For a period of time, including the period January 1, 2004 through August 31, 2004, the System retained liability for the first $250,000 for general liability claims and workers' compensation claims. Excess general liability claims were commercially insured up to $750,000. Beginning September 1, 2004, the System canceled its commercial policy and, thus, became self-insured for all bodily injury and property damage tort claims, in addition to workers' compensation claims.

At December 31, 2016 and 2015, accrued claims liabilities of $2,030,953 and $1,979,403, respectively, were included in the Proprietary Fund's statements of net position, as follows:

	2016	2015
Current Portion	**$ 612,395**	$ 614,241
Long-Term Portion	**1,418,558**	1,365,162
Total	**$ 2,030,953**	$ 1,979,403

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, 2016 and 2015. In addition, the claims will not be paid until appropriated by the System. Changes in claims liability during the years ended December 31, 2016 and 2015, were as follows:

	2016	2015
Beginning of Year Liability	**$ 1,979,403**	$ 1,731,947
Current Year Claims and Changes in Estimates	**1,408,052**	1,193,126
Claim Payments	**(1,356,502)**	(945,670)
End of Year Liability	**$ 2,030,953**	$ 1,979,403

Note 12. Capital Lease Obligations

The System is the lessee of 28 Blue Bird transit buses under a lease agreement with First Security Leasing, Inc. 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.

Note 12. Capital Lease Obligations (Continued)

Changes in the capital lease liability during the years ended December 31, 2016 and 2015, were as follows:

	2016	2015
Beginning of Year Liability	$ 803,902	$ 1,569,641
Principal Payments	(803,902)	(765,739)
End of Year Liability	$ -	$ 803,902

Note 13. Note Payable

During the year ended December 31, 2011, the East Baton Rouge Mortgage Finance Authority awarded a grant of $500,000 which contained a provision that, should the System obtain a permanent method of financing, the grant would convert to a note payable. The ad valorem tax passed on April 21, 2012 meets this provision. During the years ended December 31, 2016 and 2015, the System paid $100,000 with one payment remaining in 2017.

Note 14. Concentrations

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

Note 15. Designation of Net Position

During the year ended December 31, 2013, the System's Board approved a resolution to designate $3,000,000 of net position to be held for a contingency. That amount is held in a separate bank account.

Note 16. Tax Abatements

Louisiana Economic Development provides incentives for economic development which include an industrial ad valorem tax exemption for up to ten years. During the year ended December 31, 2016, there were ninety-six tax abatements under the industrial tax exemption, including four new abatements in 2016. During the year ended December 31, 2016, total ad valorem taxes abated were $302,200.

REQUIRED SUPPLEMENTARY INFORMATION
UNDER GASB STATEMENT NO. 67

CAPITAL AREA TRANSIT SYSTEM **Schedule I**
Required Supplementary Information Under
GASB Statement No. 67
Schedule of Changes in Net Pension Liability
For the Years Ended December 31, 2016, 2015, and 2014

	2016	2015	2014
Total Pension Liability			
Service Cost	$ 609,044	$ 577,109	$ 444,547
Interest	661,807	684,863	638,511
Differences Between Expected and Actual Experience	(141,782)	(332,043)	255,430
Changes of Assumptions	-	414,840	-
Benefit Payments	(545,869)	(507,571)	(542,297)
Refunds of Member Contributions	(375,062)	(348,156)	(122,221)
Other	9,620	1,348	-
Net Change in Total Pension Liability	217,758	490,390	673,970
Total Pension Liability - Beginning	10,870,093	10,379,703	9,705,733
Total Pension Liability - Ending (a)	$ 11,087,851	$ 10,870,093	$ 10,379,703
Plan Fiduciary Net Position			
Contributions - Member	$ 589,279	$ 560,795	$ 448,920
Contributions - Employer	669,552	649,425	515,424
Net Investment Income	562,303	646,520	536,268
Difference Between Projected and Actual Earnings	-	(885,354)	-
Benefit Payments	(545,869)	(507,571)	(542,297)
Refunds of Member Contributions	(375,062)	(348,156)	(122,221)
Administrative Expenses	(114,605)	(102,373)	(104,336)
Other	9,620	1,348	-
Net Change in Plan Fiduciary Net Position	795,218	14,634	731,758
Plan Fiduciary Net Position - Beginning	9,831,630	9,816,996	9,085,238
Plan Fiduciary Net Position - Ending (b)	$ 10,626,848	$ 9,831,630	$ 9,816,996
Net Pension Liability Ending (a-b)	$ 461,003	$ 1,038,463	$ 562,707
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	95.84%	90.45%	94.58%
Covered-Employee Payroll	$ 8,369,400	$ 8,238,063	$ 6,442,800
Net Pension Liability as a Percentage of Covered-Employee Payroll	5.51%	12.61%	8.73%

See independent auditor's report.

CAPITAL AREA TRANSIT SYSTEM **Schedule II**

Required Supplementary Information Under
GASB Statement No. 67
Schedule of Contributions
For the Years Ended December 31, 2016, 2015, and 2014

	2016	2015	2014
Actuarially Determined Contribution (Determined as of the Prior Fiscal Year)	$ 373,275	$ 331,994	$ 324,152
Contributions in Relation to the Actuarially Determined Contribution	669,552	659,045	515,424
Contribution Deficiency (Excess)	$ (296,277)	$ (327,051)	$ (191,272)
Covered-Employee Payroll	$ 8,369,400	$ 8,238,063	$ 6,442,800
Contributions as a Percentage of Covered-Employee Payroll	8.00%	8.00%	8.00%

See independent auditor’s report.

CAPITAL AREA TRANSIT SYSTEM **Schedule III**
Required Supplementary Information Under
GASB Statement No. 67
Schedule of Investment Returns
For the Years Ended December 31, 2016, 2015, and 2014

	2016	2015	2014
Annual Money-Weighted Rate of Return, Net of Investment Expense	5.49%	-2.41%	5.67%

See independent auditor’s report.

The supplementary information presented in Schedules I, II, and III above was determined as part of the actuarial valuation at the date indicated. Additional information as of the latest actuarial valuation follows:

Valuation Date	December 31, 2016
Actuarial Cost Method	The Aggregate Actuarial Cost Method
Amortization Method	N/A
Remaining Amortization Period	N/A
Asset Valuation Method	The actuarial value of assets has been set equal to the market value of assets.
Actuarial Assumptions	
Investment Rate of Return (Discount Rate)	6.00%, net of pension plan investment expense, including inflation.
Projected Salary Increases, Including Inflation and Merit Increases	

Years of Service	**Salary Growth Rate**
1	17.00%
2	10.00%
3 - 10	5.25%
11 and Over	3.75%

Inflation	3.00%

See independent auditor's report.

Actuarial Assumptions (Continued)

Retirement Age	A participating employee is eligible to receive a normal retirement benefit on the first of the month after which he has attained age 62 and completed 10 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 55 and completed 15 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.
Mortality	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 set back 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.

OTHER SUPPLEMENTARY INFORMATION

CAPITAL AREA TRANSIT SYSTEM
Schedules of Compensation, Benefits, and Other Payments
to Agency Head
For the Year Ended December 31, 2016

Agency Head
Bob Mirabito, Chief Executive Officer (January 1, 2016 to May 7, 2016)

Purpose	Amount
Salary	$60,576
Payment of Remaining PTO upon Resignation	$66,298
Benefits - Insurance	$7,469
Benefits - Retirement	$5,361
Benefits - Cellphone	$294
Executive (Car) Allowance	$3,069
Vehicle Provided by Government	
Per Diem	
Reimbursements	
Travel	$703
Registration Fees	
Conference Travel	
Continuing Professional Education Fees	
Housing	
Unvouchered Expenses	
Special Meals	$43

See independent auditor’s report.

Agency Head
Bill Deville, Chief Executive Officer (May 8, 2016 to September 20, 2016 - Interim) (September 21, 2016 to December 31, 2016)

Purpose	**Amount**
Salary	$142,884
Benefits - Insurance	$10,585
Benefits - Retirement	
Benefits - Cellphone	$806
Executive (Car) Allowance	$3,877
Vehicle Provided by Government	
Per Diem	
Reimbursements	
Travel	$567
Registration Fees	
Conference Travel	
Continuing Professional Education Fees	
Housing	
Unvouchered Expenses	
Special Meals	$100

See independent auditor’s report.

LAPORTE
CPAs & BUSINESS ADVISORS

LaPorte, APAC
5100 Village Walk | Suite 300
Covington, LA 70433
985.892.5850 | Fax 985.892.5956
LaPorte.com

**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***

Independent Auditor's Report

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 accompanying financial statements of the business-type activities and the major fund of Capital Area Transit System (the System), a component unit of the City of Baton Rouge - Parish of East Baton Rouge, and the Capital Area Transit System Employees' Pension Trust Fund (a fiduciary fund of the System), as of and for the year ended December 31, 2016, 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 16, 2017.

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.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. We did identify certain deficiencies that we consider to be material weaknesses which are described in the accompanying schedule of findings and questioned costs as items 2016-001 and 2016-003.

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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings and questioned costs as items 2016-001 and 2016-002.

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 responses. 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. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

LaPorte

A Professional Accounting Corporation

Covington, LA
May 16, 2017

LaPorte, APAC
5100 Village Walk | Suite 300
Covington, LA 70433
985.892.5850 | Fax 985.892.5956
LaPorte.com

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

Independent Auditor's Report

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 Uniform Guidance that could have a direct and material effect on each of the System's major federal programs for the year ended December 31, 2016. The System's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

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

Auditor's 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, Capital Area Transit System complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2016.

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 2016-004.

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.

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. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

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 did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However we identified a deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2016-004 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.

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.

LaPorte

A Professional Accounting Corporation

Covington, LA
May 16, 2017

CAPITAL AREA TRANSIT SYSTEM
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2016

Federal Grantor/ Program Title	CFDA Number	Project Number	Expenditures (Repayments)
Federal Transportation Administration			
2007 - 2009 New Freedom	20.507	LA-57-4012	$ 19,511
2010 New Freedom	20.507	LA-57-4041	11,315
2008 - 2009 Job Access and Reverse Commute	20.507	LA-37-X029	79,168
2011 & 2012 Job Access and Reverse Commute	20.507	LA-37-4047	348,083
2013 Congestion Mitigation and Air Quality	20.507	LA-95-0003	432,628
2014 & 2015 Congestion Mitigation and Air Quality	20.507	LA-95-4009	1,849,076
2016 Congestion Mitigation and Air Quality	20.507	LA-95-4012	1,051,377
2009 Bus Rapid Transit	20.507	LA 04-0041	22,368
2015 Bus Rapid Transit	20.507	LA 04-0041	800,000
TAP Shelters	20.507	LA 90-5307	364,339
2013 Formula Grant	20.507	LA-90-0404	108,334
2014 Formula Grant	20.507	LA-90-8426	158,391
2015 Formula Grant	20.507	LA 90-0437	3,550,523
2016 Formula Grant	20.507	LA-90-0451	4,100,689
Total Expenditures of Federal Awards			$ 12,895,802

See accompanying notes to the schedule of expenditures of federal awards.

Note 1. General

The accompanying schedule of expenditures of federal awards presents the activity of the federal awards of Capital Area Transit System (the System). The System's reporting entity is defined in Note 1 to the financial statements for the year ended December 31, 2016. All federal awards received from federal agencies are included on the schedule.

Note 2. Basis of Accounting

The accompanying schedule of expenditures of federal awards is presented using the accrual basis of accounting, which is described in Note 1 to the System's financial statements.

Note 3. Reconciliation of Federal Awards to the Statement of Revenues, Expenses, and Changes in Net Position

The following is a reconciliation of federal awards to revenues as reported on the statement of revenues, expenses, and changes in net position:

Federal Operating Subsidy	$ 6,571,672
Planning and Technical Study Grants	198,598
Capital Contributions	6,184,485
Less Non-Federal Capital Contributions	(40,000)
Less Medicaid Reimbursements	(18,953)
Total Expenditures of Federal Awards	$ 12,895,802

Part I - Summary of Auditor's Results

Financial Statements

1.	Type of auditor's report issued:	Unmodified
2.	Internal control over financial reporting:	
	a. Material weaknesses identified?	Yes
	b. Significant deficiencies identified?	No
3.	Noncompliance material to the financial statements noted?	Yes

Federal Awards

1.	Internal control over major programs:	
	a. Material weaknesses identified?	No
	b. Significant deficiencies identified?	Yes
2.	Noncompliance material to the financial statements noted?	No
3.	Type of auditor's report issued on compliance for major programs:	Unmodified
4.	Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance:	Yes
5.	Identification of major programs:	

CFDA Number	Name of Federal Program or Cluster
20.507	Transit Formula Grants

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

Part II - Financial Statements Findings

2016-001 Theft 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: On December 5, 2016, a deposit bag containing $4,580 in cash receipts collected by customer service at the terminal went missing. On that date, employees at the System's administrative offices were counting five deposit bags which contained receipts collected over several weeks at the terminal. At the terminal, customer service employees sell bus fares to the public. The System's process for transit receipts is for the customer service employees to balance to the report printed from the point of sale system and place receipts in a deposit bag which is placed in a safe at the terminal. Deposit bags are then brought to the System's administrative office where multiple employees recount cash. Once the cashiers balance, a deposit slip is prepared. The System did not have written procedures for processing terminal receipts. Immediately upon discovery, the System's executive staff and legal counsel were notified. An internal investigation was initiated which included engaging a certified fraud examiner who performed an investigation on December 9, 2016. On December 9, 2016, the System's executive staff notified the East Baton Rouge District Attorney and the Louisiana Legislative Auditor in writing by certified mail.

Cause: Transit receipts had collected for several weeks prior to deposit. The System has procedures for the deposit of bus fares where receipts from fare boxes are counted in a vault which has cameras. After the cashiers (whose only job at the System is to count) balance, the deposit is placed in a safe. An armored car picks up the deposit daily and brings it to the bank. The transit receipts were not counted in the vault but were counted at the System's administrative offices.

Effect: Misappropriation of assets and violation of Louisiana Revised Statute 39:1212.

Recommendation: A written policy should be prepared for the collection and deposit of terminal receipts. To the extent possible, the policy for the collection and deposit of terminal receipts should be the System's existing policy for processing bus fares. We recommend that terminal receipts be picked up from the customer service safe by two System employees assigned on a random basis and brought to the vault on a timely basis. Terminal receipts should be placed into the vault in a secure manner to be determined by management. Terminal receipts should then be processed by cashiers who balance to the point of sale report included in the deposit bag. Bags should then be brought to the bank by armored car service.

Management's Response: Management has established written procedures, has instituted these procedures as recommended, and is now processing terminal receipts in the same manner that bus fares are processed. The external auditor observed on March 24, 2017 that terminal receipts were being counted in the vault room as recommended. Management will conduct periodic testing of the process and report results to the CEO and CFO and the procedures will be updated as needed.

2016-002 Possible Violation of Article 7 Section 14 of the Louisiana Constitution

Criteria: Article 7 Section 14 prohibits political subdivisions from making loans, pledges, or donations to any person or corporation.

Condition: A former employee received a travel advance of $1,000 in 2016 to attend an out of town conference. Although being asked to do so by accounting department personnel, the employee did not turn in receipts or remaining monies upon returning from the conference. A number of months later, the employee turned in receipts totaling $257 to the accounting department. The remaining balance of $743 was withheld from the employee's final paycheck in 2017.

Cause: Unknown.

Effect: Possible noncompliance with Article 7 Section 14 of the Louisiana Constitution.

Recommendation: We recommend that the System consider ending the practice of making travel advances and reimburse travel expenses based on receipts turned in to accounting personnel.

Management's Response: CATS has a procedure for providing a travel advance to employees attending out of town approved work-related business. Upon return, the employee provides all receipts for proper expenses and is to repay any of the advance either not used or where an expense was not proper or not properly documented prior to the next payroll or the amount due with be withheld from the employee's next payroll check. The prior policy did not have a procedure in place to ensure repayment of the advance or any portion of the advance. CATS has never not been reimbursed for any travel advance. Management will conduct quarterly testing of the process for review by the CFO and CAO.

2016-003 Testing of Payroll Disbursements and Paid Time Off (PTO)

Criteria: Proper controls over payroll and PTO require that personnel files be updated on a timely basis and PTO time is approved by supervisory personnel. U.S. Citizenship and Immigration Services requires employers to complete Form I-9 for new employees. Article 7 Section 14 prohibits political subdivisions from making loans, pledges, or donations to any employee.

Condition: We performed a test of 46 payroll disbursements. Of the 46 disbursements tested, we noted that (1) the pay rate for 18 employees was different from that in the personnel file. Upon further inquiry, we found that the System had instituted pay raises in 2016 and the documentation in the personnel file was not updated; (2) a Form I-9 could not be found for 5 employees hired within the last 3 years; (3) for 6 employees that took paid time off, we did not find a PTO approval form in the personnel file; (4) for 2 disbursements tested for the same administrative employee, timesheets could not be located. We also reviewed the PTO detail for all employees and identified 23 employees whose PTO balance had been allowed to go negative at certain times during 2016.

Cause: Unknown.

Effect: Ineffective internal controls over payroll, personnel files, and PTO, as well as possible noncompliance with Article 7 Section 14 of the Louisiana Constitution.

Recommendation: We recommend that the System adopt policies and procedures to ensure that internal controls are effective over payroll, personnel files, and PTO. We recommend that human resources and labor relations personnel review personnel files on a frequent basis to ensure that pay rate change forms are updated and that personnel files are reviewed frequently to ensure that I-9 documentation and PTO approval forms are received and placed in the personnel file.

We recommend that the responsibility for oversight and tracking of PTO balances be assigned to personnel in the finance department so that PTO balances can be monitored each payroll date to ensure that an employee has available PTO balance to take paid time off. The System instituted a policy in 2014 that allows employees to “sell” their earned PTO balances. We recommend that a threshold be added to that policy.

Management's Response: Management agrees with the findings and will conduct a comprehensive review of all weaknesses identified in the PTO audit report. The System will adopt policies and procedures to ensure that internal controls are effective over payroll, personnel, and PTO. These procedures will state the recommendation that human resources personnel review personnel files on a frequent basis in accordance with administrative policies as well as with current and renewed ATU union contracts to ensure that pay rate change forms are updated, that personnel files are reviewed frequently to ensure that I-9 documentation has been received and placed in the proper files, and that PTO approval forms are received and placed in the personnel file. These procedures will be completed by September 30, 2017. Management will track PTO balances after each payroll, conduct quarterly testing, and provide an exception listing to the CFO, CAO, and CEO.

Part III - Findings and Questioned Costs for Federal Awards

2016-004 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:

10. 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:

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

Management's Response: Management is continuing to work toward a solution of this finding.

2015-001 Financial Management Oversight Review (CFDA 20.507)

7. Preventive maintenance work is not being performed within the stated intervals.

Status: This finding has been resolved.

2015-002 Financial Management Oversight Review (CFDA 20.507)

10. Insurance coverage does not address rolling stock.

Status: This finding has not been resolved. See finding 2016-004.

2015-003 Wage Rate Reimbursement (CFDA 20.507)

Status: This finding has been resolved.