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CAPITAL AREA TRANSIT SYSTEM

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FINANCIAL REPORTS

DECEMBER 31, 2020

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Postlethwaite & Netterville

CAPITAL AREA TRANSIT SYSTEM

FINANCIAL STATEMENTS

DECEMBER 31, 2020

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Postlethwaite & Netterville

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A Professional Accounting Corporation

INDEPENDENT AUDITORS' REPORT

Board of Commissioners
Capital Area Transit System
Baton Rouge, Louisiana

Report on Financial Statements

We have audited the accompanying financial statements of the business-type activity and the aggregate remaining fund information (the fiduciary fund) of the Capital Area Transit System (the System), a component unit of the City of Baton Rouge - Parish of East Baton Rouge, as of and for the years ended December 31, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the System's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We did not audit the financial statements of the pension trust fund of the System as of and for the years ended December 31, 2020 and 2019, which is 100% of the aggregate remaining fund information. Those statements were audited by another auditor whose report has been furnished to us, and our opinion, insofar as it relates to the amounts reported in the fiduciary fund as of and for the years ended December 31, 2020 and 2019, is based solely on the report of the other auditor. 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.

Opinion

In our opinion based on our audit and the report of another auditor, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activity and the aggregate remaining fund information (the fiduciary fund) of the Capital Area Transit System as of December 31, 2020 and 2019, 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 on pages 4 – 8, the schedule of changes in total pension liability and related ratios on page 42 - 43, the schedule of contributions on page 44, and the schedule of investment returns on page 45 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 and another auditor 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 obtained during the audit of the basic financial statements. We, nor the other auditor, express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Capital Area Transit System's basic financial statements. The schedule of expenditures of federal awards on page 52 is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of compensation, benefits, and other payments to agency head on page 46, as required by Louisiana Revised Statute (LRS) 24:513A, is also presented for purposes of additional analysis and is not a required part of the basic financial statements.

The schedule of expenditures of federal awards and the schedule of compensation, benefits, and other payments to agency head are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, based on our audit the procedures performed as described above, the schedule of expenditures of federal awards and the schedule of compensation, benefits, and other payments to agency head are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 25, 2021, on our consideration of Capital Area Transit System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control over financial reporting and compliance.

Postlethwaite & Netterville

June 25, 2021
Baton Rouge, Louisiana

CAPITAL AREA TRANSIT SYSTEM

MANAGEMENT DISCUSSION AND ANALYSIS

DECEMBER 31, 2020 AND 2019

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

Financial Highlights

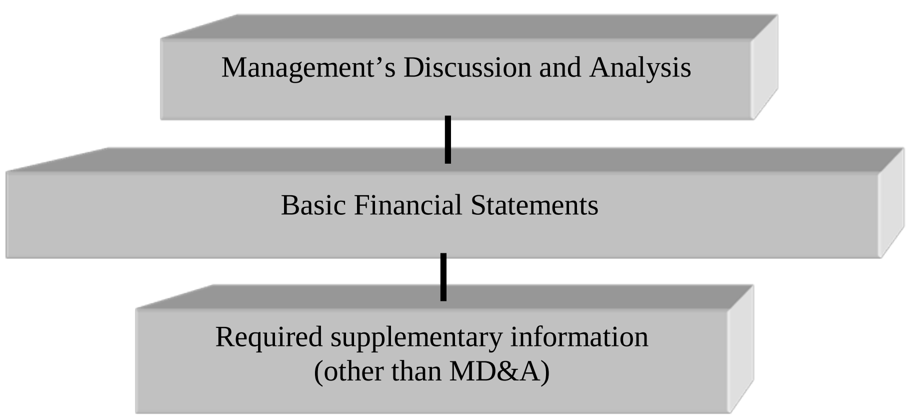
The System's net position was $43,603,627, as of December 31, 2020, representing an increase of approximately $10,140,000, or 30%, from that of December 31, 2019. The significant increase, as noted below, resulted from an increase in the System’s federal operating subsidy under the CARES Act to respond to and recover from the COVID-19 pandemic. The net position at December 31, 2019 was approximately $33,465,900 which was an increase of approximately $1,490,000, or approximately 5%, from December 31, 2018. A substantial portion of the net position is invested in capital assets representing approximately 40% and 58% of total net position for the years ended December 31, 2020 and 2019, respectively.

Federal operating subsidy revenue was $17,651,475, $7,678,196 and $3,175,696 for 2020, 2019 and 2018, respectively.

Gain (loss) before capital contributions was $9,170,773, ($1,344,109) and ($5,627,648) for 2020, 2019 and 2018, respectively.

Overview of the Financial Statements

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



The financial statements provide both long-term and short-term information about the System's overall financial status. The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements required by Governmental Accounting Standards Board (GASB). The System maintains two different funds: a proprietary fund (a business-type activity) 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 Codification Section 2100.

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

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

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

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

Basic Financial Statements

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

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

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

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

Financial Analysis of the System

The table below summarizes the System's net position as of December 31, 2020, 2019 and 2018:

Condensed Statements of Net Position
as of December 31, 2020, 2019 and 2018

	2020	2019	2018
Assets			
Current and other assets	$ 29,789,116	$ 19,512,034	$ 23,459,966
Capital assets	19,567,834	22,127,639	21,326,648
Net pension asset	4,169,876	2,536,264	606,171
Total assets	53,526,826	44,175,937	45,392,785
Deferred outflows - pension related	676,430	496,897	697,096
Liabilities			
Current liabilities	1,788,865	2,763,224	6,371,100
Non-current liabilities			
Due within one year	2,365,654	2,411,488	1,861,361
Due in more than one year	4,194,222	4,565,598	5,613,518
Total liabilities	8,348,741	9,740,310	13,845,979
Deferred inflows - pension related	2,250,888	1,466,624	267,335
Net position			
Net investment in capital assets	17,373,852	19,338,656	17,956,232
Restricted for pension asset	4,169,876	2,536,264	606,171
Unrestricted	22,059,899	11,590,980	13,414,164
Total net position	$ 43,603,627	$ 33,465,900	$ 31,976,567

The System's total net position increased from $31,976,567 at December 31, 2018 to $33,465,900 at December 31, 2019 and to $43,603,627 at December 31, 2020.

The fluctuations in net position between 2018/2019 are primarily the result of fluctuations in the timing of grant revenues associated with when supporting grants are approved and the changes in the actuarial valuation with respect to the defined benefit plan. The fluctuation in net position between 2019/2020 is primarily a result of the increased federal operating subsidy received through the CARES Act in 2020 as a result of the COVID-19 pandemic. Additionally, the System's primary revenue is a 10.6 millage ad valorem tax passed on April 21, 2012. Approximately 40%, 58% and 56% of the System’s net position as of December 31, 2020, 2019 and 2018, respectively, reflects investment in capital assets less any outstanding debt used to acquire those assets (primarily transportation vehicles). The System uses these assets to provide services to the public, consequently these assets are not available for future spending. Although the System’s investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The table below summarizes the changes in net position as of December 31, 2020, 2019 and 2018:

Condensed Statements of Changes in Net Position
for the years ended December 31, 2020, 2019 and 2018

	2020	2019	2018
OPERATING REVENUE			
Charges for services	$ 497,405	$ 1,940,527	$ 2,171,492
Advertising revenue	490,874	461,633	637,153
Total operating revenue	988,279	2,402,160	2,808,645
DIRECT OPERATING EXPENSES			
Operating expenses	27,927,853	29,834,833	29,136,981
Depreciation	3,109,705	2,973,663	2,749,810
Total direct operating expenses	31,037,558	32,808,496	31,886,791
LOSS FROM OPERATIONS	(30,049,279)	(30,406,336)	(29,078,146)
NON-OPERATING REVENUES (EXPENSES)			
Interest and other expenses	(61,273)	(107,709)	(124,979)
Interest and other income	275,042	426,414	267,626
Hotel/motel tax	1,045,028	1,361,266	1,269,725
Ad valorem tax revenue	19,718,365	18,836,541	18,184,331
Government operating grants:			
Federal operating subsidy	17,651,475	7,678,196	3,175,696
Planning and technical study grants	41,415	317,519	128,099
Transfers from Primary Government	550,000	550,000	550,000
	39,220,052	29,062,227	23,450,498
GAIN (LOSS) BEFORE CAPITAL CONTRIBUTIONS	9,170,773	(1,344,109)	(5,627,648)
CAPITAL CONTRIBUTIONS	966,954	2,833,442	3,101,429
INCOME (LOSS) AFTER CAPITAL CONTRIBUTIONS	10,137,727	1,489,333	(2,526,219)
NET POSITION, BEGINNING OF YEAR	33,465,900	31,976,567	34,502,786
NET POSITION, END OF YEAR	$ 43,603,627	$ 33,465,900	$ 31,976,567

The System's operating revenues decreased approximately $1,414,000 or 59% between 2019 and 2020. This was attributable to the COVID-19 pandemic which resulted in a reduction in ridership and fares not being charged for a significant portion of the year. Operating revenues between 2018 and 2019 decreased approximately $406,000 or 14%. This was attributable to a reduction in ridership numbers and advertising revenue.

Direct operating expenses decreased approximately $1,771,000, or approximately 5.4%, from $32,808,496 to $31,037,558 between 2019 and 2020. One of the key factors in this decrease is attributable to less transportation costs related to the COVID-19 pandemic and lower pension costs as a result of changes in actuarial assumptions related to the net pension asset. Direct operating expenses increased approximately $922,000 or approximately 3%, from $31,886,791 to $32,808,496 between 2018 and 2019. This change is primarily attributable an increase in fuel costs.

Non-operating grant revenue increased by approximately $9.7 million, or 121%, from $7,995,715 to $17,692,890 between 2019 and 2020. This is primarily due to the increased federal operating subsidy received through the CARES Act in 2020 as a result of the COVID-19 pandemic. Non-operating grant revenue increased by approximately $4.7 million, or 142%, from $3,303,795 to $7,995,715 between 2018 and 2019. This increase is primarily attributable to the extensive updates to existing buses.

Capital Asset and Debt Administration

The System's capital assets, net of accumulated depreciation, totaled $19,567,834, $22,127,639 and $21,326,648 as of December 31, 2020, 2019 and 2018, respectively. Capital assets include structures, bus shelters, buses and equipment. Capital asset additions were $549,900, or approximately 5.5% of the book value of all capital assets in 2020 and $3,774,345 or approximately 17% of the book value of all capital assets in 2019. Additions in 2020 primarily resulted from the purchase of four buses and five vehicles. Additions in 2019 were primarily related to the purchase of three electric busses and construction costs associated with a new transit facility of approximately $535,000.

At the end of the calendar year 2020, the System had a capital lease payable outstanding of $2,193,982, compared to $2,788,983 as of December 31, 2019. This decrease reflects principal payments on the lease payable that were made according to the repayment schedule. No new debt was issued during 2020. Long-term debt also includes the System's self-insurance claims payable of $3,515,242, $3,436,991, and $3,680,023 at December 31, 2020, 2019 and 2018, respectively. Claims payable fluctuate as a result of timing of the reporting of claims and the number and dollar amount of claims outstanding.

Financial Outlook

On April 21, 2012, the voters of the municipalities of Baton Rouge and Baker approved a 10.6 mill ad valorem tax. This tax is to be levied for a period of ten years that began in 2013. Estimated net taxes to be collected for 2021 are $17.6 million. Taxes to be collected will be net of the collection fee of 4.5% and required contributions to state pension plans. This tax is set to expire in 2023. The System has approved a proposition, to be approved by the State Bond Commission, to place this tax renewal on the voter's ballot on October 9, 2021. This dedicated revenue source provides budgetary stability to the System and serves as a primary source of revenues to support operations and provide the local matching funds as required under the Federal grant terms without the approval of the voters this would have a significant impact on the System and the services it provides.

Contacting the System's Management

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

BASIC FINANCIAL STATEMENTS

CAPITAL AREA TRANSIT SYSTEM
BATON ROUGE, LOUISIANA

STATEMENTS OF NET POSITION
DECEMBER 31, 2020 AND 2019

	2020	2019
CURRENT ASSETS		
Cash and cash equivalents	$ 10,019,768	$ 430,164
Accounts receivable, net	316,182	157,479
Ad valorem tax receivable, net	18,684,894	17,800,313
Due from other governments	99,865	612,515
Prepaid expenses	131,898	97,555
Inventory	536,509	414,008
Total current assets	29,789,116	19,512,034
NON-CURRENT ASSETS		
Capital assets, net of accumulated depreciation	19,567,834	22,127,639
Net pension asset	4,169,876	2,536,264
Total non-current assets	23,737,710	24,663,903
Total assets	53,526,826	44,175,937
DEFERRED OUTFLOWS OF RESOURCES - Pension related	676,430	496,897
Total assets and deferred outflows of resources	$ 54,203,256	$ 44,672,834

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

	2020	2019
CURRENT LIABILITIES		
Accounts payable and accrued expenses	$ 1,788,865	$ 2,763,224
Accrued compensated absences	850,652	751,112
Claims payable and related liabilities	906,118	1,065,376
Capital lease payable	608,884	595,000
Total current liabilities	4,154,519	5,174,712
NON-CURRENT LIABILITIES		
Claims payable and related liabilities, less current portion	2,609,124	2,371,615
Capital lease payable, less current portion	1,585,098	2,193,983
Total non-current liabilities	4,194,222	4,565,598
Total liabilities	8,348,741	9,740,310
DEFERRED INFLOWS OF RESOURCES - Pension related	2,250,888	1,466,624
NET POSITION		
Net investment in capital assets	17,373,852	19,338,656
Restricted for pension obligations	4,169,876	2,536,264
Unrestricted	22,059,899	11,590,980
Total net position	43,603,627	33,465,900
Total liabilities, deferred inflows of resources and net position	$ 54,203,256	$ 44,672,834

CAPITAL AREA TRANSIT SYSTEM
BATON ROUGE, LOUISIANA

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

	2020	2019
OPERATING REVENUE		
Charges for services	$ 497,405	$ 1,940,527
Advertising revenue	490,874	461,633
Total operating revenue	988,279	2,402,160
DIRECT OPERATING EXPENSES		
Personnel services and fringe benefits	17,095,059	18,141,534
Retirement contributions to other plans	568,145	548,928
Supplies, fuel and other bus related expenses	5,308,790	6,473,849
Contractual services and liability costs	4,801,485	4,480,212
Depreciation	3,109,705	2,973,663
Miscellaneous	154,374	190,310
Total direct operating expenses	31,037,558	32,808,496
LOSS FROM OPERATIONS	(30,049,279)	(30,406,336)
NON-OPERATING REVENUES (EXPENSES)		
Interest expense	(61,273)	(107,709)
Interest income	55,480	138,328
Other revenue	219,562	288,086
Hotel/motel tax	1,045,028	1,361,266
Ad valorem tax revenue	19,718,365	18,836,541
Government operating grants:		
Federal operating subsidy	17,651,475	7,678,196
Planning and technical study grants	41,415	317,519
Operating transfers from primary government	550,000	550,000
Total non-operating revenues (expenses)	39,220,052	29,062,227
GAIN (LOSS) BEFORE CAPITAL CONTRIBUTIONS	9,170,773	(1,344,109)
CAPITAL CONTRIBUTIONS	966,954	2,833,442
INCOME AFTER CAPITAL CONTRIBUTIONS	10,137,727	1,489,333
NET POSITION, BEGINNING OF YEAR	33,465,900	31,976,567
NET POSITION, END OF YEAR	$ 43,603,627	$ 33,465,900

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

CAPITAL AREA TRANSIT SYSTEM
BATON ROUGE, LOUISIANA

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	$ 337,552	$ 2,181,478
Receipts from other sources	490,874	461,633
Payments to suppliers and others	(11,316,451)	(14,805,389)
Payments for employees and payroll taxing agencies	(18,024,400)	(18,345,467)
Net cash used in operating activities	(28,512,425)	(30,507,745)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Operating subsidies received from other governments	18,205,388	11,649,105
Ad valorem taxes	18,265,639	17,788,102
Hotel/motel tax	1,045,028	1,361,266
Other revenue	219,562	288,086
Operating transfers from primary government	550,000	550,000
Net cash provided by non-capital financing activities	38,285,617	31,636,559
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital contributions received	966,954	2,833,442
Payments on capital leases	(595,001)	(581,433)
Acquisition of capital assets	(549,748)	(3,774,345)
Interest paid on capital debt	(61,273)	(107,709)
Net cash used in capital and related financing activities	(239,068)	(1,630,045)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	55,480	138,328
Net cash provided by investing activities	55,480	138,328
NET CHANGE IN CASH AND CASH EQUIVALENTS	9,589,604	(362,903)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	430,164	793,067
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 10,019,768	$ 430,164

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

CAPITAL AREA TRANSIT SYSTEM
BATON ROUGE, LOUISIANA

STATEMENTS OF CASH FLOWS
FOR THE YEAS ENDED DECEMBER 31, 2020 AND 2019

	2020	2019
RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES		
Loss from operations	$ (30,049,279)	$ (30,406,336)
Adjustments to reconcile net operating loss to net cash used in operating activities		
Depreciation	3,109,705	2,973,663
Bad debt expense	1,150	190,310
Retirement contributions to other plans	568,145	548,928
Change in accounts receivable	(159,853)	240,951
Change in prepaid expenses	(34,343)	7,786
Change in inventory	(122,501)	(8,206)
Change in net pension asset	(1,633,612)	(1,930,093)
Change in deferred outflows	(179,533)	200,199
Change in deferred inflows	784,264	1,199,289
Change in accounts payable and accrued expenses	(874,819)	(3,281,204)
Change in provision for claims liability	78,251	(243,032)
Net cash used in operating activities	$ (28,512,425)	$ (30,507,745)

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

CAPITAL AREA TRANSIT SYSTEM
BATON ROUGE, LOUISIANA

STATEMENTS OF FIDUCIARY NET POSITION
PENSION TRUST FUND
DECEMBER 31, 2020 AND 2019

A S S E T S

	2020	2019
Cash and cash equivalents	$ 650,917	$ 1,106,295
Contributions receivable	58,374	59,419
Investments:		
Equities	15,712,806	12,897,127
Fixed income	930,658	882,299
Annuities	1,084,023	953,511
Total assets	18,436,778	15,898,651

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Total liabilities	-	-
Net position	$ 18,436,778	$ 15,898,651

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

CAPITAL AREA TRANSIT SYSTEM
BATON ROUGE, LOUISIANA

STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION
PENSION TRUST FUND
DECEMBER 31, 2020 AND 2019

	2020	2019
ADDITIONS		
Contributions:		
Employer contributions	$ 726,785	$ 719,883
Employee contributions	639,979	636,414
Total contributions	1,366,764	1,356,297
Investment income:		
Interest and dividend income	209,829	239,424
Class action settlements	3,603	80
Net change in fair value	2,101,092	2,929,326
	2,314,524	3,168,830
Less: investment expense	(170,700)	(154,558)
Net investment income (loss)	2,143,824	3,014,272
Total additions	3,510,588	4,370,569
DEDUCTIONS		
Benefits paid to participants, including refunds of member contributions	830,563	859,896
Administrative expenses	141,898	150,386
Total deductions	972,461	1,010,282
CHANGE IN NET POSITION	2,538,127	3,360,287
NET POSITION, BEGINNING OF YEAR	15,898,651	12,538,364
NET POSITION, END OF YEAR	$ 18,436,778	$ 15,898,651

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

1. Summary of Significant Accounting Policies

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

Financial Reporting Entity

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

1. Legal status of the potential component unit
2. Financial accountability:
    a) The primary government appoints a voting majority of the organization's governing body and (1) it is able to impose its will on that organization or (2) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government.
    b) The primary government is financially accountable if an organization is fiscally dependent on and there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government regardless of whether the organization has (1) a separately elected governing board, (2) a governing board appointed by a higher level of government, or (3) a jointly appointed board.
    c) The primary government is financially accountable for a legally separate organization if the primary government’s holding of a majority equity interest in that organization does not meet the definition of an investment.
3. Misleading to exclude: Paragraph 111 of Section 2100 covers other potential component units for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity’s financial statements to be misleading.

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

Based on the previous criteria, the System's management has included the Capital Area Transit System Employees' Pension Trust Fund as a blended component unit within the financial statements of the System. The Capital Area Transit System Employees' Pension Trust Fund (the Plan) exists for the benefit of current and former System employees who are members of the Plan. The Plan is governed by an equal number of Employer Trustees and Union Trustees. Currently, the Plan is governed by a four-member board composed of two members representing the Employer Trustees and two members elected as Union Trustees. The Plan is funded by the investment of the contributions from the System and member employees who are obligated to make contributions to the Plan. The Plan issued a separate audit reports for the years ended December 31, 2020 and 2019 which can be obtained at the following address: Mr. John Cutrone, Comptroller, Capital Area Transit System, 350 N. Donmoor Ave., Baton Rouge, LA 70806.

1. Summary of Significant Accounting Policies (continued)

Basis of Presentation and Accounting

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

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

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

Proprietary Fund

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

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

Fiduciary Fund

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

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

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

Cash and Investments

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

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

Inventories

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

Capital Assets

Capital Assets are recorded at historical cost. The System maintains a $5,000 threshold for capitalizing assets. Depreciation is charged to expense over the estimated useful lives of the assets and is determined using the straight-line method. Expenditures for maintenance and repairs which do not materially extend the useful life of the asset are charged to expense as incurred. Useful lives for equipment used in computing depreciation range from 3 years to 15 years. Useful lives for facilities and structures used in computing depreciation range from 5 years to 10 years.

Federal Grants and Dedicated Taxes

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

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

1. Summary of Significant Accounting Policies (continued)

Compensated Absences

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

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

Administrative employees are not limited to a maximum number of hours for accrual of leave time.

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

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

Any unused paid time off not taken by December 31st is not carried over. The balance at year end for union employees must be paid to the employee by April 1st of the following calendar year and is included in the compensated absence liability.

Estimates

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

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

Pensions

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

Net Position

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

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

Deferred Outflows/Inflows of Resources

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

Receivables

Uncollectible amounts due for customer receivables are recognized as bad debts through the establishment of an allowance account at the time information becomes available which would indicate the inability to collect the particular receivable. Management has determined that all amounts are collectible at December 31, 2020 and 2019.

Newly Adopted Accounting Standards

The System adopted Governmental Accounting Standards Board (GASB) Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance* for the fiscal year 2019 reporting. Statement No. 95 provides temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. This Statement extends the effective dates of certain accounting and financing reporting provisions in Statements and Implementation Guides that were first effective for reporting periods beginning after June 15, 2018, and later.

1. Summary of Significant Accounting Policies (continued)

Newly Adopted Accounting Standards (continued)

GASB Statement No. 84, *Fiduciary Activities*, establishes improved guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and establishes criteria for identifying fiduciary activities of all state and local governments. GASB Statement No. 84 did not have a significant impact on the System.

2. Ad Valorem Taxes

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

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

The 2020 property tax calendar is as follows:

Levy date:	September 22, 2020
Millage rates adopted:	September 22, 2020
Tax bills mailed:	November 15, 2020
Due date:	December 31, 2020
Lien date:	September 2021

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

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

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

Ad valorem tax receivable is recorded net of estimated uncollectible amounts and collection fees. The allowance for uncollectible accounts was $203,736 and $493,259 at December 31, 2020 and 2019, respectively. Collection fees were $916,811 and $887,866 for 2020 and 2019, respectively.

2. Ad Valorem Taxes (continued)

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

The System is subject to certain property tax abatements granted by the Louisiana State Board of Commerce and Industry (the "State Board"), a state entity governed by board members representing major economic groups and gubernatorial appointees. Abatements to which the government may be subject include those issued for property taxes under the Industrial Tax Exemption Program ("ITEP") and the Restoration Tax Abatement Program ("RTAP"). For the years ending December 31, 2020 and 2019, CATS participated in the ITEP and RTAP.

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

Taxes abated under ITEP for the years ended December 31, 2020 and 2019 were approximately $205,000 and $243,000, respectively. There were no significant abatements under the RTAP program for the years ended December 31, 2020 and 2019.

3. Cash, Cash Equivalents, and Investments

At December 31, 2020 and 2019, the System's cash bank balances consist of deposits in financial institutions as follows:

	Proprietary Enterprise Fund	Fiduciary Pension Trust Fund	Total
December 31, 2020			
Cash on hand in banks	$ 10,356,395	$ -	$ 10,356,395
Money market accounts	-	650,917	650,917
Total cash and cash equivalents	$ 10,356,395	$ 650,917	$ 11,007,312
December 31, 2019			
Cash on hand and in banks	$ 593,887	$ -	$ 593,887
Money market accounts	-	1,106,295	1,106,295
Total cash and cash equivalents	$ 593,887	$ 1,106,295	$ 1,700,182

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

Deposits in financial institutions can be exposed to custodial credit risk. Custodial credit risk for deposits is the risk that in the event of financial institution failure, the System's deposits may not be returned. To guard against this risk, under state law, deposits must be secured by federal deposit insurance or the pledge of securities owned by the fiscal agent bank. The market value of the pledged securities plus the federal deposit insurance must at all times equal or exceed the amount on deposit with the fiscal agent. The System had no custodial credit risk as of December 31, 2020 or 2019.

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

The System is authorized by LRS 39:1211-1245 and 33:2955 to invest temporarily idle monies in various risk-averse instruments including U.S. Government direct and agency obligations, certificates of deposit of qualified financial institutions, certain debt mutual funds, the Louisiana Asset Management Pool (LAMP) and other investments. The proprietary fund of the System had no investments as of December 31, 2020 and 2019.

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

Investments

As of December 31, 2020 and 2019, assets classified as investments existed only in the Pension Trust Fund (the Trust). As of December 31, 2020 and 2019, the maturities of the Pension Trust Fund's investments in debt securities were as follows:

		Investment Maturities (in Years)			
	Fair Value	Less than 1	1 - 5	6 - 10	More than 10
December 31, 2020					
U.S. treasury and agency bonds	$ 539,037	$ 87,946	$ 376,327	$ 74,764	$ -
Corporate bonds	391,621	-	204,813	186,808	-
Total	$ 930,658	$ 87,946	$ 581,140	$ 261,572	$ -

		Investment Maturities (in Years)			
	Fair Value	Less than 1	1 - 5	6 - 10	More than 10
December 31, 2019					
U.S. treasury and agency bonds	$ 533,001	$ 29,979	$ 428,215	$ 74,807	$ -
Corporate bonds	349,298	22,150	198,282	128,866	-
Total	$ 882,299	$ 52,129	$ 626,497	$ 203,673	$ -

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.

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

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, 2020 and 2019, the Pension Trust Fund held no commercial paper investments. The Pension Trust Fund's investments in domestic corporate bonds as of December 31, 2020 and 2019 varied between ratings of A and AAA, consistent with the investment policy. The Pension Trust Fund's investments in U.S. Agencies all carry the explicit guarantee of the U.S. government.

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

Custodial Credit Risk - Investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the Pension Trust Fund will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Investments are exposed to custodial credit risk if the securities are uninsured and unregistered and are either held by the counterparty, or by the counterparty's trust department or agent, but not in the Pension Trust Fund's name. At December 31, 2020 and 2019, 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.

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

The categorization of investments within the hierarchy is based upon the pricing transparency of the instrument and should not be perceived as the particular investment's risk. The following table sets forth by level, within the fair value hierarchy, the System's assets at fair value as of December 31, 2020:

		Fair Value Measurements Using:		
	December 31, 2020	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	$ 539,037	$ 539,037	$ -	$ -
Corporate bonds	391,621	391,621	-	-
Equity securities				
Corporate stocks	13,693,515	13,693,515	-	-
Alternative investments				
Annuities	1,084,023	-	-	1,084,023
Total investments by fair value level	15,708,196	$ 14,624,173	$ -	$1,084,023
Investments measured at NAV:				
Corporate equity mutual fund	2,019,291			
Total investments at fair value	$ 17,727,487			

3. Cash, Cash Equivalents, and 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, 2019:

		Fair Value Measurements Using:		
	December 31, 2019	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	$ 533,001	$ 533,001	$ -	$ -
Corporate bonds	349,298	349,298	-	-
Equity securities				
Corporate stocks	11,379,702	11,379,702	-	-
Alternative investments				
Annuities	953,511	-	-	953,511
Total investments by fair value level	13,215,512	$ 12,262,001	$ -	$ 953,511
Investments measured at NAV:				
Corporate equity mutual fund	1,517,425			
Total investments at fair value	$ 14,732,937			

The redemption terms for investments measured at net asset value (NAV) per share as of December 31, 2020 and 2019 are as follows:

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

4. Due from Other Governments and Accounts Receivable

Amounts due from other governments were $99,865 and $612,515 at December 31, 2020 and 2019, respectively. These amounts represent balances due from the Federal Transit Administration.

Accounts receivable primarily represent balances due from advertising. The balances were $316,182 and $157,479 at December 31, 2020 and 2019.

5. Capital Assets

A summary of changes in capital assets follows:

	December 31, 2020			
	Beginning of Year	Additions	Deletions/ Transfers	End of Year
Construction in progress	$ 534,630	$ 124,831	$ (534,630)	$ 124,831
Equipment				
(primarily transportation vehicles)	39,275,780	959,699	-	40,235,479
Accumulated depreciation	(17,682,771)	(3,109,705)	-	(20,792,476)
Total	$ 22,127,639	$ (2,025,175)	$ (534,630)	$ 19,567,834

	December 31, 2019			
	Beginning of Year	Additions	Deletions/ Transfers	End of Year
Construction in progress	$ -	$ 534,630	$ -	$ 534,630
Equipment				
(primarily transportation vehicles)	36,036,065	3,239,715	-	39,275,780
Accumulated depreciation	(14,709,417)	(2,973,354)	-	(17,682,771)
Total	$ 21,326,648	$ 800,991	$ -	$ 22,127,639

Depreciation expense for the years ended December 31, 2020 and 2019, totaled $3,109,705 and $2,973,663, respectively. The City-Parish owns the terminal, administrative office building, and related land which are used by the System for its operations. The City-Parish provides these facilities and land to the System at no charge through an operating agreement.

6. Accounts Payable and Accrued Expenses

The accounts payable and accrued expenses at December 31, 2020 and 2019, were as follows:

	2020	2019
Vendors	$ 1,318,630	$ 2,397,918
Accrued salaries and benefits	470,235	365,306
Total	$ 1,788,865	$ 2,763,224

7. Pension Plan

Plan Description

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

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

As of December 31, 2020 and 2019, pension plan membership consisted of the following:

	2020	2019
Inactive plan members or beneficiaries currently receiving benefits	78	76
Inactive plan members entitled to but not yet receiving benefits	148	138
Active plan members	193	200
Total	419	414

Benefits Provided - A participating employee is eligible to receive a normal retirement benefit on the first of the month after which he has attained age sixty-two and completed ten years of service. On January 1, 2019, the Plan was amended to change the normal retirement eligibility criteria to the first of the month after which the employee has attained age sixty-two and completed seven years of service. The monthly retirement benefit payable to an employee is equal to 1.2% of the member's average final compensation for each year of creditable service through January 31, 1991; and 1.4% of the member's average final compensation for each year of creditable service thereafter. The annual retirement benefit may not exceed the lesser of $75,000 or 100% of the average final compensation.

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

7. Pension Plan (continued)

Plan Description (continued)

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

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

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

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

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

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

Contributions - According to the Plan Document, all contributions required to fund the Plan, on a sound actuarial basis, will be made by the Employer and each Participating Employee as determined under the Collective Bargaining Agreement. All benefits will be provided from the Plan, and will be attributable to employer and employee contributions. Contributions are expressed as a percentage of covered payroll. The contribution rates in effect for the year ended December 31, 2020 and 2019 were 8% for the System and 7% for covered employees, respectively. The employer contributions for the years ended December 31, 2020, 2019 and 2018 were $726,785, $719,883, and $720,360, respectively.

7. Pension Plan (continued)

Deferred Retirement Option Program

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

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

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

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

The System has no participants in DROP as of December 31, 2020 and 2019.

7. Pension Plan (continued)

Investments

Investment Policy - The Plan's policy in regard to the allocation of invested assets is established and may be amended by the Plan's Board by a majority vote of its members. It is the policy of the Plan's Board to pursue an investment strategy that reduces risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The Plan's investment policy discourages the use of cash equivalents, except for liquidity purposes, and aims to refrain from dramatically shifting asset class allocations over short time spans. The following was the Board's adopted asset allocation policy as of December 31, 2020 and 2019:

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

Rate of Return - For the year ended December 31, 2020 and 2019, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 12.5 and 21.20 percent respectively. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Net Pension Asset and Pension Expense

The components of the Net Pension Asset of the Plan as of December 31, 2020 and 2019, are as follows:

	2020	2019
Total pension liability	$ (14,266,902)	$ (13,362,387)
Plan fiduciary net position	18,436,778	15,898,651
Net pension asset	$ 4,169,876	$ 2,536,264
Plan fiduciary net position as a total percentage of the total pension liability	-129.23%	-118.98%

For the years ended December 31, 2020 and 2019, the Pension (income) expense for the System is ($259,764) and $189,280, respectively.

7. Pension Plan (continued)

Net Pension Liability and Expense (continued)

The following table presents the changes in net pension liability measured as of the years ended December 31st:

	2020	2019
Total pension liability:		
Service Cost	$ 763,995	$ 709,832
Interest	788,722	733,100
Changes in benefit terms	-	101,812
Differences between expected and actual experience	(459,611)	268,488
Changes in assumptions	641,972	476,858
Benefit payments	(569,144)	(576,499)
Refunds of member contributions	(209,670)	(254,732)
Other	(51,749)	(28,665)
Net change in total pension liability	904,515	1,430,194
Total pension liability - beginning	13,362,387	11,932,193
Total pension liability - ending	$ 14,266,902	$ 13,362,387
Plan fiduciary net position:		
Contributions - employer	$ 639,979	$ 636,414
Contributions - employee	726,785	719,883
Net investment income	2,143,824	3,014,272
Benefit payments	(569,144)	(576,499)
Refunds of member contributions	(209,670)	(254,732)
Administrative expenses	(141,898)	(150,386)
Other	(51,749)	(28,665)
Net change in fiduciary net position	2,538,127	3,360,287
Plan fiduciary net position - beginning	15,898,651	12,538,364
Plan fiduciary net position - ending	$ 18,436,778	$ 15,898,651
Net pension asset	$ 4,169,876	$ 2,536,264

7. Pension Plan (continued)

Actuarial Methods and Assumptions

The Total Pension Liability is based on the Individual Entry Age Normal actuarial cost method as described in Statement No. 67 of the Governmental Accounting Standards Board (GASB). Calculations made as of December 31, 2020 and 2019 were based on December 31, 2020 and 2019 data, respectfully. The 2019 actuarial assumptions utilized are based on the assumptions used in the December 31, 2019 actuarial funding valuation which (with the exception of mortality) were based on the results of an actuarial experience study covering the period January 1, 2010 through December 31, 2014, unless otherwise specified. The current year actuarial assumptions utilized are based on the assumptions used in the December 31, 2020 actuarial funding valuation which (with the exception of mortality) were based on the results of an actuarial experience study covering the period January 1, 2015 through December 31, 2019, unless otherwise specified.

The total pension liability was determined by an actuarial valuation as of December 31, 2020 and 2019, using the following actuarial assumptions, applied to all periods included in the measurement:

	December 31, 2020		December 31, 2019	
Actuarial cost method	The Individual Entry Age Normal		The Individual Entry Age Normal	
Asset valuation method	The actuarial value of assets has been set equal to the market value of the assets		The actuarial value of assets has been set equal to the market value of the assets	
Inflation	2.10%		2.10%	
Projected salary increases, including inflation and merit increases	Years of Service	Salary Growth Rate	Years of Service	Salary Growth Rate
	1 - 2	14.50%	1	17.00%
	3 - 10	5.75%	2	10.00%
	11 and over	4.25%	3 - 10	5.25%
			11 and over	3.75%
Investment rate of return (discount rate)	5.75% net of pension plan investment expense, including inflation		5.75% net of pension plan investment expense, including inflation	

Mortality Rates - In the case of mortality, since the System's size is so small, no credible experience could be established for mortality. For the year ended December 31, 2020, in the absence of such experience, mortality rates for active employees were based on the Pub-2010 Public Retirement Plans Mortality Table for General Healthy Retirees multiplied by 115% for males and females, each with full generational projection using the appropriate MP2020 scale for active members and disabled annuitants.

7. Pension Plan (continued)

Actuarial Methods and Assumptions (continued)

For the year ended December 31, 2019, in the absence of such experience, mortality rates for active employees were based on the RP-2000 Employee Tables with a setback of four years for males and set back of three years for females. Mortality for retirees and beneficiaries was based on the RP-2000 Combined Healthy Table with Blue Collar Adjustment projected to 2032 using Scale AA. The RP-2000 Disabled Lives Mortality Table (set back five years for males and set back three years for females) was selected for disabled annuitants.

In order to determine future expected returns, standard deviation of returns, and correlations between asset classes, forecast information from the Plan’s investment consultant and other national investment consultants were gathered. From these forecasts, an average estimated real rate of return for key asset classes was compiled along with average expected standard deviations and correlations. The target asset allocations (shown below) for were combined with the consultant average expected returns, standard deviations, and correlations in order to produce an expected geometric rate of return for the portfolio over a long-term period (i.e., 30 years). For the 2020 valuation, it was determined that a reasonable range for the assumed rate of return was 5.56% to 6.93%, with a net portfolio adjusted nominal expected rate of return of 6.23%. For the 2019 valuation, it was determined that a reasonable range for the assumed rate of return was 5.48% to 6.91% with a net portfolio adjusted nominal expected rate of return of 6.19%. For the 2020 and 2019 valuations, the Board elected to use the rate of 5.75%, which lies within the reasonable range. The average assumed long-term inflation rate was 2.10% for the 2020 and 2019 valuations. This was added to the real rates of return to determine expected long-term nominal rates of return for each asset class.

7. Pension Plan (continued)

Actuarial Methods and Assumptions (continued)

Best estimates of arithmetic real rates of return for each major asset class included in the Plan's target asset allocation as of December 31, 2020 and 2019 are summarized in the following tables:

December 31, 2020

Asset Class	Long-Term Expected Real Rate of Return
Cash and Cash Equivalents	-0.27%
U.S. Core Fixed Income	0.97%
U.S. Investment Grade Corporate Fixed Income	1.57%
U.S. Large Cap Equities	5.78%
U.S. Small/Mid Cap Equities	6.13%
International Developed Equities	6.44%
Emerging Market Equities	8.64%

December 31, 2019

Asset Class	Long-Term Expected Real Rate of Return
Cash and Cash Equivalents	0.37%
U.S. Investment Grade Corporate Fixed Income	1.70%
U.S. Large Cap Equities	5.50%
U.S. Small Cap Equities	6.54%
U.S. Mid Cap Equities	6.11%
International Developed Equities	6.23%
Real Estate Investment Trusts	5.83%

7. Pension Plan (continued)

Actuarial Methods and Assumptions (continued)

Discount Rate - The discount rate used to measure the total pension liability was 5.75 percent at December 31, 2020 and 2019. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that CATS contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate in accordance with the Collective Bargaining Agreement. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity to Changes in the Discount Rate – The following presents the Net Pension Liability (Asset) of CATS calculated using the discount rate as of December 31, 2020 and 2019, as well as what the System's Net Pension Liability (Asset) would be if it were calculated using a discount rate that one percentage point lower or one percentage point higher than the year-end rate (assuming all other assumptions remain unchanged):

December 31, 2020	1% Decrease 4.75%	Current Discount Rate 5.75%	1% Increase 6.75%
Net pension (asset) liability	$ 2,291,722	$ 4,169,876	$ 5,729,240

December 31, 2019	1% Decrease 5.00%	Current Discount Rate 5.75%	1% Increase 7.00%
Net pension (asset) liability	$ (850,932)	$ 2,536,264	$ (3,943,092)

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

7. Pension Plan (continued)

Actuarial Methods and Assumptions (continued)

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

Beginning of Year	ERSL (in Years)
2020	3
2019	3

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

The System reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources at December 31, 2020 and 2019:

	2020	2019
Deferred outflows of resources		
Difference between expected and actual experience	$ 89,496	$ 178,992
Changes in assumptions	586,934	317,905
Difference between projected and actual earnings	-	-
Total	$ 676,430	$ 496,897
Deferred inflows of resources		
Difference between expected and actual experience	$ (306,407)	$ (115,945)
Changes in assumptions	-	-
Difference between projected and actual earnings	(1,944,481)	(1,350,679)
Total	$ (2,250,888)	$ (1,466,624)

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

2021	$ (322,332)
2022	(314,389)
2023	(694,043)
2024	(243,694)
Total	$ (1,574,458)

8. Deferred Compensation Plan

The System offers its employees participation in the Louisiana Public Employees' Deferred Compensation Plan (Compensation Plan), created by Louisiana Revised Statutes and in accordance with Section 457 of the Internal Revenue Code. The Compensation Plan is available to all full-time employees and permits them to defer a portion of their salary until future years. The assets of the Compensation Plan are held in trust for the exclusive benefit of the participants and their beneficiaries. The custodian thereof for the exclusive benefit of the participants, holds the custodial account for the beneficiaries of this plan, and the assets may not be diverted to any other use. The administrators are agents of the employer for purposes of providing direction to the custodian of the custodial account from time to time for the investment of the funds held in the account, transfer of assets to or from the account, and all other matters. The System contributions are based on 8% of eligible wages. For the years ended December 31, 2020 and 2019, the contributions to the plan were $49,847 and $80,093, respectively.

9. Commitments and Contingencies

Grant Commitments

For the year ended December 31, 2019, grant agreements under which the System received federal financial assistance required the System to match 15% to 25% of dollars received. For the year ended December 31, 2020, the nature of the federal financial assistance received by the System did not require similar matching requirements. In future years, the System will have to provide additional local funds to meet the matching requirements of grants which are expected to be similar in nature to those which existed as of December 31, 2019.

Lease Commitment

During 2019, the System terminated a month-to-month lease on office space and effective November 1, 2019 entered into a lease for new office space. The current lease is for approximately $7,703 per month for 36 months.

Tire Purchase Contract

The System exercised the first one-year extension of its contract for the purchase of bus tires. The effective dates of the contract renewal are September 1, 2020 through August 31, 2021. The vendor has agreed to provide tires at a fixed cost per tire plus a rate per mile. The System estimates the costs to be $200,000 over the term of the contract extension. Tire cost expense was approximately $97,500 and $131,000 for the years ended December 31, 2020 and 2019, respectively.

Grant Disallowances

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

9. Commitments and Contingencies (continued)

Other

In March, 2020, the World Health Organization declared the outbreak of a novel coronavirus (COVID-19) as a global pandemic, which continues to spread throughout the United States. The COVID-19 pandemic has negatively impacted the global economy and created significant volatility and disruption of financial markets. The extent of the impact of the COVID-19 pandemic on the System and the Pension Trust Fund's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak and the impact on riders, employees and vendors, all of which are uncertain and cannot be predicted. The extent to which the COVID-19 pandemic may impact the System's financial condition or results of operations cannot be reasonably estimated at this time.

10. Self-Insurance and Legal Claims

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

At December 31, 2020 and 2019, accrued claims liabilities of $3,515,242 and $3,436,991, respectively, were included in the Proprietary Fund's statements of net position, as follows:

	2020	2019
Current portion	$ 906,118	$ 1,065,376
Long-term portion	2,609,124	2,371,615
Total	$ 3,515,242	$ 3,436,991

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, 2020 and 2019. In addition, the claims will not be paid until appropriated by the System.

Changes in claims liability during the years ended December 31, 2020 and 2019, were as follows:

	2020	2019
Beginning of year liability	$ 3,436,991	$ 3,680,023
Current year claims and changes in estimates	1,978,717	1,032,323
Claim payments	(1,900,466)	(1,275,355)
End of year liability	$ 3,515,242	$ 3,436,991

Effective September 2020, the System purchased an insurance policy through September 2021 which covers auto physical damage up to $2,500,000, subject to a $50,000 deductible per vehicle per occurrence.

11. Capital Lease Obligations

The System is the lessee of 10 transit buses under a lease agreement with a financial institution. This lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of the minimum lease payments as of the inception date which was June 1, 2017. Lease terms include 14 semiannual payments of $328,137 with interest at 2.31%. At December 31, 2020, book value of leased equipment, net of depreciation, was $2,885,095.

Changes in the capital lease liability during the years ended December 31, 2020 and 2019, were as follows:

	2020	2019
Beginning of year liability	$ 2,788,983	$ 3,370,416
Lease proceeds	-	-
Principal payments	(595,001)	(581,433)
End of year liability	$ 2,193,982	$ 2,788,983

Minimum future lease payments under these capital leases as of December 31, 2020 are:

Year Ended December 31, 2020	Amount
2021	$ 656,274
2022	656,274
2023	656,274
2024	328,136
Total minimum lease payments	2,296,958
Less: amount representing interest	(102,976)
Present value of minimum lease payments	$ 2,193,982

12. Effect of Deferred Amounts on Net Position

The unrestricted net position amounts of $22,059,899 and $11,590,980 for the years ended December 31, 2020 and 2019, respectively, include the effects of deferring the recognition of pension expense from the differences between expected and actual experience, changes in assumptions and projected and actual earnings of the System's single employer defined benefit plan. The $676,430 and the $496,897 balances of the deferred outflows of resources as of December 31, 2020 and 2019, respectively, and the $2,250,888 and $1,466,624 balances of the deferred inflows of resources as of December 31, 2020 and 2019, respectively will be recognized as increases or decreases to pension expense over the remaining average service life of the participants in the pension plan for the differences in expected and actual experience and changes in assumptions. The $676,430 balance of the deferred inflows of resources as of December 31, 2020 and the $2,250,888 balance of the deferred outflows of resources as of December 31, 2020 will be recognized as increases or decreases to pension expense over the remaining five-year period applicable to the differences between project and actual earnings of the pension plan.

13. Concentrations

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

14. Current Accounting Standards Scheduled to be Implemented

GASB Statement 87, *Leases*: This standard will require all leases to be reported on the statement of net position under a single accounting model for both lessors and lessees. The statement will require the recognition of lease assets or liabilities for all leases including those previously reported as operating leases. All leases will be reported under this single accounting method and reported by lessees as an intangible right to use asset and by lessors as a receivable with both reporting a deferred inflow of resources. The standard is effective for annual reporting periods beginning after June 15, 2021. The System will include the requirements of this standard, as applicable, in its December 31, 2022 financial statements. All of the System's lease agreements will need to be evaluated to determine the impact of implementing this standard; however, the effect of this standard or its applicability to the System are unknown at this time.

15. Subsequent Event

In January 2021 the Board approved the purchase of seven buses for approximately $3.5 million. Four of the buses are to be delivered in 2023 and three in 2024. Payments will be required upon delivery of these assets.

The System has approved a proposition, once approved by the State Bond Commission, to be placed on the October 9, 2021 ballot to renew its ten-year property tax millage which expires in 2023.

REQUIRED SUPPLEMENTARY INFORMATION

CAPITAL AREA TRANSIT SYSTEM
BATON ROUGE, LOUISIANA

SCHEDULE OF CHANGES IN TOTAL PENSION LIABILITY AND RELATED RATIOS

	2020	2019	2018	2017	2016	2015
TOTAL PENSION LIABILITY						
Service cost	$ 763,995	$ 709,832	$ 705,207	$ 694,880	$ 609,044	$ 577,109
Interest	788,722	733,100	712,051	685,993	661,807	684,863
Changes in benefit terms	-	101,812	-	-	-	-
Differences between expected and actual experience	(459,611)	268,488	(215,003)	(177,108)	(141,782)	(332,043)
Changes of assumptions	641,972	476,858	-	-	-	414,840
Benefit payments	(569,144)	(576,499)	(615,135)	(534,895)	(545,869)	(507,571)
Refunds of member contributions	(209,670)	(254,732)	(237,181)	(174,467)	(375,062)	(348,156)
Other	(51,749)	(28,665)	-	-	9,620	1,348
Net change in total pension liability	$ 904,515	$ 1,430,194	$ 349,939	$ 494,403	$ 217,758	$ 490,390
TOTAL PENSION LIABILITY - BEGINNING	13,362,387	11,932,193	11,582,254	11,087,851	10,870,093	10,379,703
TOTAL PENSION LIABILITY - ENDING (a)	$ 14,266,902	$ 13,362,387	$ 11,932,193	$ 11,582,254	$ 11,087,851	$ 10,870,093
PLAN FIDUCIARY NET POSITION						
Contributions - member	$ 639,979	$ 636,414	$ 604,736	$ 607,307	$ 589,279	$ 553,162
Contributions - employer	726,785	719,883	720,360	684,668	669,552	657,058
Net investment income (loss)	2,143,824	3,014,272	(803,684)	1,933,099	562,303	(238,834)
Benefit payments	(569,144)	(576,499)	(615,135)	(534,895)	(545,869)	(507,571)
Refunds of member contributions	(209,670)	(254,732)	(237,181)	(174,467)	(375,062)	(348,156)
Administrative expenses	(141,898)	(150,386)	(148,401)	(124,891)	(114,605)	(102,373)
Other	(51,749)	(28,665)	-	-	9,620	1,348
Net change in plan fiduciary net position	$ 2,538,127	$ 3,360,287	$ (479,305)	$ 2,390,821	$ 795,218	$ 14,634
PLAN FIDUCIARY NET POSITION - BEGINNING	15,898,651	12,538,364	13,017,669	10,626,848	9,831,630	9,816,996
PLAN FIDUCIARY NET POSITION - ENDING (b)	$ 18,436,778	$ 15,898,651	$ 12,538,364	$ 13,017,669	$ 10,626,848	$ 9,831,630
NET PENSION (ASSET) LIABILITY - ENDING (a - b)	$ (4,169,876)	$ (2,536,264)	$ (606,171)	$ (1,435,415)	$ 461,003	$ 1,038,463
PLAN FIDUCIARY NET POSITION AS A PERCENTAGE OF THE TOTAL PENSION LIABILITY (ASSET)	129.23%	118.98%	105.08%	112.39%	95.84%	90.45%
COVERED PAYROLL	$ 9,084,813	$ 8,998,538	$ 8,558,350	$ 8,369,400	$ 8,213,225	$ 6,442,800
NET PENSION (ASSET) LIABILITY AS A PERCENTAGE OF COVERED PAYROLL	-45.90%	-28.19%	-7.08%	-17.15%	5.61%	16.12%

CAPITAL AREA TRANSIT SYSTEM
BATON ROUGE, LOUISIANA

SCHEDULE OF CHANGES IN TOTAL PENSION LIABILITY AND RELATED RATIOS

Notes to Schedule:

Changes of assumptions:

Investment Rate	Inflation
2015 - rate changed from 6.50% to 6.00%.	2017 - decrease from 3.00% to 2.50%
2019 - rate changed from 6.00% to 5.75%.	2019 - increase from 2.00% to 2.10%

Salary Increases

2015 - rate changed from flat 5.50% to scale based on years of service:

1 year of service - 17.00%	2 years of service - 10.00%
3 - 10 years of service - 5.25%	11 years and over - 3.75%

2020:

1 - 2 years of service - 14.50%	11 years and over - 4.25%
3 - 10 years of service - 5.75%	

Mortality Table

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

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

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

2020 - Pub-2010 Public Retirement Plans for General Employees multiplied by 115% for males and females with full generational projection using the appropriate MP-2020 scale.

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

CAPITAL AREA TRANSIT SYSTEM
BATON ROUGE, LOUISIANA

SCHEDULE OF CONTRIBUTIONS

	2020	2019	2018	2017	2016	2015	2014
Actuarily determined contribution	$ (13,627)	$ 191,669	$ 18,909	$ 240,490	$ 373,275	$ 330,993	$ 324,152
Contributions in relation to the actuarilly determined contribution	726,785	719,883	720,360	684,668	669,552	657,058	515,424
Contribution deficiency (excess)	$ (740,412)	$ (528,214)	$ (701,451)	$ (444,178)	$ (296,277)	$ (326,065)	$ (191,272)
Covered payroll	$ 9,084,813	$ 8,998,538	$ 9,004,500	$ 8,558,350	$ 8,369,400	$ 8,213,255	$ 6,442,800
Contributions as a percentage of covered payroll	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%

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

CAPITAL AREA TRANSIT SYSTEM
BATON ROUGE, LOUISIANA

SCHEDULE OF INVESTMENT RETURNS

	2020	2019	2018	2017	2016	2015	2014
Annual money-weighted rate of return (loss), net of investment expense	12.49%	21.20%	-5.98%	16.35%	5.49%	-2.41%	5.67%

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

OTHER INFORMATION

CAPITAL AREA TRANSIT SYSTEM
BATON ROUGE, LOUISIANA

SCHEDULE OF COMPENSATION, BENEFITS, AND OTHER PAYMENTS TO AGENCY HEAD
FOR THE YEAR ENDED DECEMBER 31, 2020

Chief Executive Officer — William Deville

Purpose	Amount
Salary	$ 190,819
Benefits - insurance	4,920
	$ 195,739

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A Professional Accounting Corporation

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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States, the financial statements of the business-type activity and the aggregate remaining fund information (the fiduciary fund) of the Capital Area Transit System (the "System"), a component unit of the City of Baton Rouge - Parish of East Baton Rouge, as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the System's basic financial statements, and have issued our report thereon dated June 25, 2021. Our report includes a reference to other auditors who audited the financial statements of the fiduciary fund, as described in our report on the System's financial statements. This report includes our consideration of the results of the other auditors' testing of internal control over financial reporting and compliance and other matters that are reported on separately by those other auditors. However, this report, insofar as it relates to the results of the other auditors, is based solely on the reports of the other auditors.

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 was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2020-001, 2020-002, 2020-003, and 2020-004 that we consider to be significant deficiencies.

P&N
Postlethwaite & Netterville

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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

The System's Response to Findings

The System's response to the findings identified in our audit is described in the accompanying schedule of findings and recommendations. The Systems response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Postlethwaite & Netterville

Baton Rouge, Louisiana
June 25, 2021

Postlethwaite & Netterville

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A Professional Accounting Corporation

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

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

Report on Compliance for Each Major Federal Program

We have audited the Capital Area Transit System's (the "System") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the System's major federal programs for the year ended December 31, 2020. The System's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the federal statutes, regulations, contracts, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of 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 qualified opinion on compliance for the System's major federal program. However, our audit does not provide a legal determination of the System's compliance.

Basis for Qualified Opinion on the Federal Transit Cluster

As described in the accompanying schedule of findings and questioned costs, the System did not comply with requirements regarding procurement as described in finding number 2020-006 for the Federal Transit Cluster (CFDA 20.526 and 20.507). Compliance with such requirements is necessary in our opinion, for the System to comply with the requirements applicable to that program.

Qualified Opinion on Federal Transit Cluster

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the System complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Federal Transit Cluster for the year ended December 31, 2020.

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 have not been identified. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be a material weakness and a significant deficiency.

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 over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2020-006 to be a material weakness.

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. We consider the deficiency in internal control described in the accompanying schedule of findings and questioned costs as item 2020-005 to be a significant deficiency.

The System's response to the internal control over compliance finding identified in our audit are 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.

Postlethwaite & Netterville

Baton Rouge, Louisiana
June 25, 2021

CAPITAL AREA TRANSIT SYSTEM
BATON ROUGE, LA

SCHEDULE OF EXPENDITURES OF GRANT AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2020

Federal Grantor/ Program Title	CFDA Number	Project Number	Expenditures (Repayments)	Passed through to Sub-recipients
Federal Transportation Administration				
Federal Transit Cluster:				
Federal Transit - Formula Grants:				
2013 Formula Grant	20.507	LA-90-X404	$ 11,792	$ -
2018 (Section 5307) Formula Grant	20.507	LA-2019-007	262,521	-
2019 (Section 5307) Formula Grant	20.507	LA-2019-030	103,294	-
Bus Shelters with Former LA DOTD Funds	20.507	LA-95-X010	280,620	-
2020 (Section 5307) CARES Act Operating Assistance	20.507	LA-2020-013	17,651,475	-
Total Federal Transit - Formula Grants			18,309,702	-
Bus and Bus Facilities Formula Program:				
2019 Section 5339 Formula Apportionment	20.526	LA-2019-029	350,142	-
Total Bus and Bus Facilities Formula Program			350,142	-
Total Federal Transit Cluster			**18,659,844**	-
Total Federal Expenditures			**$ 18,659,844**	**$ -**

See Notes to Schedule of Expenditures of Federal Awards.

CAPITAL AREA TRANSIT SYSTEM

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

DECEMBER 31, 2020

NOTE A – BASIS OF PRESENTATION

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

NOTE B – DE MINIMIS COST RATE

During the year ended December 31, 2020, the Capital Area Transit System did not elect to use the 10% de minimis cost rate as covered in §200.414 of the Uniform Guidance.

NOTE C – AMOUNTS PASSED THROUGH TO SUBRECIPIENTS

During the year ended December 31, 2020, the Capital Area Transit System did not pass through any federal funding to subrecipients.

NOTE D – RECONCILIATION TO THE BASIC FINANCIAL STATEMENTS

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

Federal operating subsidy	$	17,651,475
Planning and technical study grants		41,415
Capital contributions		966,954
Total expenditures of federal awards	$	18,659,844

CAPITAL AREA TRANSIT SYSTEM

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

DECEMBER 31, 2020

A. Summary of Auditor's Results

Financial Statements

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

Federal Awards

Internal control over major programs:

Material weaknesses identified?	Yes
Significant deficiencies identified?	Yes
Type of auditor's report issued on compliance for major programs:	Qualified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR §200.516(a)?	Yes

Identification of major programs:

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

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

B. Financial Statements Findings

2020-001 **Recordkeeping Associated with Employee Leave**

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

Condition: *This is a repeat finding from the prior year.* We noted 16 out of 268 total employees were allowed to take more than their accrued leave time available resulting in 326 hours of time taken but not yet earned or approximately $8,000. Additionally, accurate and complete reporting is not maintained to document the accrued leave.

Cause: The leave time, as calculated and recorded in the payroll system, does not match the pay structure for the System's operators. This requires that accrued vacation be manually updated in the accounting system. Additionally, management employees are not reviewing leave time accrued prior to approving requests for leave.

Effect: Employees are allowed to take more than their allotted leave time available and if the employee is terminated or leaves the System the ability to collect on overpaid wages is unlikely. In addition, the liability associated with this benefit is not being accurately reflected in the financial reports of the System.

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

View of Responsible Official:

Due to the collective bargain agreement, bus operators earn vacation hours based upon their bus route. If a route is more than 8 hours per day, this caused the variance as we initially only accrued 8 hours. We have begun to monitor the routes and employees associated with them and reduced the prior year's errors by 65%. We will continue to monitor this are in the process of initiating procedures in our new payroll system.

B. Financial Statements Findings (continued)

2020-002 Documentation of Approved Pay Rates in Payroll File

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

Condition: *This is a repeat finding from the prior year.* During our testing of internal controls over payroll, we noted for 13 out of 40 individuals selected for testing, pay rates did not agree to the supporting documentation in their personal file of the current rate of pay or no documentation existed for the approval of the current rate of pay. We were able to verify the pay rates appeared appropriate through other audit procedures such as comparison of hire date and pay rates of other employees with similar positions.

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

Effect: The System is unable to demonstrate that wages being paid to all of its employees is appropriately approved and in accordance with all union contracted terms.

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

View of Responsible Official:

This policy has been discussed with our current staff and brought to the attention of the current Human Resources Director. The department is working on policies and procedures to ensure that all items are checked off on the procedural change and no changes will be made without proper documentation.

B. Financial Statements Findings (continued)

2020-003 Unremitted Contributions for Special Pay Dates

Criteria: According to the Plan Document, all contributions required to fund the defined-benefit pension plan, on a sound actuarial basis, will be made by the employer and each participating employee as determined under the collective bargaining agreement. Contributions are expressed as a percentage of covered payroll. The contribution rates in effect for the year ended December 31, 2020 were 8% for CATS and 7% for covered employees.

Condition: There was a special payroll date (4/20/2020) during the year ended December 31, 2020 where contributions were not remitted to the defined-benefit pension plan. Employer and employee contributions for that date was $2,022 and $1,601, respectively.

Cause: The lack of established written policies and procedures and lack of proper training of personnel resulted in the contributions not being remitted to the defined-benefit pension plan timely.

Effect: While the defined-benefit pension plan is fully funded, the System is not in compliance with its fiduciary responsibility or contractual terms to remit contributions to fund the future retirement benefits of its employees.

Recommendation: We recommend that the CATS' human resources department adopt written procedures to ensure that all contributions are remitted to the defined-benefit pension plan on a timely basis, and that these written procedures by reviewed with the CATS' human resource department on annual basis. In addition, a reconciliation by finance personnel of covered payroll and required contributions to disbursements made to the defined-benefit pension plan should occur on a monthly basis.

View of Responsible Official:

A new Human Resources Director was hired and began to review the current policies and procedures. We began to meet with the administrator of the pension plan to work through some of the past issues and share ideas going forward. We will implement a new policy going forward and make sure that all employees involved are properly trained.

B. Financial Statements Findings (continued)

2020-004 Maintenance of Pension Plan Census Data

Criteria: 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 System funds the plan based on actuarially determined amounts and recognizes a net pension liability or asset based on the actuarially determined liability of the benefits less the net position of the Plan. At the end of the calendar year 2020, a net pension asset was recorded by the System. To ensure the accuracy of the net pension asset and related deferrals associated with the pension benefits, procedures and controls should be established and implemented to ensure that census data for pension plan participants is tracked and reviewed on a regular basis and includes a reconciliation of internal data with that maintained by the pension plan actuary in the valuation of these future benefits.

Condition: *This is partially repeated from the prior year*. While performing procedures over census data information, we noted that an accurate and complete census data file of active participants is not maintained by the System. From the 193 active participants listed in the plan actuary census file, 26 were not listed on the census data file provided by the System. For 14 out of the 26, these were appropriately included in the census data file used by the actuary. For 12 out of the 26, these represent individuals who were terminated during the calendar year and for which notification to the Plan was not made by the System. These individuals were not fully vested in the Plan. As such, the valuation assumptions were more conservative (assuming they would receive a lifetime benefit) and may result in a refund to the non-vested participant which is not deemed material to the financial statements.

In addition, the file maintained by the System did not contain all relevant information used by the Plan, including birthdate, marital status, hire date and/or termination date to aid in the actuarial valuation.

Cause: The System has relied on the plan actuary to maintain this information by providing them with new participants and notifying them of terminations. There is no reconciliation by the System of the active file maintained by the plan actuary to ensure completeness of the data used in the valuation of these future pension benefits.

Effect: Without ensuring the file used by the plan actuary is accurate, the valuation performed by the plan actuary may be misstated and the amount of the net pension liability or asset recognized by the System incorrect.

Recommendation: We recommend that the System adopt written procedures and develop appropriate internal controls to ensure that census data for pension plan participants is tracked and reviewed on a regular basis including reconciling with the pension plan actuary.

View of Responsible Official:

Our new policies and procedures will adopt appropriate internal controls for timely review and reconciliation of the data files.

C. Findings and Questioned Costs for Federal Awards

U.S. Department of Transportation

FEDERAL TRANSIT CLUSTER
20.526 Rolling Stock Grants (applies to all grants)
20.507 Federal Transit Formula Grant (applies to all grants)

2020-005 Preparation of Schedule of Expenditures of Federal Awards and Reconciliation of Grant Revenue

Criteria: The Uniform Guidance Subpart F Section 200.510 requires the preparation of a Schedule of Expenditures of Federal Awards (SEFA) that includes an accurate reporting of federal awards expended based on the terms and conditions of the grants along with the amount of funds disbursed to subrecipients. In order for the SEFA to be prepared accurately and properly report the amounts expended for federal awards, a system of controls should be in existence that includes the timely preparation and review of the amounts reported on the SEFA. Review of the amounts reported should include a reconciliation of the expenditures under the grants to the grant revenue.

Condition: The SEFA provided for audit did not contain the correct amounts of federal expenditures supported by the accounting system.

Questioned Costs: Not applicable.

Cause: The System currently maintains its internal records on a cash basis throughout the year and year-end reconciliations of federal expenditures to federal grant awards available and remitted are not performed timely enough in order to prepare an accurate and complete reporting of federal awards expended.

Effect: An inaccurate SEFA may result in incomplete reporting of federal expenditures and non-compliance with federal regulations with respect to required major program audits and coverage requirements.

Recommendation: We recommend the System review its policies and procedures for identifying, recording and tracking federal expenses and implement tools within the accounting system to properly identify in order to prepare an accurate SEFA.

View of Responsible Official:

We are currently writing new procedures for our staff along with a review process by our Accounting Manager. We will educate staff so they understand the information fully and so they can also provide all proper information when requested. We will combine and create a new filing system so that no information is overlooked when it is available.

C. Findings and Questioned Costs for Federal Awards (continued)

U.S. Department of Transportation

FEDERAL TRANSIT CLUSTER
20.526 Rolling Stock Grants (applies to all grants)
20.507 Federal Transit Formula Grant (applies to all grants)

2020-006 Procurement

Criteria: The Uniform Guidance procurement regulations were fully effective as of December 26, 2017. The regulations (§200.320) require, among other things, that procurement for purchases of goods and services follow certain procedures related to obtaining and awarding of contracts based on sealed bid, competitive-, and non-competitive proposals. Additionally, §200.318(d) provides that written policies and procedures must document the avoidance of the acquisition of unnecessary or duplicative items.

Condition: During our testing of purchases under the procurement regulations, for 13 out of 28 items selected for testing, the System was unable to provide supporting documentation that these items were procured in accordance with the standards in §200.320. The universe (population) from which the items were selected was all vendor payments in 2020 over $10,000. This was 157 items totaling approximately $16,396,000. Additionally, while the System does maintain written policies and procedures related to procurement standards, documentation addressing the acquisition of unnecessary or duplicative items was not present.

Questioned Costs: Unknown.

Cause: A material weakness exists in the internal controls over procurement. The System does not have adequate controls in place to ensure that appropriate supporting documentation is maintained for purchases made under the procurement standards in order to support the obtaining and awarding of contracts based on sealed bid, competitive, and non-competitive proposals. Additionally, written policies and procedures over procurement were not reviewed to ensure all requirements under these regulations were addressed.

Effect: The System may not be receiving the overall lowest cost for services and supplies procured by the agency.

Recommendation: We recommend the System implement internal controls to ensure that supporting documentation is maintained for the procurement of goods and services in accordance with §200.320. Additionally, we recommend that the System enhance its written policies and procedures to ensure that documentation is included regarding the avoidance of the acquisition of unnecessary or duplicative items.

C. Findings and Questioned Costs for Federal Awards (continued)

U.S. Department of Transportation

FEDERAL TRANSIT CLUSTER
20.526 **Rolling Stock Grants (applies to all grants)**
20.507 **Federal Transit Formula Grant (applies to all grants)**

2020-006 **Procurement (continued)**

View of Responsible Official:

Our procurement manager has addressed these issues with the current staff and is in the process of preparing new procurement policies and procedures. He has also registered the procurement department for continued educational classes.

B. Financial Statements Findings

2019-001 **Recordkeeping Associated with Employee Leave**

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

Condition: *This is a repeat finding from the prior year.* We noted 37 out of 303 total employees were allowed to take more than their accrued leave time available resulting in 1,038 hours of time taken but not yet earned or approximately $23,000. Additionally, accurate and complete reporting is not maintained to document the accrued leave.

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

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

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

View of Responsible Official:

Part of the issue is due to the way vacation is calculated for operators. The operators are paid for both regular pay and vacation pay by the route they drive. For instance, if an operator runs a route that is calculated to take 45 hours per week, they are paid for 45 hours regardless of the actually hours they clock in and out. By the same token when they take vacation they are paid according to the route. In this case that would be 45 hours. The payroll system is only capable of tracking vacation by the hour. That being the case an operator could possible seem to be being paid for more hours than they have. However, this is mainly a timing issue. To address this issue management is going to try and change the wording up the upcoming union contract to state vacation pay will be based on days and not hours. In addition, management that enters time for their employees have been given access to see the vacation balances of their employees and should not approve any more time than what is due. Beginning July 2020 the accrued vacation balances will the updated monthly in our accounting system.

Current status: ***Not resolved. See repeat finding 2020-001.***

B. Financial Statements Findings (continued)

2019-002 Documentation of Approved Pay Rates in Payroll File

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

Condition: During our testing of internal controls over payroll, we noted for 12 out of 40 individuals selected for testing, pay rates did not agree to the supporting documentation in their file of the current rate of pay or no documentation existed for the approval of the current rate of pay. We were able to verify the pay rates appeared appropriate through other audit procedures such as comparison of hire date and pay rates of other employees with similar positions, and/or a roll forward of documented pay rates with annual rate increases approved by the administration.

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

Effect: The System is unable to demonstrate that wages being paid to all of its employees is appropriately approved and in accordance with all union contracted terms.

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

View of Responsible Official:

The HR Department will do a thorough review of all employee files to assure that there is documentation and that it agrees with payroll records. The HR Manager will develop and implement processes to ensure all future pay rate changes are properly approved and documented.

Current status: ***Not resolved. See repeat finding 2020-002.***

B. Financial Statements Findings (continued)

2019-003 **Pension Plan Census Data**

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

Condition: There were 2 of 25 employees selected for data testing by the auditor of the Pension Plan. They noted that the data per the census did not agree to data per the payroll records due to the plan administrator not receiving the required data from the human resources department.

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

Effect: Controls did not function properly to appropriately report census information for the two participants terminated during the year.

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

View of Responsible Official:

The agency is in the process of adapting an enterprise system that can help navigate the intricacies for the best HR and agency practice. In addition, the agency is in the process of adopting some written policy and procedures to ensure that proper protocol is being followed and documentation is being documented accurately.

Current status: ***Not resolved. See repeat finding 2020-004.***

D. Findings and Questioned Costs for Federal Awards

20.526 **Rolling Stock Grants (applies to all grants)**
20.507 **Federal Transit Formula Grant (applies to all grants)**

2019-004 **Preparation of Schedule of Expenditures of Federal Awards and Reconciliation of Grant Revenue**

Criteria: The Uniform Guidance Subpart F Section 200.510 requires the preparation of a Schedule of Expenditures of Federal Awards (SEFA) that includes an accurate reporting of federal awards expended based on the terms and conditions of the grants along with the amount of funds disbursed to subrecipients. In order for the SEFA to be prepared accurately and properly report the amounts expended for federal awards, a system of controls should be in existence that includes the timely preparation and review of the amounts reported on the SEFA. Review of the amounts reported should include a reconciliation of the expenditures under the grants to the grant revenue.

Condition: The System did not maintain adequate internal records in order to prepare an accurate and complete reporting of federal awards expended and a reconciliation of the expenditures under the grants to the grant revenue.

Questioned Costs: Not applicable.

Cause: The accounting system is not designed to adequately track and record federal program grant expenditures and revenues accurately and with appropriate supporting documentation or reconciliations.

Effect: The SEFA provided for audit did not contain the correct amounts of federal expenditures supported by the accounting system which may result in incomplete reporting of federal expenditures and non-compliance with federal regulations with respect to required major program audits and coverage requirements.

Recommendation: We recommend the System review its policies and procedures for identifying, recording and tracking federal expenses and implement tools within the accounting system to properly identify in order to prepare an accurate SEFA.

View of Responsible Official:

The agency has hired a full time Grant Manager to oversee all grant operations. In addition, the Finance department is working closely with the Grant Manager to try and configure its current software to better track federal grant expenditures and revenues. To aid in this process management has hired a consultant with over twenty years of grant administration experience.

Current status: ***Not resolved. See repeat finding 2020-005.***

C. Findings and Questioned Costs for Federal Awards (continued)

20.507 Federal Transit Formula Grant (Grant Number LA-2020-030)

2019-005 Cash Management

Criteria: The Uniform Guidance Subpart D Section 200.305(b)(1) requires that advance payments received be as close as is administratively feasible to the actual disbursements. Additionally, the Federal Transit Administration ("FTA") in Circular 5010-1e requires that advanced payments received must be disbursed within 3 business days or returned to the FTA with interest.

Condition: The System received an advance payment of approximately $23,000 on December 23, 2020 and the advance payment was subsequently disbursed on January 9, 2020. As a result, the advance payment received was disbursed more than three business days after it was received.

Questioned Costs: Not applicable.

Cause: The System does not have adequate controls in place to ensure that advance payments are disbursed as close as is administratively feasible to the receipt, but at least within three business days.

Effect: The advance payment received was not disbursed as soon as administratively feasible or within three business days. This may result in amounts due back to the FTA with associated interest.

Recommendation: We recommend the System review its policies and procedures to ensure that controls are implemented to disburse advance payments as soon as administratively possible and at least within three business days.

View of Responsible Official:

The agency has hired a full time Grant Manager to oversee all grant operations. In addition, the Finance department is working closely with the Grant Manager to configure its current software to better track and administer all grant activities. To aid in this process management has hired a consultant with over twenty years of grant administration experience.

Current status: ***Resolved.***

CAPITAL AREA TRANSIT SYSTEM

REPORT TO MANAGEMENT

DECEMBER 31, 2020

Postlethwaite & Netterville

Postlethwaite & Netterville

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A Professional Accounting Corporation

June 25, 2021

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

In planning and performing our audit of the financial statements of the Capital Area Transit System (the "System") for the year ended December 31, 2020, we considered the System's internal controls and compliance with laws and regulations having a material effect on financial reporting in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure or on compliance.

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

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

However, during the course of our audit, we became aware of the following matters that are opportunities for strengthening internal controls, enhancing operating efficiencies or other matters for consideration by management. The following paragraphs summarize our comments and suggestions regarding those matters. This letter does not affect our report dated June 25, 2021 on the financial statements of the System.

Postlethwaite & Netterville

A. <u>Capital Lease Reporting</u>

<u>Condition</u>:

The System is required to comply with certain reporting requirements under the terms and conditions of a capital lease with a financial institution. These requirements include providing its audited statements to the financial institution within a specified timeframe. During the performance of our audit procedures, we noted while the System uploaded its financial statements to a public website for access by the financial institution, documentation was not maintained of the date the financial statements were uploaded or that the financial institution was notified of their availability. This could result in modifications to the debt terms or requiring the debt to be paid in full on demand of the financial institution. Partially repeated from the prior year.

<u>Recommendation:</u>

We recommend that the System establish appropriate internal controls to document that reporting under the terms and conditions of the capital lease are done on a timely basis.

<u>Management's Response:</u> *Management will contact the financial institution to obtain the correct method to provide the information and comply with this requirement by 7/31/2021.*

B. <u>Obsolete Inventory</u>

<u>Condition</u>:

During the performance of our audit procedures, we noted the System identified 289 items in its inventory with an approximate value of $89,000 which had been determined to be obsolete. Documentation was not maintained on whether these items were removed from the year-end inventory balances.

<u>Recommendation:</u>

We recommend that the System review the inventory listings and ensure that internal controls are implemented to appropriately remove all obsolete inventory items from the year-end listings.

<u>Management's Response:</u> *Items from the prior year obsolete listing that were not disposed of were added back into our physical inventory count. They were not entered into our system generated reports and therefore created an increase in inventory from what the system showed. Once the obsolete items were identified, the $89,000 reduction justified a true inventory balance. Management will prepare a procedure that will identify all obsolete items and their location at all times and also prevent the combining of the two groups by 7/31/2021.*

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

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

Sincerely,

Postlethwaite & Netterville