
Capital Area Transportation Authority

Lansing, Michigan

Financial Report
with Supplemental Information
September 30, 2019

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Independent Auditor's Report

To the Board of Directors
Capital Area Transportation Authority

Report on the Financial Statements

We have audited the accompanying financial statements of the enterprise fund and fiduciary funds of the Capital Area Transportation Authority (the "Authority") as of and for the year ended September 30, 2019 and the related notes to the financial statements, which collectively comprise the Capital Area Transportation Authority's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the enterprise fund and fiduciary funds of the Capital Area Transportation Authority as of September 30, 2019 and the respective changes in its financial position and, where applicable, cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

To the Board of Directors
Capital Area Transportation Authority

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplemental information, as identified in the table of contents, 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, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Capital Area Transportation Authority's basic financial statements. The other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements.

The other supplemental information of the fiduciary fund statements and state required schedules, except for schedules 6, 9, and 12, are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the fiduciary fund statements and state required schedules, except for schedules 6, 9, and 12, are fairly stated in all material respects in relation to the basic financial statements as a whole.

The state required schedules 6, 9, and 12 have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 5, 2020 on our consideration of the Capital Area Transportation Authority'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 Capital Area Transportation Authority's internal control over financial reporting and compliance.



March 5, 2020

As management of the Capital Area Transportation Authority (the "Authority"), we offer readers this narrative overview and analysis of the financial activities for the year ended September 30, 2019. The management's discussion and analysis is designed to assist readers of financial statements in focusing on significant financial activities and issues and to identify any significant changes. As this information is presented in summary form, it should be read in conjunction with the financial statements as a whole.

Financial Highlights

These statements reflect that the Authority is in very strong financial health. At September 30, 2019 (the Authority's 2019 fiscal year end), the Authority's net position stood at \$40,408,801, as compared to a net position of \$36,471,236 at fiscal year end 2018. Net position presents the assets of the Authority that can be used to provide for future operations. A portion of these assets is included in the net investment in capital assets, meaning that it has been invested in capital resources (generally vehicles and facilities), while a portion is unrestricted (generally cash and investments). The significant increase in net position during fiscal year 2019 can be wholly attributed to grant funds received by the Authority from the Federal Transit Administration (FTA) and the Michigan Department of Transportation (MDOT). The vast majority of these funds was used by the Authority to replace buses that had reached the end of their useful lives. Specifically during the fiscal year, the Authority replaced 23 large (40' and 60') buses, 19 small buses, and 10 low-floor minivans.

The Authority's current ratio at September 30, 2019 stood at 5.69, as compared with 6.66 at fiscal year end 2018. Current ratio is a liquidity measurement that reflects whether or not an organization has enough resources to meet its short-term obligations; it compares an organization's current assets to its current liabilities. In general terms, a current ratio in excess of 2.0 is considered to reflect strong liquidity.

At September 30, 2019, the Authority had cash and investments totaling \$15,274,668, while cash and investments stood at \$32,404,186 at fiscal year end 2018. As noted above, the Authority purchased numerous new buses during fiscal year 2019. It is the Authority's policy to utilize its cash and invested funds to facilitate such purchases and then seek reimbursement from the FTA and MDOT subsequent to the expenditure. At fiscal year end 2019, the Authority was due \$17 million from those two agencies.

The Authority's year-end leverage ratio at September 30, 2019 stood at 0.73, as compared with 0.72 at fiscal year end 2018. Leverage ratio is a measurement of debt burden that reflects an organization's ability to weather significant changes in its financial environment; it compares an organization's total liabilities to its net position. Leverage ratios below 0.50 are generally considered to reflect a healthy financial position.

Revenue (both operating and nonoperating) and grants for the fiscal year ended September 30, 2019 amounted to \$66,309,659, while operating expenses amounted to \$62,328,533. Nonoperating expenses for the fiscal year ended September 30, 2019 totaled \$43,561. This resulted in an increase in net position of \$3,937,565 for the fiscal year ended September 30, 2019.

Overview of the Financial Statements

The discussion and analysis provided here are intended to serve as an introduction to Authority's basic financial statements. The Authority's basic financial statements consist of two kinds of statements, (1) proprietary fund and (2) pension and OPEB trust funds, which are fiduciary funds. This report also includes supplemental information and compliance information intended to furnish additional detail to support the basic financial statements themselves.

Capital Area Transportation Authority

Management's Discussion and Analysis (Continued)

- **Proprietary funds** - The proprietary fund statements report information about the Authority as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the Authority's assets, deferred outflows of resources, liabilities, and deferred inflows of resources. The statement of revenue, expenses, and changes in net position accounts for all of the current year's revenue and expenses, regardless of when cash is received or paid.

The net position of the proprietary fund is reported in the statement of net position. Net position, the difference between the Authority's assets plus deferred outflows and liabilities plus deferred inflows, is one way to measure the Authority's financial health or position. Over time, increases or decreases in the Authority's net position are one indicator of whether its financial position is improving or deteriorating. To assess the overall health of the Authority, you must also consider additional factors, such as changes in the Authority's tax base, the condition of its rolling stock and facilities, and changes in federal and state programs.

- **Fiduciary funds** - The Authority administers pension and OPEB plans that cover substantially all union and administrative employees. The Authority is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. These activities are excluded from the proprietary fund financial statements because the Authority cannot use these assets to finance its operations.

As of September 30, 2019, the Authority's union and administrative pension plans had fiduciary net positions as a percentage of total pension liabilities of 97 percent and 84 percent, respectively. The plans were evaluated in part based on an assumed 6 percent discount rate. The Authority's OPEB plan had fiduciary net position as a percentage of total OPEB liabilities of 17 percent.

The Authority's Net Position

The Authority's total net position at September 30, 2019 was \$40.41 million, an increase from 2018. The change is largely attributable to the additional capital grants in 2019. The following table shows, in a condensed format, the net position as of the current date and the same date of the prior year:

	Business-type Activities			
	2018	2019	Change	Percent Change
Assets				
Current assets	\$ 41,501,780	\$ 37,963,474	\$ (3,538,306)	(8.5)
Capital assets	45,318,973	53,443,793	8,124,820	17.9
Total assets	86,820,753	91,407,267	4,586,514	5.3
Deferred Outflows of Resources	4,761,846	5,108,512	346,666	7.3
Liabilities				
Current liabilities	5,851,976	6,674,721	822,745	14.1
Noncurrent liabilities	45,274,018	48,313,076	3,039,058	6.7
Total liabilities	51,125,994	54,987,797	3,861,803	7.6
Deferred Inflows of Resources	3,985,369	1,119,181	(2,866,188)	(71.9)
Net Position				
Net investment in capital assets	45,318,973	53,443,793	8,124,820	17.9
Restricted - Capital purchases	-	113,045	113,045	-
Unrestricted	(8,847,737)	(13,148,037)	(4,300,300)	48.6
Total net position	\$ 36,471,236	\$ 40,408,801	\$ 3,937,565	10.8

Note: 2018 amounts above include the net OPEB liability of \$42.3 million following the implementation of Governmental Accounting Standards Board (GASB) 75.

Capital Area Transportation Authority

Management's Discussion and Analysis (Continued)

The Authority's Changes in Net Position

The following table compares the Authority's statement of revenue, expenses, and changes in net position from 2018 to 2019:

	Business-type Activities			
	2018	2019	Change	Percent Change
Revenue				
Operating revenue	\$ 12,076,644	\$ 14,362,822	\$ 2,286,178	18.9
Nonoperating revenue - Net of expenses	35,224,683	37,612,276	2,387,593	6.8
Total revenue	47,301,327	51,975,098	4,673,771	9.9
Expenses				
Operating expense before depreciation	47,862,525	56,095,569	8,233,044	17.2
Depreciation expense	7,979,245	6,232,964	(1,746,281)	(21.9)
Total expenses	55,841,770	62,328,533	6,486,763	11.6
Capital contributions	1,043,659	14,291,000	13,247,341	1,269.3
Special item	(3,762,410)	-	3,762,410	(100.0)
Change in Net Position	(11,259,194)	3,937,565	15,196,759	(135.0)
Net Position - Beginning of year, as previously reported	80,817,167	36,471,236	(44,345,931)	(54.9)
Cumulative Effect of Change in Accounting	(33,086,737)	-	33,086,737	(100.0)
Net Position - Beginning of year	47,730,430	36,471,236	(11,259,194)	(23.6)
Net Position - End of year	<u>\$ 36,471,236</u>	<u>\$ 40,408,801</u>	<u>\$ 3,937,565</u>	10.8

Capital Assets and Debt Administration

The Authority continues to invest in capital assets, including vehicles, infrastructure, and equipment. At September 30, 2019 and 2018, the Authority had \$53 million and \$45 million, respectively, invested in capital assets. During fiscal year 2019, the Authority made capital additions of \$14.4 million, of which \$13.5 million consisted of revenue-producing vehicles.

Detailed information concerning capital assets can be found in Note 4 in the notes to the financial statements.

Long-term Debt

At year end, the Authority had no long-term installment debt. Additional detailed information concerning the Authority's long-term obligations can be found in the notes to the financial statements.

Factors Bearing on the Authority's Future

At the time these financial statements were prepared and audited, the Authority was aware of one circumstance that could significantly affect its financial health in the future - the Authority receives a significant portion of its revenue from property taxes levied on real and personal property located in five local governmental units: City of Lansing, Michigan; City of East Lansing, Michigan; Lansing Charter Township; Delhi Charter Township; and Meridian Charter Township. The millage in support of the Authority is due to expire in 2020. The Authority will be seeking renewal of the millage, through a ballot proposal, at or near the value currently being levied prior to expiration of the existing millage. The Authority's ability to continue its mission will be greatly affected by the results of the ballot proposal.

Capital Area Transportation Authority

Management's Discussion and Analysis (Continued)

Requests for Further Information

This financial report is intended to provide a general overview of the Authority's finances and demonstrate the Authority's accountability for the money it receives. If you have questions about this report or need additional information, please contact the Capital Area Transportation Authority at 4615 Tranter Ave., Lansing, MI 48910.

Capital Area Transportation Authority

Statement of Net Position

September 30, 2019

Assets

Current assets:

Cash and cash equivalents (Note 3)	\$ 54,242
Investments (Note 3)	15,220,426
Receivables:	
Accrued interest receivable	77,484
Local contributions and contract revenue receivable	2,353,000
Due from other governments	1,052,155
Due from federal government	9,924,721
Due from state government	7,078,390
Inventories	1,475,660
Prepaid expenses	727,396
Total current assets	37,963,474

Noncurrent assets

Capital assets: (Note 4)	
Assets not subject to depreciation	2,866,715
Assets subject to depreciation - Net	50,577,078
Total noncurrent assets	53,443,793
Total assets	91,407,267

Deferred Outflows of Resources

Deferred outflows related to pensions (Note 6)	4,108,093
Deferred OPEB costs (Note 7)	1,000,419
Total deferred outflows of resources	5,108,512

Liabilities

Current liabilities:

Accounts payable	2,196,706
Accrued liabilities and other	2,765,485
Unearned revenue	142,134
Accrued vacation, incentive, and sick pay	1,093,250
Reserve for workers' compensation claims (Note 5)	77,146
Reserve for health insurance costs (Note 5)	400,000
Total current liabilities	6,674,721

Noncurrent liabilities:

Net pension liability (Note 6)	4,064,481
Net OPEB liability (Note 7)	44,248,595
Total noncurrent liabilities	48,313,076
Total liabilities	54,987,797

Deferred Inflows of Resources

Deferred pension cost reductions (Note 6)	814,627
Deferred OPEB cost reductions (Note 7)	304,554
Total deferred inflows of resources	1,119,181

Net Position

Net investment in capital assets	53,443,793
Restricted - Capital purchases	113,045
Unrestricted	(13,148,037)
Total net position	\$ 40,408,801

Capital Area Transportation Authority

Statement of Revenue, Expenses, and Changes in Net Position

Year Ended September 30, 2019

Operating Revenue	
Linehaul	\$ 2,444,324
Contract services	9,608,090
Paratransit	867,379
Rural service	53,997
Senior shopping bus	5,288
Other revenue	1,383,744
	<hr/>
Total operating revenue	14,362,822
Operating Expenses	
Labor and fringe benefits	33,807,252
Services	3,125,877
Advertising	293,585
Materials, fuel, and supplies	4,298,097
Grant-funded supplies	1,109,293
Utilities	736,181
Insurance and self-insured costs	3,691,119
Purchased transportation services	8,471,906
Miscellaneous	547,851
Leases and rentals	14,408
Depreciation	6,232,964
	<hr/>
Total operating expenses	62,328,533
Operating Loss	(47,965,711)
Nonoperating Revenue (Expense)	
Investment income - Net	946,303
Property tax revenue	17,426,096
Government operating grants - Federal	2,135,066
Government operating grants - State	17,133,377
Gain on sale of assets	14,995
Loss on sale of assets	(39,148)
Interest on operating lease	(4,413)
	<hr/>
Total nonoperating revenue	37,612,276
Loss - Before capital grants	(10,353,435)
Capital Grants	14,291,000
	<hr/>
Change in Net Position	3,937,565
Net Position - Beginning of year	36,471,236
	<hr/>
Net Position - End of year	\$ 40,408,801

Capital Area Transportation Authority

Statement of Cash Flows

Year Ended September 30, 2019

Cash Flows from Operating Activities

Receipts from operations	\$ 13,069,338
Payments to suppliers	(13,525,464)
Payments to employees and fringes	(31,024,427)
Payments for purchased transportation	<u>(8,471,906)</u>
Net cash and cash equivalents used in operating activities	(39,952,459)

Cash Flows from Noncapital Financing Activities

Federal operating grants	2,428,639
State of Michigan grants	13,056,540
Local nonoperating receipts	<u>16,217,263</u>
Net cash and cash equivalents provided by noncapital financing activities	31,702,442

Cash Flows from Capital and Related Financing Activities

Receipt of capital grants	4,482,773
Proceeds from sale of capital assets	14,995
Purchase of capital assets	<u>(14,401,345)</u>
Net cash and cash equivalents used in capital and related financing activities	(9,903,577)

Cash Flows from Investing Activities

Investment income	1,024,076
Proceeds from sale and maturities of investment securities	<u>15,226,933</u>
Net cash and cash equivalents provided by investing activities	<u>16,251,009</u>

Net Decrease in Cash and Cash Equivalents

(1,902,585)

Cash and Cash Equivalents - Beginning of year

1,956,827

Cash and Cash Equivalents - End of year

\$ 54,242

Reconciliation of Operating Loss to Net Cash Used in Operating Activities

Operating loss	\$ (47,965,711)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation	6,232,964
Changes in assets and liabilities:	
Receivables	(1,293,484)
Inventories	(130,198)
Prepaid and other assets	(268,009)
Accrued vacation, incentive, and sick pay	161,696
Accounts payable	692,743
Net pension and OPEB liabilities and related deferrals	<u>2,617,540</u>
Total adjustments	<u>8,013,252</u>
Net cash and cash equivalents used in operating activities	<u><u>\$ (39,952,459)</u></u>

Capital Area Transportation Authority

Statement of Fiduciary Net Position

	Pension Plans December 31, 2018	Retiree OPEB Trust September 30, 2019	Total Fiduciary Funds
Assets			
Cash and cash equivalents	\$ -	\$ 3,047	\$ 3,047
Investments: (Note 3)			
Mutual funds	-	9,276,853	9,276,853
Group annuity contracts	52,211,071	-	52,211,071
Total assets	52,211,071	9,279,900	61,490,971
Liabilities	-	-	-
Net Position - Restricted for pension and other employee benefits	<u>\$ 52,211,071</u>	<u>\$ 9,279,900</u>	<u>\$ 61,490,971</u>

Capital Area Transportation Authority

Statement of Changes in Fiduciary Net Position

	Pension Plans December 31, 2018	Retiree OPEB Trust September 30, 2019	Total Fiduciary Funds
Additions			
Investment income (loss) (net of expenses):			
Interest and dividends	\$ 661,244	\$ 190,925	\$ 852,169
Change in fair value of investments	(1,331,489)	279,160	(1,052,329)
Net investment (loss) income	(670,245)	470,085	(200,160)
Contributions:			
Employer contributions	1,715,952	1,880,969	3,596,921
Member contributions	1,233,509	-	1,233,509
Total contributions	2,949,461	1,880,969	4,830,430
Total additions	2,279,216	2,351,054	4,630,270
Deductions			
Benefit payments	4,761,009	1,229,414	5,990,423
Administrative expenses	71,911	-	71,911
Total deductions	4,832,920	1,229,414	6,062,334
Net (Decrease) Increase in Net Position Held in Trust	(2,553,704)	1,121,640	(1,432,064)
Net Position Restricted for Pension and Other Employee Benefits - Beginning of year	54,764,775	8,158,260	62,923,035
Net Position Restricted for Pension and Other Employee Benefits - End of year	\$ 52,211,071	\$ 9,279,900	\$ 61,490,971

September 30, 2019

Note 1 - Significant Accounting Policies

Reporting Entity

The Capital Area Transportation Authority (the "Authority") is a public body organized as a legal entity pursuant to the Mass Transportation System Authorities Act, Public Act 55 of 1963. The Authority has the capability and authority to provide public transportation to the general public in the greater Lansing area. Its member municipalities include the cities of Lansing and East Lansing, Michigan and the townships of Delhi, Lansing, and Meridian. The Authority is also authorized by the act to operate within certain service boundaries, which include the counties of Ingham, Eaton, and Clinton, Michigan. The Authority has contracted with the County of Ingham, Michigan to administer and manage transportation services to the area in the county not included in the municipalities listed above.

The Authority's operating fund and Retiree OPEB Trust fund have a September 30 year end. The pension plan funds are maintained on a calendar year reporting basis. The September 30, 2019 financial statements of the Authority include certain pension plan data as of December 31, 2018.

Accounting and Reporting Principles

The Capital Area Transportation Authority follows accounting principles generally accepted in the United States of America (GAAP) applicable to governmental units. Accounting and financial reporting pronouncements are promulgated by the Governmental Accounting Standards Board. The following is a summary of the significant accounting policies used by the Authority:

Report Presentation

This report includes the fund-based statements of the Authority. In accordance with government accounting principles, a government-wide presentation with program and general revenue is not applicable to special purpose governments engaged only in business-type activities.

Fund Accounting

Proprietary Funds

Proprietary funds include enterprise funds (which provide goods or services to users in exchange for charges or fees). The Authority reports its operations in a single enterprise fund.

Fiduciary Funds

Fiduciary funds include amounts held in a fiduciary capacity for others. These amounts will not be used to operate our Authority's programs. The Authority reports pension and OPEB trust funds that account for the activities of the Union and Administrative employees' pension plans and the Retiree OPEB Trust as fiduciary funds.

Basis of Accounting

Proprietary funds and fiduciary funds use the economic resources measurement focus and the full accrual basis of accounting. Revenue is recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Specific Balances and Transactions

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired.

Note 1 - Significant Accounting Policies (Continued)

Investments

Investments are reported at fair value or estimated fair value. Pension plan investments in group annuity contracts are valued at net asset value, which approximates fair value.

Inventories and Prepaid Items

Inventories are valued at cost, on a first-in, first-out basis. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items.

Capital Assets

Capital assets, which include property, plant, vehicles, and equipment, are reported in the proprietary fund financial statements. Capital assets are defined by the Authority as assets with an initial individual cost of more than \$1,500 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated acquisition value at the date of donation.

Interest incurred during the construction of capital assets is included as part of the capitalized value of the assets constructed.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

	<u>Depreciable Life - Years</u>
Buildings	10-40
Equipment	3-10
Vehicles	4-12
Bus shelters	15
Furniture, fixtures, and equipment	5-12

Local Contributions and Contract Revenue

In accordance with the property tax levies in each of the member municipalities, the Authority has recorded accounts receivable for amounts levied but not yet remitted to the Authority. In addition, the Authority has recorded accounts receivable related to contract services provided and not yet paid in accordance with the contracts in place with the contracted service providers.

Grant Activities

The federal government, through the Federal Transit Administration (FTA) and the Michigan Department of Transportation (MDOT), provides financial assistance and grants directly to the Authority for operations and acquisition of property and equipment. Operating grants are recorded as grant receivables and revenue when the qualified expenditures are recorded. Federal and state capital acquisition grants fund the purchase of capital items, including buses and related transportation equipment used by the Authority. Capital grants for the acquisition of capital assets are recorded as grants receivable in the statement of net position and capital contributions in the statement of revenue, expenses, and changes in net position when the related qualified expenditures are incurred.

When assets acquired with capital grant funds are disposed, the Authority is required to notify the granting federal agency. A proportional amount of the sale proceeds or fair market value, if any, of such property may be used to acquire like-kind replacement assets or can be remitted to the granting federal agency at its discretion.

Note 1 - Significant Accounting Policies (Continued)

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense) until then. The Authority reports deferred outflows of resources related to pensions and OPEB.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. The Authority reports deferred inflows of resources related to pensions and OPEB.

Net Position Flow Assumption

The Authority will sometimes fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position, a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

Property Tax Revenue

Property taxes are levied on each December 1 or July 1 and become an enforceable lien at that time by the counties of Ingham, Eaton, and Clinton, Michigan; cities of Lansing and East Lansing, Michigan; and townships of Delhi, Lansing, and Meridian. Property taxes are recognized as revenue when levied, with proper allowances made for estimated adjustments and Michigan Tax Tribunal refunds.

Pension

The Authority offers defined benefit pension plans to its employees. The Authority records a net pension liability for the difference between the total pension liability calculated by the actuary and the pension plans' fiduciary net position. For the purpose 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 Union and Administrative employees' pension plans and additions to/deductions from the pension plans' fiduciary net position have been determined on the same basis as they are reported by the pension plans. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms.

Other Postemployment Benefit Costs

The Authority offers retiree healthcare benefits to eligible retirees. The Authority records a net OPEB liability for the difference between the total OPEB liability calculated by the actuary and the OPEB plan's fiduciary net position. For the purpose of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the OPEB plan and additions to/deductions from the OPEB plan's fiduciary net position have been determined on the same basis as they are reported by the OPEB plan. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Accrued Vacation, Incentive, and Sick Pay

It is the Authority's policy to not permit employees to accumulate unused vacation time from year to year. The liability recorded at year end represents earned vacation, incentive, and paid personal time earned but not yet paid. The operating fund is used to liquidate these obligations.

September 30, 2019

Note 1 - Significant Accounting Policies (Continued)

Accrued Severance Pay

The Authority has recorded a liability for estimated benefits due to employees who had salaried and/or administrative status on May 1, 1990 and are expected to retire at age 55 or older with at least 10 years of continuous service. Employees meeting these requirements are entitled to 90 days of pay. The operating fund is used to liquidate these obligations.

Proprietary Funds Operating Classification

The Authority distinguishes operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the Authority is charges to customers for sales and services. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Use of 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 statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Upcoming Accounting Pronouncement

In January 2017, the Governmental Accounting Standards Board issued Statement No. 84, *Fiduciary Activities*. This statement establishes criteria for identifying fiduciary activities of all state and local governments. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. The Authority is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for the Authority's financial statements for the year ending September 30, 2020.

In June 2017, the GASB issued Statement No. 87, *Leases*, which improves accounting and financial reporting for leases by governments. This statement requires recognition of certain lease assets and liabilities for leases that were previously classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. The Authority is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for the Authority's financial statements for the year ending September 30, 2021.

Note 2 - State of Michigan Operating Assistance Funds

Under Act 51 of the Public Acts of 1951, as amended, the State of Michigan makes distributions of funds that have been appropriated for mass transit operating assistance. The Authority has recorded operating grant revenue under Act 51 based on a formula that takes into account the eligible costs incurred by the Authority and preliminary information made available by the Michigan Department of Transportation (MDOT) as to the eligible expenses reimbursement percentage for the fiscal year ended September 30, 2019.

September 30, 2019

Note 2 - State of Michigan Operating Assistance Funds (Continued)

The latest "final" determination of State of Michigan operating assistance allocable to the Authority in accordance with the Act 51 funding formula was for the fiscal year ended September 30, 2016. The resulting increase in revenue has been finalized with the State, but not paid back by the State as of September 30, 2019. Furthermore, the Authority awaits the "final" determination for the years ended September 30, 2017, 2018, and 2019 (open years). The Authority has recorded a receivable based on MDOT's preliminary eligible expenses reimbursement percentage for each of the open years. Management estimates the results of the State's final determination of the Act 51 funding formula for the open years will not materially change the amounts already recorded; therefore, no additional liability or receivable has been recorded.

Note 3 - Deposits and Investments

Deposits and investments are reported in the financial statements as follows:

	Business-type Activities	Fiduciary Activities	Total
Cash and cash equivalents	\$ 54,242	\$ 3,047	\$ 57,289
Investments	15,220,426	61,487,924	76,708,350
Total deposits and investments	<u>\$ 15,274,668</u>	<u>\$ 61,490,971</u>	<u>\$ 76,765,639</u>

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The law also allows investments outside the state of Michigan when fully insured. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The pension trust funds and retiree healthcare fund are also authorized by Michigan Public Act 314 of 1965, as amended, to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, real estate (if the trust fund's assets exceed \$250 million), debt or equity of certain small businesses, certain state and local government obligations, and certain other specified investment vehicles.

The Authority has designated one bank for the deposit of its funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government, bank accounts and CDs, commercial paper rated at the time of purchase within the two highest classifications established, and investment pools organized by a financial institution whose deposits are insured by an agency of the United States government.

The Authority's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the Authority's deposits may not be returned to it. The Authority does not have a deposit policy for custodial credit risk. At year end, the Authority had \$1,207,669 of bank deposits (checking and savings accounts) that were uninsured and uncollateralized. The Authority believes that, due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Authority evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

September 30, 2019

Note 3 - Deposits and Investments (Continued)

Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Authority's investment policy does not have specific limits in excess of state law on investment maturities, other than limiting investments in commercial paper, which can only be purchased with a 270-day maturity.

At year end, the Authority had the following investments:

Investment	Fair Value	Weighted-average Maturity (Years)
Primary Government		
U.S. Treasury securities	\$ 14,321,310	1.03
U.S. government agency securities	<u>899,116</u>	0.24
Total	<u>\$ 15,220,426</u>	
Investment	Carrying Value	Weighted-average Maturity (Years)
Fiduciary Funds		
Group annuity contracts	\$ 52,211,071	N/A
Mutual funds	<u>9,276,853</u>	7.93
Total	<u>\$ 61,487,924</u>	

Credit Risk

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The Authority has no investment policy that would further limit its investment choices, other than limiting commercial paper to mature not more than 270 days after the date of purchase.

Investment	Carrying Value	Rating	Rating Organization
Primary Government			
U.S. Treasury securities	\$ 14,321,310	AA+	S&P
U.S. government agency securities	<u>899,116</u>	AA+	S&P
Total	<u>\$ 15,220,426</u>		
Investment	Carrying Value	Rating	Rating Organization
Fiduciary Funds			
Group annuity contracts	\$ 52,211,071	N/A	N/A
Mutual funds	<u>9,276,853</u>	4 stars	Morningstar
Total	<u>\$ 61,487,924</u>		

September 30, 2019

Note 3 - Deposits and Investments (Continued)

Fair Value Measurements

The Authority categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments that are measured at fair value using net asset value per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy below.

In instances whereby inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Authority's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

The Authority has the following recurring fair value measurements as of September 30, 2019:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at September 30, 2019
Assets				
Trading securities:				
Debt securities - U.S. government agency securities	\$ -	\$ 899,116	\$ -	\$ 899,116
Debt securities - U.S. Treasury securities	-	14,321,310	-	14,321,310
Mutual funds - Fixed income	3,265,490	-	-	3,265,490
Mutual funds - Equities	6,011,363	-	-	6,011,363
Group annuity contracts measured at net asset value				52,211,071
Total assets	<u>\$ 9,276,853</u>	<u>\$ 15,220,426</u>	<u>\$ -</u>	<u>\$ 76,708,350</u>

Mutual funds classified in Level 1 are valued using prices quoted in active markets for those securities.

The fair value of U.S. debt securities at September 30, 2019 was determined primarily based on Level 2 inputs. The Authority estimates the fair value of these investments using quoted prices for similar assets in active markets, quoted prices for identical or similar assets in markets that are not active, and inputs other than quoted prices that are observable for the asset, such as interest rates and yield curves, that are observable at commonly quoted intervals.

The valuation method for investments measured at net asset value (NAV) per share (or its equivalent) is presented in the table below.

Investments in Entities that Calculate Net Asset Value per Share

The Authority holds shares or interests in group annuity contracts whereby the fair value of the investments is measured on a recurring basis using net asset value per share (or its equivalent) of the investment companies as a practical expedient.

September 30, 2019

Note 3 - Deposits and Investments (Continued)

At September 30, 2019, the fair value, unfunded commitments, and redemption rules of those investments are as follows:

	Carrying Value	Unfunded Commitments	Redemption Frequency, if Eligible	Redemption Notice Period
Group annuity contracts	\$ 52,211,071	\$ -	N/A	None

The group annuity contracts are investment contracts with principal and stated rate of returns guaranteed by Principal Life Insurance Company. The group annuity contracts invest the majority of their assets in common stocks and bonds. The fair values of the investments in this class have been estimated using net asset value per share of the investments.

Note 4 - Capital Assets

Capital asset activity for the year ended September 30, 2019 was as follows:

	Balance October 1, 2018	Reclassifications and Adjustments	Additions	Disposals	Balance September 30, 2019
Capital assets not being depreciated:					
Land	\$ 2,442,267	\$ -	\$ -	\$ -	\$ 2,442,267
Construction in progress	152,106	(152,106)	424,448	-	424,448
Subtotal	2,594,373	(152,106)	424,448	-	2,866,715
Capital assets being depreciated:					
Buildings	40,730,235	4,898	49,659	(13,367)	40,771,425
Vehicles	60,994,426	29,600	13,479,715	(692,474)	73,811,267
Furniture, fixtures, and computers	8,299,685	121,137	245,489	(35,158)	8,631,153
Bus shelters and signs	1,135,309	17,675	33,328	(134,242)	1,052,070
Equipment	2,044,617	(36,720)	175,161	(66,890)	2,116,168
Subtotal	113,204,272	136,590	13,983,352	(942,131)	126,382,083
Accumulated depreciation:					
Buildings	19,942,261	-	1,293,256	(1,253)	21,234,264
Vehicles	42,196,423	-	4,134,994	(690,776)	45,640,641
Furniture, fixtures, and computers	6,824,546	(4,648)	559,492	(35,158)	7,344,232
Bus shelters and signs	541,622	-	67,695	(111,406)	497,911
Equipment	974,820	-	177,527	(64,390)	1,087,957
Subtotal	70,479,672	(4,648)	6,232,964	(902,983)	75,805,005
Net capital assets being depreciated	42,724,600	141,238	7,750,388	(39,148)	50,577,078
Net business-type activities capital assets	\$ 45,318,973	\$ (10,868)	\$ 8,174,836	\$ (39,148)	\$ 53,443,793

Depreciation expense recognized in fiscal year 2019 is \$6,232,964.

Note 5 - Risk Management

The Authority is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Authority has established a limited risk management program for workers' compensation. An excess coverage insurance policy covers individual claims in excess of \$500,000, aggregate claims in excess of \$1,505,000, and maximum insurance of \$5,000,000. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Authority estimates the liability for workers' compensation and health and related benefits claims that have been incurred through the end of the fiscal year, including claims that have been reported, as well as those that have not yet been reported. Changes in the estimated liability for the current fiscal and prior years were as follows:

	Workers' Compensation		Health and Related Benefit Claims	
	2019	2018	2019	2018
Estimated liability - Beginning of year	\$ 534,577	\$ 250,509	\$ 332,000	\$ 384,000
Estimated claims incurred, including changes in estimates	(376,404)	523,098	988,912	544,192
Claim payments	(81,027)	(239,030)	(920,912)	(596,192)
Estimated liability - End of year	<u>\$ 77,146</u>	<u>\$ 534,577</u>	<u>\$ 400,000</u>	<u>\$ 332,000</u>

Note 6 - Pension Plans

Plan Description

The Capital Area Transportation Authority provides a monthly retirement benefit to union and administrative employees who meet the eligibility requirements, including age and years of service. The benefits are provided through the Union Employees' Pension Plan and the Administrative Employees' Pension Plan, single-employer plans administered by the Authority.

The financial statements of each pension system are included in these financial statements as a pension trust fund (a fiduciary fund).

Benefits Provided

The Union Employees' Pension Plan and Administrative Employees' Pension Plan provide retirement, disability, and death benefits to union and administrative retirees. Retirement benefits are calculated as years of accrued service multiplied by scheduled rates, as determined by the employee's retirement date. To be eligible, employees must have a minimum number of years of service (100 percent vested after 10 years of service), as well as meeting minimum retirement age (59, or early retirement beginning at age 55). The benefits also include disability, single-sum death, and survivor annuity death.

Benefit terms are generally established and amended by authority of the Authority's board of directors, subject to the terms of collective bargaining.

Note 6 - Pension Plans (Continued)

Employees Covered by Benefit Terms

The following members were covered by the benefit terms:

	Union Employees' Pension Plan	Administrative Employees' Pension Plan
Date of member count	December 31, 2018	December 31, 2018
Inactive plan members or beneficiaries currently receiving benefits	107	40
Inactive plan members entitled to but not yet receiving benefits	43	39
Active plan members	229	51
Total employees covered by the plan	<u>379</u>	<u>130</u>

Contributions

State law requires public employers to make pension contributions in accordance with an actuarial valuation. The Authority hires an independent actuary for this purpose and annually contributes the amount determined to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Employees are required to make pension contributions of \$83.50 per week to the Union Employees' Pension Plan and 7 percent of compensation paid per month to the Administrative Employees' Pension Plan. The Authority's required contribution is determined after consideration of the required contribution rate of employees, including a required match of all participant contributions to the Union Employees' Pension Plan. For the year ended September 30, 2019, the Authority's average contribution rate was 7 percent and 21 percent of annual payroll for the Union Employees' Pension Plan and Administrative Employees' Pension Plan, respectively.

Net Pension Liability

The Authority chooses a date for each pension plan to measure its net pension liability. This is based on the measurement date of each pension plan, which may be based on a comprehensive valuation as of that date or based on an earlier valuation that has used procedures to roll the information forward to the measurement date.

	Union Employees' Pension Plan	Administrative Employees' Pension Plan
Measurement date used for the Authority net pension liability	December 31, 2018	December 31, 2018

Note 6 - Pension Plans (Continued)

Changes in the net pension (asset) liability during the measurement year were as follows:

Union Employees' Pension Plan

Changes in Net Pension (Asset) Liability	Increase (Decrease)		
	Total Pension Liability	Plan Net Position	Net Pension (Asset) Liability
Balance at January 1, 2018	\$ 33,382,014	\$ 36,173,350	\$ (2,791,336)
Changes for the year:			
Service cost	761,585	-	761,585
Interest	2,020,369	-	2,020,369
Changes in benefits	1,713,717	-	1,713,717
Differences between expected and actual experience	287,885	-	287,885
Changes in assumptions	709,441	-	709,441
Contributions - Employer	-	1,015,952	(1,015,952)
Contributions - Employee	-	1,015,951	(1,015,951)
Net investment loss	-	(352,613)	352,613
Benefit payments, including refunds	(1,439,726)	(1,439,726)	-
Administrative expenses	-	(46,522)	46,522
Net changes	4,053,271	193,042	3,860,229
Balance at December 31, 2018	\$ 37,435,285	\$ 36,366,392	\$ 1,068,893

The Union Employees' Pension Plan's fiduciary net position represents 97.1 percent of the total pension liability.

Administrative Employees' Pension Plan

Changes in Net Pension Liability	Increase (Decrease)		
	Total Pension Liability	Plan Net Position	Net Pension Liability
Balance at January 1, 2018	\$ 21,072,711	\$ 18,591,425	\$ 2,481,286
Changes for the year:			
Service cost	559,994	-	559,994
Interest	1,198,325	-	1,198,325
Differences between expected and actual experience	(1,115,225)	-	(1,115,225)
Changes in assumptions	445,745	-	445,745
Contributions - Employer	-	700,000	(700,000)
Contributions - Employee	-	217,558	(217,558)
Net investment loss	-	(317,632)	317,632
Benefit payments, including refunds	(3,321,283)	(3,321,283)	-
Administrative expenses	-	(25,389)	25,389
Net changes	(2,232,444)	(2,746,746)	514,302
Balance at December 31, 2018	\$ 18,840,267	\$ 15,844,679	\$ 2,995,588

The Administrative Employees' Pension Plan's fiduciary net position represents 84.1 percent of the total pension liability.

September 30, 2019

Note 6 - Pension Plans (Continued)

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

For the year ended September 30, 2019, the Authority recognized combined pension expense of \$2,579,523 from both plans.

At September 30, 2019, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions for both plans from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 1,603,881	\$ (814,627)
Changes in assumptions	957,725	-
Net difference between projected and actual earnings on pension plan investments	474,433	-
Employer contributions to the plan subsequent to the measurement date	1,072,054	-
	<u>1,072,054</u>	<u>-</u>
Total	<u>\$ 4,108,093</u>	<u>\$ (814,627)</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows (note that employer contributions subsequent to the measurement date will reduce the net pension liability and, therefore, will not be included in future pension expense):

Years Ending September 30	Amount
2020	\$ 879,812
2021	202,226
2022	224,578
2023	912,235
2024	2,561
Total	<u>\$ 2,221,412</u>

Actuarial Assumptions

The total pension liability in each actuarial valuation was determined using the following actuarial assumptions applied to all periods included in the measurement:

	Union Employees' Pension Plan	Administrative Employees' Pension Plan
Inflation	2.00%	2.00%
Salary increases (including inflation)	2.00%	4.00%
Investment rate of return (net of investment expenses)	6.00%	6.00%
Mortality rates	RP-2014 Mortality Table adjusted to 2006 base mortality rates projected with improvement scale MP-2018	RP-2014 Mortality Table adjusted to 2006 base mortality rates projected with improvement scale MP-2018

Note 6 - Pension Plans (Continued)

Discount Rate

As shown below, the discount rate used to measure the total pension liability was determined after considering a projection of the cash flows to determine whether the future contributions (made at the current contribution rates) will be sufficient to allow the pension plans' fiduciary net position to make all projected future benefit payments of current active and inactive employees.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Investment Rate of Return

Best estimates of arithmetic real rates of return as of the December 31, 2018 measurement date for each major asset class included in the pension plan's target asset allocation, as disclosed in the investment footnote, are summarized in the following tables:

Union Employees' Pension Plan

Asset Class	Union Employees' Pension Plan		Administrative Employees' Pension Plan	
	Target Allocation	Long-term Expected Real Rate of Return	Target Allocation	Long-term Expected Real Rate of Return
Large Cap S&P 500 Index Fund	55.00 %	6.00 %	60.00 %	6.00 %
General Investment Fund	45.00	1.50	40.00	1.50

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the Authority, calculated using the discount rate of 6.00 percent, as well as what the Authority's net pension liability (asset) would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	1 Percentage Point Decrease (5.0%)	Current Discount Rate (6.0%)	1 Percentage Point Increase (7.0%)
Net pension liability (asset) of the Union Employees' Pension Plan	\$ 5,605,600	\$ 1,068,893	\$ (2,598,532)
Net pension liability of the Administrative Employees' Pension Plan	5,233,307	2,995,588	1,129,367

Assumption Changes

With the most recent actuarial valuations, the mortality assumptions were updated to the RP-2014 Mortality Tables from the RP-2000 Mortality Tables.

Benefit Changes

With the most recent actuarial valuation for the Union Employees' Pension Plan, the most recent plan amendment executed on January 24, 2018 is reflected, which includes an increase of \$6 in the normal retirement benefit rate for termination dates after September 30, 2019.

September 30, 2019

Note 6 - Pension Plans (Continued)

Investment Policy

The pension plans' policy in regard to the allocation of invested assets is established and may be amended by the authority board by a majority vote of its members. It is the policy of the authority board to pursue an investment strategy that manages risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The pension plans' 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 authority board's adopted asset allocation policy as of September 30, 2019:

Asset Class	Target Allocation - Union Employees' Pension Plan	Target Allocation - Administrative Employees' Pension Plan
Large Cap S&P 500 Index Fund	55.00 %	60.00 %
General Investment Fund	45.00	40.00
Total	<u>100.00 %</u>	<u>100.00 %</u>

Rate of Return

For the year ended September 30, 2019, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was (0.78) percent for the union plan and (2.00) percent for the administrative plan. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Note 7 - Other Postemployment Benefit Plan

Plan Description

The Authority administers the retiree healthcare benefits plan (the "Plan"), a single-employer defined benefit OPEB plan that is used to provide postemployment benefits other than pensions (OPEB) for union and administrative employees of the Authority.

Management of the Plan is vested with the Authority's board, which consists of 10 members.

Benefits Provided

The Plan provides healthcare for retirees and their dependents. Benefits are provided through a third-party insurer, and the full cost of the benefits is covered by the plan.

Employees Covered by Benefit Terms

The following members were covered by the benefit terms:

Date of member count	September 30, 2017
Inactive plan members or beneficiaries currently receiving benefits	128
Active plan members	<u>214</u>
Total plan members	<u><u>342</u></u>

September 30, 2019

Note 7 - Other Postemployment Benefit Plan (Continued)

Contributions

The contribution requirements of the plan members and the Authority are established and may be amended by the authority board. Actively employed plan members have no obligation to contribute to the plan. Retiree healthcare costs are recognized when paid by the Authority on a "pay-as-you-go" basis. The Authority has no obligation to make contributions in advance of when the insurance premiums are due for payment. At its discretion, the Authority will contribute to the trust as able.

The Authority has chosen to use the September 30 measurement date as its measurement date for the net OPEB liability. The September 30, 2019 fiscal year end reported net OPEB liability was determined using a measure of the total OPEB liability and the OPEB net position as of the September 30, 2019 measurement date. The September 30, 2019 measurement date total OPEB liability was determined by an actuarial valuation performed as of September 30, 2017 and was rolled forward to the measurement date of September 30, 2019.

Changes in the net OPEB liability during the measurement year were as follows:

Changes in Net OPEB Liability	Increase (Decrease)		
	Total OPEB Liability	Plan Net Position	Net OPEB Liability
Balance at October 1, 2018	\$ 50,950,992	\$ 8,158,260	\$ 42,792,732
Changes for the year:			
Service cost	2,022,770	-	2,022,770
Interest	2,021,059	-	2,021,059
Differences between expected and actual experience	(80,917)	-	(80,917)
Changes in assumptions	(155,995)	-	(155,995)
Contributions - Employer	-	1,880,969	(1,880,969)
Net investment income	-	470,085	(470,085)
Benefit payments, including refunds	(1,229,414)	(1,229,414)	-
Net changes	2,577,503	1,121,640	1,455,863
Balance at September 30, 2019	\$ 53,528,495	\$ 9,279,900	\$ 44,248,595

The Plan's fiduciary net position represents 17.3 percent of the total OPEB liability.

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended September 30, 2019, the Authority recognized OPEB expense of \$3,608,893.

At September 30, 2019, the Authority reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 228,182	\$ (65,932)
Changes in assumptions	772,237	(127,108)
Net difference between projected and actual earnings on OPEB plan investments	-	(111,514)
Total	\$ 1,000,419	\$ (304,554)

Note 7 - Other Postemployment Benefit Plan (Continued)

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows (note that employer contributions subsequent to the measurement date will reduce the net OPEB liability and, therefore, will not be included in future OPEB expense):

Years Ending September 30	Amount
2020	\$ 158,946
2021	158,946
2022	158,946
2023	229,130
2024	(10,103)
Total	<u>\$ 695,865</u>

Actuarial Assumptions

The total OPEB liability in the September 30, 2017 actuarial valuation was determined using an inflation assumption included in the expected return; assumed salary increases (including inflation) of 4 percent; an investment rate of return (net of investment expenses, including inflation) of 7.0 percent; a healthcare cost trend rate of 8.5 percent, graded 0.25 percent per year to an ultimate rate of 4.5 percent; and the RP-2014 mortality tables with the MP-2018 improvement scale. All assumptions were applied to all periods included in the measurement.

Discount Rate

The discount rate used to measure the total OPEB liability was 3.91 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that authority contributions will be made at rates equal to the difference between actuarially determined contribution rates and the employee rate.

Based on those assumptions, the Plan's net position was not projected to be sufficient to make projected future benefit payments of current plan members beyond 2031. For projected benefits that are covered by projected assets, the long-term expected rate was used to discount the projected benefits. From the year that benefit payments were not projected to be covered by the projected assets (the "depletion date"), projected benefits were discounted at a discount rate reflecting a 20-year AA/Aa tax-exempt municipal bond yield.

Investment Rate of Return

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and adding expected inflation. Best estimates of arithmetic real rates of return as of the September 30, 2019 measurement date for each major asset class included in the OPEB plan's target asset allocation, as disclosed in the investment footnote, are summarized in the following table:

Asset Class	Long-term Expected Real Rate of Return
Stock market index fund	6.50 %
Bond and corporate index fund	2.75

September 30, 2019

Note 7 - Other Postemployment Benefit Plan (Continued)

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The following presents the net OPEB liability of the Authority, calculated using the discount rate of 3.91 percent, as well as what the Authority's net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	1 Percentage Point Decrease (2.91%)	Current Discount Rate (3.91%)	1 Percentage Point Increase (4.91%)
Net OPEB liability of the Plan	\$ 53,090,549	\$ 44,248,595	\$ 37,178,314

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rate

The following presents the net OPEB liability of the Authority, calculated using the healthcare cost trend rate of 8.5 percent, as well as what the Authority's net OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	1 Percentage Point Decrease (7.5%)	Current Healthcare Cost Trend Rate (8.5%)	1 Percentage Point (9.5%)
Net OPEB liability of the Plan	\$ 35,602,999	\$ 44,248,595	\$ 55,311,579

Assumption Changes

Since the prior valuation, the mortality assumption was updated and the discount rate increased from 3.86 percent to 3.91 percent.

Investment Policy

The OPEB plan's policy in regard to the allocation of invested assets is established and may be amended by the OPEB board by a majority vote of its members. It is the policy of the OPEB board to pursue an investment strategy that manages risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The OPEB 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 OPEB board's adopted asset allocation policy as of September 30, 2019:

Asset Class	Target Allocation
Stock market index fund	60.00 %
Bond and corporate index fund	40.00
Total	<u>100.00 %</u>

Concentrations

At September 30, 2019, the Plan held approximately 100 percent of its investment portfolio in three Vanguard mutual funds.

Rate of Return

For the year ended September 30, 2019, the annual money-weighted rate of return on OPEB plan investments, net of OPEB plan investment expense, was 5.65 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

September 30, 2019

Note 8 - Commitments

Bus tires are to be furnished to the Authority under the terms of a supplier agreement effective January 1, 2019. Payments for the use of the tires are to be made monthly and are based on the number of miles run. Bus tire expense under this agreement for the year ended September 30, 2019 was \$175,927.

Note 9 - Contingent Liabilities

Amounts received or receivable from grantor agencies are subject to audit and potential adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the Authority expects such amounts, if any, to be immaterial. A provision for vehicle claims that existed at September 30, 2019 is recorded as a reserve for vehicle liability claims, as estimated by management, on the statement of net position.

The Authority is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, it is the opinion of the Authority's counsel that resolution of these matters will not have a material adverse effect on the financial condition of the Authority.

Note 10 - Cost Allocation Plan

The Authority has a cost allocation plan for all allocated expenses. The three allocation plans were approved by the State's Bureau of Passenger Transportation (BPT). The first allocation plan is the 2012 Administrative Cost Plan approved in 2012, which was the allocation plan used in the preparation of the financial statements for all expenses except for Meals on Wheels expenses and Job Access and Reverse Commute (JARC) program expenses. There are separate allocation plans for the Meals on Wheels service (approved in 2013) and JARC program expenses (approved in 2015).

Note 11 - Eligible and Ineligible Costs

The State's Office of Passenger Transportation (OPT) requires the Authority to include supplemental schedules to the financial statements. These supplemental schedules are included among the other supplemental information of this report. These schedules include eligible expenses to be reimbursed with state funds that have been appropriate for mass transit operating assistance under Act 51. The schedules also detail ineligible expenses that cannot be reimbursed. The supplemental schedules detail any Section 5307 (capital funding) and any other grant funding used to pay operating expenses and either subtract them out as ineligible or do not include them in the total expenses to be reimbursed.

Depreciation expense on assets purchased with state or federal grant funds is shown as ineligible expenses. The ineligible depreciation amount of \$6,230,141 on assets purchased with state or federal funds has been reported in PTMS (Public Transportation Management System) code 55007. Depreciation expense of assets purchased with local funds where the useful life of the asset purchased has been approved by the OPT is reported as an eligible expense.

The revenue schedules report \$94,430 as building rental, \$132,438 as parking lot rental, and \$1,151,781 in other nontransportation revenue. Expenses of \$238,601 associated with building rental are shown as ineligible under PTMS code 56004. Expense of \$115,715 associated with other nontransportation revenue is shown as ineligible under PTMS code 55010.

Other expenses in the amount of \$376,205 are reported as ineligible under PTMS code 55008. This includes \$5,095 in Meals on Wheels revenue that was reported in revenue code 40400 and other ineligible items, such as gifts and donations. Ineligible interest of \$4,413 was reported under PTMS code 55006.

A portion of ineligible association dues in the amount of \$9,125 was reported as ineligible under PTMS code 55009.

Note 11 - Eligible and Ineligible Costs (Continued)

Other operating expenses that were paid for by capital contract are subtracted out as ineligible. Expenses include: preventive maintenance expenses of \$1,000,000 (PTMS code 55011) and operating expenses paid by capital contract of \$1,109,294 (PTMS code 57604).

Loss on disposal of assets in the amount of \$39,148 was included in expenses and shown as ineligible under PTMS code 58009.

The Authority expensed \$2,584,660 in pension expense, of which \$889,617 has been shown as ineligible under PTMS code 58020 - Ineligible DB Pension. The amount of \$1,695,043 was paid into the pension trust in fiscal year 2019 by the Authority.

The Authority expensed \$3,224,640 in other postemployment benefits, of which \$1,727,923 has been shown as ineligible expense under PTMS code 58020 - Ineligible DB OPEB. An amount of \$652,185 was paid to the OPEB trust in fiscal year 2019. An additional \$844,531 was also paid in retirement healthcare expenses in fiscal year 2019 and is reported in fringe benefit expenses.

Note 12 - Tax Abatements

The Authority receives reduced property tax revenue as a result of Industrial Facilities Tax exemptions (PA 198 of 1974) and Act 328 personal property exemptions granted by local cities and townships within the Authority's service area. Industrial facility exemptions are intended to promote construction of new industrial facilities or to rehabilitate historical facilities; Act 328 personal property exemptions can be given to eligible businesses within a designated eligible distressed district, as determined by the local governing body.

For the fiscal year ended September 30, 2019, the Authority's property tax revenue was reduced by approximately \$245,000 in known property tax abatements. The Authority is ineligible to give a tax abatement directly.

Required Supplemental Information

Capital Area Transportation Authority

Required Supplemental Information Schedule of Changes in the Net Pension Liability and Related Ratios Union Employees' Retirement Plan

	Last Five Fiscal Years				
	Measurement Date is December 31 of the Previous Year				
	2019	2018	2017	2016	2015
Total Pension Liability					
Service cost	\$ 761,585	\$ 778,029	\$ 769,047	\$ 901,345	\$ 878,914
Interest	2,020,369	1,929,620	1,835,268	1,731,432	1,566,841
Changes in benefit terms	1,713,717	-	-	-	-
Differences between expected and actual experience	287,885	137,767	474,688	600,589	336,591
Changes in assumptions	709,441	49,796	54,395	45,762	-
Benefit payments, including refunds	(1,439,726)	(1,734,240)	(1,442,944)	(1,408,792)	(1,698,741)
Net Change in Total Pension Liability	4,053,271	1,160,972	1,690,454	1,870,336	1,083,605
Total Pension Liability - Beginning of year	33,382,014	32,221,042	30,530,588	28,660,252	27,576,647
Total Pension Liability - End of year	\$ 37,435,285	\$ 33,382,014	\$ 32,221,042	\$ 30,530,588	\$ 28,660,252
Plan Fiduciary Net Position					
Contributions - Employer	\$ 1,015,952	\$ 968,784	\$ 871,474	\$ 897,960	\$ 825,579
Contributions - Member	1,015,951	968,784	871,474	897,960	825,579
Net investment (loss) income	(352,613)	3,856,679	3,964,867	569,654	2,632,772
Administrative expenses	(46,522)	(41,047)	(51,928)	(1,408,792)	(63,761)
Benefit payments, including refunds	(1,439,726)	(1,734,240)	(1,442,944)	(73,743)	(1,698,741)
Other	-	-	(6,907)	-	-
Net Change in Plan Fiduciary Net Position	193,042	4,018,960	4,206,036	883,039	2,521,428
Plan Fiduciary Net Position - Beginning of year	36,173,350	32,154,390	27,948,354	27,065,315	24,543,887
Plan Fiduciary Net Position - End of year	\$ 36,366,392	\$ 36,173,350	\$ 32,154,390	\$ 27,948,354	\$ 27,065,315
Authority's Net Pension Liability (Asset) - Ending	\$ 1,068,893	\$ (2,791,336)	\$ 66,652	\$ 2,582,234	\$ 1,594,937
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	97.14 %	108.36 %	99.79 %	91.54 %	94.44 %
Covered Payroll	\$ 15,464,724	\$ 13,242,033	\$ 13,751,977	\$ 13,051,323	\$ 12,216,374
Authority's Net Pension Liability (Asset) as a Percentage of Covered Payroll	6.91 %	(21.08)%	0.48 %	19.79 %	13.06 %

This schedule is intended to show information for 10 years. Additional years' information will be reported as it becomes available.

Assumption Changes

With the 2018 actuarial valuation, the mortality assumption was updated to the RP-2014 Mortality Tables from the RP-2000 Mortality Tables.

Benefit Changes

With the 2018 actuarial valuation, the most recent plan amendment executed on January 24, 2018 is reflected, which includes an increase of \$6 in the normal retirement benefit rate for termination dates after September 30, 2019.

Capital Area Transportation Authority

Required Supplemental Information Schedule of Changes in the Net Pension Liability and Related Ratios Administrative Employees' Retirement Plan

	Last Five Fiscal Years				
	Measurement Date is December 31 of the Previous Year				
	2019	2018	2017	2016	2015
Total Pension Liability					
Service cost	\$ 559,994	\$ 441,360	\$ 505,572	\$ 414,794	\$ 424,887
Interest	1,198,325	1,181,777	1,192,736	1,137,093	1,065,211
Differences between expected and actual experience	(1,115,225)	1,751,137	110,949	232,973	329,293
Changes in assumptions	445,745	25,631	23,815	432,360	-
Benefit payments, including refunds	(3,321,283)	(3,164,209)	(738,853)	(2,022,338)	(952,299)
Net Change in Total Pension Liability	(2,232,444)	235,696	1,094,219	194,882	867,092
Total Pension Liability - Beginning of year	21,072,711	20,837,015	19,742,796	19,547,914	18,680,822
Total Pension Liability - End of year	\$ 18,840,267	\$ 21,072,711	\$ 20,837,015	\$ 19,742,796	\$ 19,547,914
Plan Fiduciary Net Position					
Contributions - Employer	\$ 700,000	\$ 700,000	\$ 633,906	\$ 395,223	\$ 409,598
Contributions - Member	217,558	192,200	88,907	180,979	193,090
Net investment (loss) income	(317,632)	2,776,672	846,742	144,288	1,556,717
Administrative expenses	(25,389)	(29,531)	(51,063)	(42,357)	(35,930)
Benefit payments, including refunds	(3,321,283)	(3,164,209)	(738,853)	(2,022,338)	(952,299)
Other	-	-	(4,358)	-	-
Net Change in Plan Fiduciary Net Position	(2,746,746)	475,132	775,281	(1,344,205)	1,171,176
Plan Fiduciary Net Position - Beginning of year	18,591,425	18,116,293	17,341,012	18,685,217	17,514,041
Plan Fiduciary Net Position - End of year	\$ 15,844,679	\$ 18,591,425	\$ 18,116,293	\$ 17,341,012	\$ 18,685,217
Authority's Net Pension Liability - Ending	\$ 2,995,588	\$ 2,481,286	\$ 2,720,722	\$ 2,401,784	\$ 862,697
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	84.10 %	88.23 %	86.94 %	87.83 %	95.59 %
Covered Payroll	\$ 3,262,260	\$ 3,153,829	\$ 2,344,817	\$ 2,981,719	\$ 3,039,472
Authority's Net Pension Liability as a Percentage of Covered Payroll	91.83 %	78.68 %	116.03 %	80.55 %	28.38 %

This schedule is intended to show information for 10 years. Additional years' information will be reported as it becomes available.

Assumption Changes

With the 2018 actuarial valuation, the mortality assumption was updated to the RP-2014 Mortality Tables from the RP-2000 Mortality Tables.

Capital Area Transportation Authority

**Required Supplemental Information
Schedule of Pension Investment Returns**

	Last Five Fiscal Years				
	Measurement Date is December 31 of the Previous Year				
	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Union Employees' Retirement Plan - Annual money-weighted rate of return - Net of investment expense	(0.78)%	12.52 %	7.38 %	2.07 %	10.20 %
Administrative Employees' Retirement Plan - Annual money-weighted rate of return - Net of investment expense	(2.00)%	16.57 %	8.07 %	0.80 %	8.60 %

Capital Area Transportation Authority

Required Supplemental Information Schedule of Changes in the Net OPEB Liability and Related Ratios

	Last Three Fiscal Years		
	2019	2018	2017
Total OPEB Liability			
Service cost	\$ 2,022,770	\$ 1,781,196	\$ 1,738,555
Interest	2,021,059	1,377,737	1,299,584
Differences between expected and actual experience	(80,917)	341,423	75,294
Changes in assumptions	(155,995)	1,155,482	-
Benefit payments, including refunds	(1,229,414)	(947,617)	(1,185,270)
Net Change in Total OPEB Liability	2,577,503	3,708,221	1,928,163
Total OPEB Liability - Beginning of year	50,950,992	47,242,771	33,602,319
Total OPEB Liability - End of year	\$ 53,528,495	\$ 50,950,992	\$ 35,530,482
Plan Fiduciary Net Position			
Contributions - Employer	\$ 1,880,969	\$ 1,568,146	\$ 1,725,577
Contributions - Employee	-	-	50,673
Net investment income	470,085	841,383	794,781
Benefit payments, including refunds	(1,229,414)	(947,617)	(1,185,271)
Other	-	-	3,047
Net Change in Plan Fiduciary Net Position	1,121,640	1,461,912	1,388,807
Plan Fiduciary Net Position - Beginning of year	8,158,260	6,696,348	5,307,541
Plan Fiduciary Net Position - End of year	\$ 9,279,900	\$ 8,158,260	\$ 6,696,348
Net OPEB Liability - Ending	\$ 44,248,595	\$ 42,792,732	\$ 28,834,134
Plan Fiduciary Net Position as a Percentage of Total OPEB Liability	17.34 %	16.01 %	18.85 %
Covered Employee Payroll	\$ 21,304,311	\$ -	\$ -
Net OPEB Liability as a Percentage of Covered Employee Payroll	207.70 %	- %	- %

This schedule is intended to show information for 10 years. Additional years' information will be reported as it becomes available.

During 2018, the Authority and actuary identified an addition to the total OPEB liability that should have been included in the 2017 total OPEB liability. This adjustment was added to the beginning liability for 2018, but, as a result, that amount does not equal the 2017 ending liability.

Assumption Changes

Since the 2018 valuation, the mortality assumption was updated, and the discount rate increased from 3.86 percent to 3.91 percent.

Capital Area Transportation Authority

Required Supplemental Information Schedule of OPEB Contributions

Last Ten Fiscal Years Years Ended September 30

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Actuarially determined contribution	\$ 7,677,439	\$ 5,138,595	\$ 4,705,924	\$ 2,848,496	\$ 2,529,661	\$ 2,529,661	\$ 2,551,485	\$ 2,448,454	\$ 2,167,552	\$ 1,634,661
Contributions in relation to the actuarially determined contribution	1,880,969	1,568,146	1,725,577	2,168,986	983,504	1,422,339	1,304,228	1,548,837	1,644,702	1,479,282
Contribution Deficiency	\$ (5,796,470)	\$ (3,570,449)	\$ (2,980,347)	\$ (679,510)	\$ (1,546,157)	\$ (1,107,322)	\$ (1,247,257)	\$ (899,617)	\$ (522,850)	\$ (155,379)
Covered employee payroll	\$ 21,304,311	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

Notes to Schedule of Contributions

Actuarial valuation information relative to the determination of contributions:

Valuation date Contributions for the Authority's fiscal year ended September 30, 2019 were determined based on the actuarial valuation as of September 30, 2017.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal (level percent)
Amortization method	Level dollar, closed
Remaining amortization period	23 years
Asset valuation method	Equal to market value of assets
Inflation	Not stated
Healthcare cost trend rates	8.5 percent, graded 0.25 percent per year to an ultimate rate of 4.5 percent
Salary increase	4.0 percent
Investment rate of return	7.0 percent (net of investment expense, including inflation)
Retirement age	60 years
Mortality	RP-2014 mortality tables with the MP-2018 improvement scale

Capital Area Transportation Authority

**Required Supplemental Information
Schedule of OPEB Investment Returns**

**Last Two Fiscal Years
Years Ended September 30**

	<u>2019</u>	<u>2018</u>
Annual money-weighted rate of return - Net of investment expense	5.65 %	11.35 %

Other Supplemental Information

Capital Area Transportation Authority

Other Supplemental Information Statement of Fiduciary Net Position Fiduciary Funds

	Union Pension Plan December 31, 2018	Admin Pension Plan December 31, 2018	Retiree OPEB Trust September 30, 2019	Total Fiduciary Funds
Assets				
Cash and cash equivalents	\$ -	\$ -	\$ 3,047	\$ 3,047
Investments:				
Mutual funds	-	-	9,276,853	9,276,853
Group annuity contracts	<u>36,366,392</u>	<u>15,844,679</u>	<u>-</u>	<u>52,211,071</u>
Total assets	<u>36,366,392</u>	<u>15,844,679</u>	<u>9,279,900</u>	<u>61,490,971</u>
Liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Position - Restricted for pension and other employee benefits	<u>\$ 36,366,392</u>	<u>\$ 15,844,679</u>	<u>\$ 9,279,900</u>	<u>\$ 61,490,971</u>

Capital Area Transportation Authority

Other Supplemental Information Statement of Changes in Fiduciary Net Position Fiduciary Funds

	Union Pension Plan December 31, 2018	Admin Pension Plan December 31, 2018	Retiree OPEB Trust September 30, 2019	Total Fiduciary Funds
Additions				
Investment income (loss) (net of expenses):				
Interest and dividends	\$ 528,283	\$ 132,961	\$ 190,925	\$ 852,169
Change in fair value of investments	(880,896)	(450,593)	279,160	(1,052,329)
Net investment (loss) income	(352,613)	(317,632)	470,085	(200,160)
Contributions:				
Employer contributions	1,015,952	700,000	1,880,969	3,596,921
Member contributions	1,015,951	217,558	-	1,233,509
Total contributions	2,031,903	917,558	1,880,969	4,830,430
Total additions	1,679,290	599,926	2,351,054	4,630,270
Deductions				
Benefit payments	1,439,726	3,321,283	1,229,414	5,990,423
Administrative expenses	46,522	25,389	-	71,911
Total deductions	1,486,248	3,346,672	1,229,414	6,062,334
Net Increase (Decrease) in Net Position Held in Trust	193,042	(2,746,746)	1,121,640	(1,432,064)
Net Position Held in Trust for Pension and Other Employee Benefits - Beginning of year	36,173,350	18,591,425	8,158,260	62,923,035
Net Position Held in Trust for Pension and Other Employee Benefits - End of year	\$ 36,366,392	\$ 15,844,679	\$ 9,279,900	\$ 61,490,971

Capital Area Transportation Authority

Other Supplemental Information

1. Schedule of Operating Revenues

Year Ended September 30, 2019

Local operating revenues:

40100	Linehaul - Farebox (Urban)	\$	2,444,324
40100	Paratransit - Farebox (Urban)		867,379
40100	Rural Services - Farebox		53,997
40100	Senior shopping bus - Fare Box		5,288
40400	Meals on Wheels		5,095
40720	Rental of Building		94,430
40725	Parking Lot		132,438
40760	Gain on Sale of Assets		14,995
40799	Other Miscellaneous Revenue		1,151,781
40950	Contract Services		9,608,090

Total local operating revenues

14,377,817

State of Michigan operating grants:

41101	Operating grant (Act 51) - Urban		15,434,210
41101	Operating grant (Act 51) - Urban - PY		324,505
41101	Operating grant (Act 51) - Rural		916,817
41101	Operating grant (Act 51) - Rural - PY		8,401
41101	Specialized Services		34,041
41111	Operating grant - Preventative Maintenance		200,000
41114	Other Capital Contract Reimburse for Operating Expenses		215,403

Total State of Michigan operating grants

17,133,377

Federal operating grants:

41301	Operating Grant - Rural - 5311		433,521
41301	Operating Grant - Rural - 5311 - PY		7,654
41311	Federal grant - Preventative Maintenance		800,000
41314	Other Capital Contract Reimburse for Operating Expenses		893,891

Total Federal operating grants

2,135,066

Local nonoperating revenues:

40800	Property tax		17,426,096
41400	Investment Income		946,303

Total Local nonoperating revenue

18,372,399

Total nonoperating revenue

37,640,842

Total Revenue

\$ 52,018,659

2. Schedule of Expenditures for Federal and State Awards

Year Ended September 30, 2019

Federal Agency/Pass-through Agency/Program Title	CFDA Number	Federal Project Number	State Project Number	Federal Expenditures	State Expenditures	Total Expenditures
U.S. Department of Transportation - Direct programs:						
Federal Transit Cluster:						
Federal Transit - Capital Investment Grants	20.500	MI-2016-0002	2012-0055-P027	\$ 51,753	\$ 12,938	\$ 64,691
Federal Transit - Capital Investment Grants	20.500	MI-04-0085	No State match	27,680	-	27,680
Federal Transit - Formula Grants	20.507	MI-2017-014-04	2012-0055-P03D	2,198,197	549,549	2,747,746
Federal Transit - Formula Grants	20.507	MI-2017-014-01	2017-0027-P03A	-	-	-
Federal Transit - Formula Grants	20.507	MI-0090-X782	2012-0055-P28C	3,143,261	785,815	3,929,076
Federal Transit - Formula Grants	20.507	MI-0095-X127	2012-0055-P28A	117,544	21,025	138,569
Federal Transit - Formula Grants	20.507	MI-0090-X647	2012-0055-P005	17,798	4,449	22,247
Federal Transit - Formula Grants	20.507	MI-0090-X672	2012-0055-P015	799,021	199,755	998,776
Federal Transit - Formula Grants	20.507	MI-0095-X105	2012-0055-P012	-	-	-
Federal Transit - Formula Grants	20.507	MI-0090-X805	2017-0027-P06D	3,606,207	901,552	4,507,758
Federal Transit - Formula Grants	20.507	MI-0095-0007	2017-0027-P06A	-	-	-
Federal Transit - Formula Grants	20.507	MI-0090-X819	2019-0027-P11D	800,000	200,000	1,000,000
Federal Transit - Formula Grants	20.507	MI-0095-0013	2019-0027-P11A	-	-	-
Federal Transit - Formula Grants	20.507	MI-90-X376	2002-0024-Z004	40,296	10,074	50,370
Bus and Bus Facilities Formula Program	20.526	MI-34-0001	2012-0055-P011	63,079	15,770	78,849
Bus and Bus Facilities Formula Program	20.526	MI-16-X015	2012-0055-P28D	-	-	-
Bus and Bus Facilities Formula Program	20.526	MI-2017-014-03	2017-0027-P03C	-	-	-
Bus and Bus Facilities Formula Program	20.526	MI-0034-0057	2017-0027-P06B	787,865	196,966	984,831
Bus and Bus Facilities Formula Program	20.526	MI-0034-0074	2019-0027-P11B	-	-	-
				-	-	-
Total Federal Transit Cluster				11,652,701	2,897,893	14,550,594
Transit Services Program Cluster:						
Formula Grants for Enhanced Mob of Sr & Ind. W Disab	20.513	MI-16-X010	2012-0055-P013	-	-	-
Formula Grants for Enhanced Mob of Sr & Ind. W Disab	20.513	MI-2017-014-02	2017-0027-P03B	594,459	148,615	743,074
Formula Grants for Enhanced Mob of Sr & Ind. W Disab	20.513	MI-34-0025	2012-0055-P28B	588,434	147,108	735,542
Formula Grants for Enhanced Mob of Sr & Ind. W Disab	20.513	MI-16-X026	2017-0027-P06C	-	-	-
Formula Grants for Enhanced Mob of Sr & Ind. W Disab	20.513	MI-16-X027	2019-0027-P11C	-	-	-
Job Access and Reverse Commute Program	20.516	MI-37-X049	2012-0055-P014	-	-	-
Job Access and Reverse Commute Program	20.516	MI-37-X046	2012-0055-P004	-	-	-
Total Transit Services Program Cluster				1,182,893	295,723	1,478,616
Formula Grants for Rural Areas						
Section 5311 Operating Formula Grant	20.509	MI-2017-030-01		433,521	-	433,521
Section 5311 Operating Formula Grant - Prior Year	20.509	MI-2017-030-01		-	-	-
				433,521	-	433,521
U.S. Department of Transportation - Pass-through programs from Michigan Department of Transportation (MDOT)						
Metropolitan Transportation Planning & State & Non-Metropolitan Planning & Research			2017-0027-P008	-	391,200	391,200
				-	391,200	391,200
Michigan Department of Transportation						
Operating Assistance - Act 51 (FY 19)						
Urban - Current Year	N/A		N/A		15,434,210	15,434,210
Urban - Prior Year	N/A		N/A		324,505	324,505
Nonurban - Current Year	N/A		N/A		916,817	916,817
Nonurban - Prior Year	N/A		N/A		8,401	8,401
				-	16,683,933	16,683,933
Specialized Services FY 19	N/A	N/A	2017-0027-P7	-	34,041	34,041
GAAP timing difference						
Section 5311 Operating Formula Grant - Prior Year	20.509	MI-2017-030-01		(16,327)	(3,790)	(20,117)
				7,654	-	7,654
Total				\$ 13,260,441	\$ 20,299,001	\$ 33,559,442

3. Schedule of Expense by Contract and General Operations

For the Year Ended September 30, 2019

Description	MI-0095-X127 2012-0055-P28a FY 16 S-5307 Public Education (1)	MI-0095-X127 2012-0055-P28a FY 16 S-5307 Clean Commute (1)	MI-0090-X819 2019-0027-P11d FY 19 S-5307 Preventative Maintenance (2)	2017-0027/P7 FY 19 Specialized Services	General Operations Urban Large	General Operations Nonurban	Total
Labor	\$ -	\$ 17,477	\$ -	\$ 19,462	\$ 19,479,032	\$ 562,597	\$ 20,078,568
Other fringe benefits				13,303	13,327,214	384,575	13,725,092
Purchased services:							
Advertising	77,193	43		548	199,957	15,843	293,584
Other	22,594	15,726		5,478	2,960,494	158,388	3,162,680
Materials & Supplies	5,337		1,000,000	3,584	4,538,776	103,627	5,651,324
Utilities				1,374	695,080	39,728	736,182
Casualty and liability costs				6,890	3,485,036	199,193	3,691,119
Purchased transportation					7,362,031	1,109,875	8,471,906
Miscellaneous expenses		200		506	294,543	14,609	309,858
Interest					4,413		4,413
Leases and rentals				27	13,603	778	14,408
Depreciation				11,635	5,884,966	336,364	6,232,965
Total	\$ 105,123	\$ 33,446	\$ 1,000,000	\$ 62,807	\$ 58,245,145	\$ 2,925,577	\$ 62,372,099

(1) Includes all expenses associated with this contract

(2) Includes only expenses reimbursed under this contract

Capital Area Transportation Authority

Other Supplemental Information 4. Urban Regular Service Revenue Report

Year Ended September 30, 2019

Code	Description	Amount
	Fare Revenue	
40100	Passenger fares	\$ 3,311,703
	Nontransportation Revenue	
40720	Rental of buildings or other properties	94,430
40725	Parking Lot Revenue	132,438
40760	Gain from Sale of Capital Assets	14,995
40799	Other Non-Transportation Revenue	1,151,781
	Local Revenue	
40800	Taxes levied directly for/by transit agency	17,426,095
	Local Revenue	
40950	Local Service Contracts/Local Source	8,944,415
	State Revenue	
41101	State operating assistance	15,758,715
41111	Preventative maintenance	200,000
41114	Other Capital Contract Reimburse for Operating Expenses	215,403
	Federal Revenue	
41311	Preventative maintenance	800,000
41314	Other Capital Contract Reimburse for Operating Expenses	893,891
	Other Revenue	
41400	Investment Income	946,303
Total Urban Regular Service Revenue		\$ 49,890,169

Other Supplemental Information
5. Urban Regular Service Expense Report

Year Ended September 30, 2019

Code	Description	Operations	Maintenance	Administration	Total
Labor:					
50101	Operator salaries & wages	\$ 12,924,936	\$ -	\$ -	\$ 12,924,936
50102	Other salaries & wages		2,061,699	4,509,874	6,571,573
Fringe Benefits					
50200	Other fringe benefits	5,095,538	812,806	1,777,977	7,686,321
50220	Defined Benefit Pension	1,663,792	265,397	580,544	2,509,733
50250	Other post retirement benefits	2,075,759	331,110	724,291	3,131,160
Services					
50302	Advertising			277,193	277,193
50305	Audit costs			69,443	69,443
50399	Other		223,527	2,705,844	2,929,371
Materials and supplies					
50401	Fuel and Lubricants		2,035,023	52,783	2,087,806
50402	Tires and tubes		170,875	3,134	174,009
50499	Other materials and supplies		1,360,115	1,922,183	3,282,298
Utilities					
50500	Utilities			695,080	695,080
Insurance					
50603	Liability insurance			2,233,581	2,233,581
50699	Other insurance			1,251,455	1,251,455
Taxes and fees					
50700	Taxes and fees			4,985	4,985
Purchased transportation services					
50800	Purchased transportation services	7,362,031			7,362,031
Miscellaneous expenses					
50902	Travel, meetings & training			113,831	113,831
50903	Association dues & subscriptions			112,240	112,240
50909	Loss on disposal of assets			39,148	39,148
50999	Other miscellaneous expense			24,539	24,539
Interest on short term debt					
51102	Interest on short term debt			4,413	4,413
Operating leases & rentals					
51200	Operating leases & rentals			13,603	13,603
Depreciation					
51300	Depreciation			5,884,966	5,884,966
Total Expenses		<u>29,122,056</u>	<u>7,260,552</u>	<u>23,001,107</u>	<u>59,383,715</u>
Ineligible Expenses					
55006	Other ineligible interest expense			4,413	4,413
55007	Ineligible depreciation			5,882,299	5,882,299
55008	Other ineligible			268,669	268,669
55009	Ineligible percent of association dues			8,616	8,616
55010	Ineligible expense associated with other revenue			115,715	115,715
55011	Ineligible preventative maintenance		1,000,000		1,000,000
56004	Ineligible expenses associated w/rentals			238,601	238,601
57604	Other ineligible operating expense paid by capital contract			1,109,294	1,109,294
58009	Loss on disposal of assets			39,148	39,148
58020	Ineligible DB Pension	572,662	91,348	199,818	863,828
58050	Ineligible DB OPEB	1,112,295	177,426	388,111	1,677,832
Total Ineligible Expenses		<u>1,684,957.00</u>	<u>1,268,774</u>	<u>8,254,684</u>	<u>11,208,415</u>
Total Eligible Expenses		<u>\$ 27,437,099</u>	<u>\$ 5,991,778</u>	<u>\$ 14,746,423</u>	<u>\$ 48,175,300</u>

Other Supplemental Information
6. Urban Regular Service Nonfinancial Report (Unaudited)
 Year Ended September 30, 2019

Code	Description	Weekday		Saturday		Sunday		Total
		LH	DR	LH	DR	LH	DR	
610	Vehicles hours	259,674	204,376	25,968	17,316	14,301	12,628	534,263
611	Vehicle miles	3,271,943	2,873,680	328,368	237,385	186,316	169,780	7,067,472

Miscellaneous Information

Description	LH	DR	Total
Vehicle Revenue Miles	3,532,612	2,819,125	6,351,737
Non-Revenue (Service) Vehicle Miles			314,856
Gallons Fuel - LPG	-	14,002	14,002
Gallons Fuel - Diesel	784,424	344,627	1,129,051
Concession Square Footage	260		
Total CTC Building Square Footage	14,000		

Capital Area Transportation Authority

Other Supplemental Information

7. Nonurban County Regular Service Revenue Report

Year Ended September 30, 2019

<u>Code</u>	<u>Description</u>	<u>Amount</u>
	Fare Revenue	
40100	Passenger fares	\$ 53,997
	Package Delivery/Meal Delivery Programs	
40400	Package delivery/meal delivery programs	5,095
	Local Service Contract	
40950	Local service contract/local source	663,675
	State Revenue	
41101	State operating assistance	925,218
	Federal Revenue	
41301	Section 5311 Operating	441,175
Total Revenue		\$ 2,089,160

Other Supplemental Information
8. Nonurban County Regular Service Expense Report
Year Ended September 30, 2019

Code	Description	Operations	Maintenance	Administration	Total
Labor:					
50101	Operator salaries & wages	\$ 266,995	\$ -	\$ -	\$ 266,995
50102	Other salaries & wages		37,833	257,769	295,602
Fringe Benefits					
50200	Other fringe benefits	105,261	14,915	101,623	221,799
50220	Defined Benefit Pension	34,370	4,870	33,182	72,422
50250	Other post retirement benefits	42,880	6,076	41,398	90,354
Services					
50302	Advertising			15,843	15,843
50305	Audit costs			3,969	3,969
50399	Other		3,176	151,243	154,419
Materials and supplies					
50401	Fuel and Lubricants		36,826	3,017	39,843
50402	Tires and tubes		1,674	179	1,853
50499	Other materials and supplies		15,469	46,462	61,931
Utilities					
50500	Utilities			39,728	39,728
Insurance					
50603	Liability insurance			127,664	127,664
50699	Other insurance			71,529	71,529
Taxes and fees					
50700	Taxes and fees			285	285
Purchased transportation services					
50800	Purchased transportation services	1,109,875			1,109,875
Miscellaneous expenses					
50902	Travel, meetings & training			6,506	6,506
50903	Association dues & subscriptions			6,415	6,415
50999	Other miscellaneous expense			1,403	1,403
Operating leases & rentals					
51200	Operating leases & rentals			778	778
Depreciation					
51300	Depreciation			336,364	336,364
Total Expenses		<u>1,559,381</u>	<u>120,839</u>	<u>1,245,357</u>	<u>2,925,577</u>
Ineligible Expenses					
55007	Ineligible depreciation			336,212	336,212
55008	Other ineligible expenses			107,081	107,081
55009	Ineligible percent of association dues			492	492
58020	Ineligible DB Pension	11,830	1,676	11,421	24,927
58050	Ineligible DB OPEB	22,977	3,256	22,183	48,416
Total Ineligible Expenses		<u>34,807</u>	<u>4,932</u>	<u>477,389</u>	<u>517,128</u>
Total Eligible Expenses		<u>\$ 1,524,574</u>	<u>\$ 115,907</u>	<u>\$ 767,968</u>	<u>\$ 2,408,449</u>

9. Nonurban County Regular Service Nonfinancial Report (Unaudited)

Year Ended September 30, 2019

Code	Description	Weekday	Saturday	Sunday	Total
610	Vehicles hours	21,411	571	-	21,982
611	Vehicle miles	506,842	13,175	-	520,017

Miscellaneous Information

Description	Total
Vehicle Revenue Miles	363,043
Gallons Fuel - Gasoline	44,381

Capital Area Transportation Authority

Other Supplemental Information
10. Specialized Services Revenue Report

Year Ended September 30, 2019

<u>Code</u>	<u>Description</u>	<u>Amount</u>
	Fare Revenue	
40100	Passenger fares	\$ 5,288
	State Revenue	
41101	Specialized Services	34,041
Total Revenue		\$ 39,329

Other Supplemental Information
11. Specialized Services Expense Report

Year Ended September 30, 2019

Code	Description	Operations	Maintenance	Administration	Total
	Labor:				
50101	Operator salaries & wages	\$ 9,237	\$ -	\$ -	\$ 9,237
50102	Other salaries & wages		10,225		10,225
	Fringe Benefits				
50200	Other fringe benefits	7,672			7,672
50220	Defined Benefit Pension	2,505			2,505
50250	Other post retirement benefits	3,126			3,126
	Services				
50302	Advertising			548	548
50305	Audit costs			137	137
50399	Other			5,341	5,341
	Materials and supplies				
50401	Fuel and Lubricants		1,378		1,378
50402	Tires and tubes		64		64
50499	Other materials and supplies		2,142		2,142
	Utilities				
50500	Utilities			1,374	1,374
	Insurance				
50603	Liability insurance			4,416	4,416
50699	Other insurance			2,474	2,474
	Taxes and fees				
50700	Taxes and fees			10	10
	Miscellaneous expenses				
50902	Travel, meetings & training			225	225
50903	Association dues & subscriptions			222	222
50999	Other miscellaneous expense			49	49
	Operating leases & rentals				
51200	Operating leases & rentals			27	27
	Depreciation				
51300	Depreciation			11,635	11,635
Total Expenses		<u>22,540</u>	<u>13,809</u>	<u>26,458</u>	<u>62,807</u>
	Ineligible expenses				
55007	Ineligible depreciation			11,630	11,630
55008	Other ineligible			455	455
55009	Ineligible percent of association dues			17	17
58020	Ineligible DB Pension	862			862
58050	Ineligible DB OPEB	1,675			1,675
Total Ineligible Expenses		<u>2,537</u>	<u>0</u>	<u>12,102</u>	<u>14,639</u>
Total Eligible Expenses		<u>\$ 20,003</u>	<u>\$ 13,809</u>	<u>\$ 14,356</u>	<u>\$ 48,168</u>

12. Specialized Services Nonfinancial Report (Unaudited)

Year Ended September 30, 2019

<u>Code</u>	<u>Description</u>	<u>Weekday</u>
610	Vehicles hours	1,982
611	Vehicle miles	15,130

Miscellaneous Information

<u>Description</u>	<u>Total</u>
Vehicle Revenue Miles	12,558
Gallons Fuel - Diesel	100

Other Supplemental Information
13. Operating Assistance Calculation

Year Ended September 30, 2019

	Urban	Nonurban
Total Expenses	\$ 59,383,715	\$ 2,925,577
Less: Ineligible expenses		
Ineligible depreciation	5,882,299	336,212
Ineligible interest expense	4,413	-
Other ineligible	268,669	107,081
Ineligible percent of association dues	8,616	492
Ineligible expense associated with other revenue	115,715	-
Ineligible preventative maintenance	1,000,000	-
Ineligible expenses associated w/rentals	238,601	-
Other ineligible operating expenses paid by capital contract	1,109,294	-
Loss on disposal of assets	39,148	-
Ineligible DB Pension	863,828	24,927
Ineligible DB OPEB	1,677,832	48,416
Total Ineligible Expenses Per R&E Manual	11,208,415	517,128
Total State Eligible Expenses	\$ 48,175,300	\$ 2,408,449

Eligible Expenses for State Reimbursement	\$ 48,175,300	\$ 2,408,449
x Reimbursement Percentage (Budgeted)	32.03760%	38.06670%
State Operating Assistance	\$ 15,434,210	\$ 916,817

Total Federal Eligible Expenses

Eligible Expenses for Federal Reimbursement	\$ 2,408,449
x Reimbursement Percentage (per Project Authorization)	18.00%
State Operating Assistance	\$ 433,521

March 5, 2020

To the Board of Directors
Capital Area Transportation Authority

We have audited the financial statements of the Capital Area Transportation Authority (the "Authority") as of and for the year ended September 30, 2019 and have issued our report thereon dated March 5, 2020. Professional standards require that we provide you with the following information related to our audit, which is divided into the following sections:

Section I - Required Communications with Those Charged with Governance

Section II - Legislative and Informational Items

Section III - Other Recommendations

Section I includes information that current auditing standards require independent auditors to communicate to those individuals charged with governance. We will report this information annually to the board of directors of the Authority.

Section II contains updated legislative and informational items that we believe will be of interest to you.

Section III presents recommendations related to internal control, procedures, and other matters noted during our current year audit. These comments are offered in the interest of helping the Authority in its efforts toward continuous improvement, not just in the areas of internal control and accounting procedures, but also in operational or administrative efficiency and effectiveness.

We would like to take this opportunity to thank the Authority's staff, especially Patrick and Marilyn, for the cooperation and courtesy extended to us during our audit. Their assistance and professionalism were critical to the completion of the engagement and were much appreciated.

This information is intended solely for the use of the members of the board of directors and management of the Authority and is not intended to be and should not be used by anyone other than these specified parties.

To the Board of Directors
Capital Area Transportation Authority

March 5, 2020

We welcome any questions you may have regarding the following communications, and we would be willing to discuss these or any other questions that you might have at your convenience.

Very truly yours,

Plante & Moran, PLLC



Pamela Hill, CPA
Partner



Keith Szymanski, CPA
Senior Manager

Section I - Required Communications with Those Charged with Governance

Our Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated October 14, 2019, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities. Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement.

As part of our audit, we considered the internal control of the Authority. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

Our audit of the Authority's financial statements has also been conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. Under *Government Auditing Standards*, we are obligated to communicate certain matters that come to our attention related to our audit to those responsible for the governance of the Authority, including compliance with certain provisions of laws, regulations, contracts, and grant agreements; certain instances of error or fraud; illegal acts applicable to government agencies; and significant deficiencies in internal control that we identify during our audit. Toward this end, we issued a separate letter dated March 5, 2020 regarding our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on December 9, 2019.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Authority are described in Note 1 to the financial statements.

No new accounting policies were adopted, and the application of existing policies was not changed during the fiscal year ended September 30, 2019.

We noted no transactions entered into by the Authority during the year for which there is a lack of authoritative guidance or consensus.

Section I - Required Communications with Those Charged with Governance (Continued)

There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

The net other postemployment benefits (OPEB) liability is based on an actuarial valuation that includes significant assumptions related to healthcare costs, life expectancies, and future rates of return on investments. The net pension liabilities recorded are based on actuarial valuations that include significant assumptions related to life expectancies, future salary increases, and future rates of return on investments. The estimated reserve for Act 51 operating assistance revenue is based on the estimated reduction of the collective qualifying expenditures to be reimbursed by Act 51 monies from the State of Michigan. We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Disagreements with Management

For the purpose of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. We identified uncorrected misstatements of the financial statements that management passed on adjusting related to the recording of an increase of approximately \$1.7 million for the total pension liability for retirees and beneficiaries under the floor option contract for the Union Employees' Pension Plan, as well as the passed disclosures for credit risk and interest rate risk for the pension funds, group annuity contract investments. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

**Section I - Required Communications with Those Charged with Governance
(Continued)**

Significant Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the Authority, and business plans and strategies that may affect the risks of material misstatement, with management each year prior to our retention as the Authority's auditors. However, these discussions occurred in the normal course of our professional relationship, and our responses were not a condition of our retention.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated March 5, 2020.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Authority's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Section II - Legislative and Informational Items

Cybersecurity and Information Technology Controls

Cyberattacks are on the rise across the globe, and the cost of these attacks is ever increasing. Because of these attacks, municipalities stand to lose reputation, their ability to operate efficiently, and proprietary information or assets. Communities can also potentially be subject to financial and legal liabilities. Managing this issue is especially challenging because even a municipality with a highly mature cybersecurity risk management program still has a residual risk that a material cybersecurity breach could occur and not be detected in a timely manner. We understand that the technology department continues to monitor and evaluate this risk, which are critical best practices. Additionally, periodic assessments of the system in order to verify that the control environment is working as intended are key parts of measuring associated business risk. We encourage administration and those charged with governance to work with the technology team on this very important topic. If we can be of assistance in the process, we would be happy to do so.

Michigan's MLTS E911 Legislation (PA 30 of 2019)

Public Act 30 of 2019 was adopted on June 25, 2019 and provides additional compliance requirements for organizations that operate Multi-Line Telephone Systems (MLTS). The intent is to provide emergency responders with more specific location information in case they are responding to a call at a large facility. The regulations will apply to any workspace larger than 7,000 square feet with a compliance deadline of December 31, 2020.

- **A workspace includes:** offices, production areas, warehouses, shop floors, storage areas, hallways, conference rooms, break rooms, and other common areas.
- **A workspace does not include:** wall thickness, shafts, heating, ventilation, air conditioning equipment spaces, mechanical or electrical spaces, or any similar areas to which employees do not normally have access.

For single buildings having over 7,000 square feet of workspace, with their own street address on a single contiguous property, the floor number, street address, and specific location of the communications device must be reported. When facilities with multiple buildings served by the same MLTS are considered, they must report the above requirements in addition to the building's unique identifier. Also, note that, under Kari's Law, any MLTS equipment that is manufactured, imported, sold, leased, or installed after February 16, 2020 must be capable of enabling its users to dial 911 directly without having to dial a prefix.

E911 Exemptions

- If a building contains less than 20,000 square feet of workspace and fewer than 20 communications devices, the MLTS operator is exempt from providing specific location information until it installs a new MLTS after January 1, 2020.
- If a building maintains, on a 24-hour basis, an alternative system capable of identifying the location of any communications device that dialed 911 or the building is serviced with its own appropriate medical, fire, and security personnel, it is exempt.
- Any MLTS operator that is not currently served by enhanced 911 service is exempt until enhanced 911 service becomes available.

Section II - Legislative and Informational Items (Continued)

- Other exemptions exist for farms and houses of worship, which, for the latter, do not extend to attached schools.

If you operate in a facility that is subject to these regulations, you should begin to plan for compliance. If we can be of assistance in the process, we would be happy to do so.

Alternative Fuels Excise Tax Credit

On December 20, 2019, House Bill 1865 was enacted into law, which retroactively extends the Alternative Fuel Excise Tax Credit that had originally expired on December 31, 2017. The tax credit is now extended through December 31, 2020. The tax credit is available in the amount of \$0.50 per gallon for alternative fuel that is sold for use or used as a fuel to operate a motor vehicle for the following alternative fuels: natural gas, liquefied hydrogen, propane, P-Series fuel, liquid fuel derived from coal through the Fischer-Tropsch process, and compressed or liquefied gas derived from biomass. Tax-exempt entities, such as state and local governments, that dispense qualified fuel from an on-site fueling stations for use in vehicles qualify for the incentive. We would encourage you to keep these incentives in mind as you plan for future bus and fleet upgrades. For more information on the credit, refer to Public Laws 116-94, 115-123, 114-113, and 26 U.S. Code Section 6426, as well as Internal Revenue Service (IRS) Form 4136 for more information about claiming the credit.

Legacy Cost Reporting

Public Act 530 of 2016

On December 31, 2016, the governor signed Public Act 530 of 2016, which amends Public Act 314 of 1965, also known as Public Employee Retirement System Investment Act (PERSIA). This act was effective on March 29, 2017.

Under the prior act, communities were required to publish a summary annual report setting forth key information related to pension and retiree healthcare plans. The amendment requires that this summary annual report also be submitted to the Michigan Department of Treasury within 30 days of publication.

In addition, for any system (either pension or retiree health care) that is not funded at a level of at least 60 percent, the community must now post a report to its website indicating steps that are being undertaken to address the liability. In addition, this report must be submitted to the Department of Treasury within a reasonable time frame.

The legislation calls for the Department of Treasury to accumulate all of the reports and publish a summary of funding levels throughout the state.

Public Act 202 of 2017

On January 5, 2018, the Michigan Department of Treasury released initial reporting requirements under Public Act 202 of 2017 (the "Act"), which were primary components of the Act. These reporting requirements apply to all local units of government that offer or provide defined benefit pension and/or defined benefit OPEB retirement benefits.

Section II - Legislative and Informational Items (Continued)

Local units began reporting funded ratios and contributions in accordance with these uniform assumptions starting with their fiscal year 2019 if their audited financial statements were based on an actuarial valuation issued after December 31, 2018. If their fiscal year 2019 audited financial statements were based on an actuarial valuation issued prior to December 31, 2018, the local units will begin reporting on these uniform assumptions starting with their fiscal year 2020.

On October 21, 2019, the Michigan Department of Treasury released the updated uniform assumptions to be used for fiscal year 2020. Beginning with fiscal year 2020 reporting, all local governments must utilize the updated fiscal year 2020 uniform assumptions. Each year moving forward, the annual uniform assumptions will be updated and are expected to be utilized within Form 5572, where indicated, for that fiscal year. Local governments may utilize rollforward procedures in nonvaluation years utilizing any updates to the uniform assumptions to calculate the data.

This means that the local unit may potentially need three calculations: a funding valuation (if the local unit chooses to have different assumptions for funding purposes), a valuation that complies with GAAP to be used for financial statement reporting, and a calculation that complies with the State's new uniform assumptions.

The releases by the Department of Treasury include the letters titled "Public Act 202: Selection of the Uniform Assumptions" and "Public Act 202: Selection of the Uniform Assumptions for Fiscal Year 2020," Numbered Letter 2018-1, Form 5572, detailed instructions for completion of Form 5572, and a listing of frequently asked questions. All documents can be located at http://www.michigan.gov/treasury/0,4679,7-121-1751_51556_84499---,00.html.

Form 5572 is due annually for both pension and OPEB plans provided by an employer no later than six months after the end of your fiscal year.

In addition to submitting this new form to the Department of Treasury, a local unit must also post this information either on its website or in a public place if it does not have a website. The governing body of a local unit will also need to receive a copy of this form, in accordance with the Act, but the Act does not require approval by the governing body before submission to the Treasury.

Public Act 202 defines that a local unit of government is in "underfunded status" if any of the following apply:

1. OPEB - Total plan assets are less than 40 percent of total plan liabilities according to the most recent annual report, and, for primary units of government*, the annual required contribution for all of the retirement health systems of the local unit is greater than 12 percent of the local unit of government's governmental funds operations revenue.
2. Retirement pension plans - Total plan assets are less than 60 percent of total plan liabilities according to the most recent annual report, and, for primary units of government, the annual required contribution for all of the retirement pension systems of the local unit is greater than 10 percent of the local unit of government's governmental funds operations revenue.

*Primary units of government are cities, villages, townships, and counties.

Section II - Legislative and Informational Items (Continued)

If, after submission of Form 5572, the Treasury determines your community to have underfunded status, you will have the opportunity to file a “waiver” under Section 6 of the Act. The waiver needs to provide a plan for how the underfunding is being addressed. This waiver will then be submitted to the Treasury.

In the event that a local unit has underfunded plans and does not submit a waiver or the waiver is not approved, the Treasury will perform an internal review. The local unit will also need to submit a corrective action plan to the newly created Municipal Stability Board (under Section 7 of the Act). The local unit will be responsible for creating the corrective action plan.

For governments with OPEB plans, Section 4(l)(a)(i)(ii) of Public Act 202 of 2017 requires the local unit to pay retiree insurance premiums for the year, as well as the normal costs for the new employees hired after June 30, 2018. The actuary will likely need to calculate this number in order for governments to comply. In addition, if communities must essentially prefund this additional cost, those communities without a qualifying OPEB trust will need to consider where these contributions will go.

Questions should be directed via email to the Treasury offices at LocalRetirementReporting@michigan.gov or by visiting its website at www.Michigan.gov/LocalRetirementReporting.

Upcoming Accounting Standards Requiring Preparation

GASB Statement No. 84 - Fiduciary Activities

This new pronouncement will be effective for the Authority’s fiscal year ending September 30, 2020. This statement provides criteria for state and local governments to use in identifying whether an activity is fiduciary and should be reported as a fiduciary fund type in its financial statements. In addition, once identified as a fiduciary activity, Governmental Accounting Standards Board (GASB) 84 also provides specific reporting requirements.

This statement has the potential to significantly impact what governments currently report as a fiduciary activity. Upon adoption, we anticipate that some governments’ fiduciary activities will need to move to governmental funds, while other activities that previously were not considered fiduciary will now be reported as such. It is also possible that certain pension and OPEB fiduciary funds will no longer be reported in a local unit’s financial statements.

Given the potential to have a major impact on many governments, not only to their external financial statements, but also to their accounting system requirements and budget documents, we encourage you to start analyzing the impact of this standard now. The first step to implementation is identifying the types of activities that should be analyzed and then running those activities through the lens of this standard.

**Section II - Legislative and Informational Items
(Continued)**

GASB Statement No. 87 - Leases

This new accounting pronouncement will be effective for the Authority's fiscal year ending September 30, 2021. This statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources.

We recommend beginning to accumulate information now related to all significant lease agreements in order to more efficiently implement this new standard once it becomes effective.

Plante & Moran, PLLC will be providing training and other resources to our clients in the coming months to help prepare for the implementation of all these new standards. In the interim, please reach out to your engagement team for assistance in getting started.

Section III - Other Recommendations

We would like to commend the Authority for its actions taken since the last audit. The Authority's team continues to work hard on implementing best practices and improvements to the systems of the Authority.

During the audit, we noted additional areas where we believe there are opportunities for the Authority to further strengthen internal controls. Our observations are noted below:

Additional Controls Surrounding Bus Tickets - In this ever-changing and fast-paced world of technology, the Authority is always susceptible to outside sources trying to penetrate the Authority's various assets. One way that we have seen this occur at other transit entities is related to fraudulent bus tickets. As a best practice, we recommend that the Authority periodically review farebox tickets to ensure that bus tickets being deposited into the fareboxes are not being fabricated or otherwise manipulated, ultimately leading to lost revenue for the Authority, or to develop an internal process to track tickets and to look for irregularities. Please note that we did not note any instances of this occurring during our testing.

Positive Pay - Again, related to all of the technology changes and risks in today's environment, we are always looking for various recommendations that will assist the Authority in implementing best practices to safeguard the Authority's assets. We recommend that the finance department contact its bank to inquire about setting up Positive Pay for checking. This is an added control to ensure appropriate safeguarding of the Authority's assets and can serve as an additional layer of protection for the Authority.

Investment Compliance - The pension and OPEB trusts are permitted to invest in various investment types that are less restrictive than those in which the Authority's operating funds are invested; however, the investments must still be in compliance with state law (Public Act 347 of 2012). While we did not note any unallowable investments, there was no system in place to ensure compliance. Similar to the prior year audit recommendations, we continue to recommend that the Authority implement a control in which someone at the Authority or an investment advisor take responsibility for ensuring compliance with PA 347 of 2012.