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# Capital Area Transportation Authority

Lansing, Michigan

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**Financial Report**  
**with Supplemental Information**  
**September 30, 2020**

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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, 2020 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, 2020 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 opinions 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, 2021 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, 2021

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, 2020. 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, 2020 (the Authority's 2020 fiscal year end), the Authority's net position stood at \$23,671,681, as compared to a net position of \$40,408,801 at fiscal year end 2019. 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 decrease in net position during fiscal year 2020 can be mainly attributed to a reduction in capital grant funds received by the Authority from the Federal Transit Administration (FTA) and the Michigan Department of Transportation (MDOT), a reduction in farebox and contractual revenue due to the COVID-19 pandemic, and a significant increase in the Authority's estimated net OPEB liability.

The Authority's current ratio at September 30, 2020 stood at 4.70, as compared with 5.69 at fiscal year end 2019. 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, 2020, the Authority had cash and investments totaling \$21,911,065, while cash and investments stood at \$15,274,668 at fiscal year end 2019. 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 2020, the Authority was due \$7 million from those two agencies.

The Authority's year-end leverage ratio at September 30, 2020 stood at 3.69, as compared with 1.36 at fiscal year end 2019. 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, 2020 amounted to \$49,293,355, while operating expenses amounted to \$65,963,288. Nonoperating expenses for the fiscal year ended September 30, 2020 totaled \$67,187. This resulted in a decrease in net position of \$16,737,120 for the fiscal year ended September 30, 2020.

### ***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, 2020, the Authority's union and administrative pension plans had fiduciary net positions as a percentage of total pension liabilities of 102 percent and 96 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 12 percent.

#### **The Authority's Net Position**

The Authority's total net position at September 30, 2020 was \$23.67 million, a decrease from 2019. 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			
	2019	2020	Change	Percent Change
<b>Assets</b>				
Current and other assets	\$ 37,963,474	\$ 33,464,944	\$ (4,498,530)	(11.8)
Capital assets	53,443,793	49,269,072	(4,174,721)	(7.8)
Total assets	91,407,267	82,734,016	(8,673,251)	(9.5)
<b>Deferred Outflows of Resources</b>	5,108,512	34,290,283	29,181,771	571.2
<b>Liabilities</b>				
Current liabilities	6,674,721	6,900,447	225,726	3.4
Noncurrent liabilities	48,313,076	80,562,975	32,249,899	66.8
Total liabilities	54,987,797	87,463,422	32,475,625	59.1
<b>Deferred Inflows of Resources</b>	1,119,181	5,889,196	4,770,015	426.2
<b>Net Position</b>				
Net investment in capital assets	53,443,793	49,269,072	(4,174,721)	(7.8)
Restricted - Capital purchases	113,045	73,864	(39,181)	-
Unrestricted	(13,148,037)	(25,671,255)	(12,523,218)	95.2
Total net position	<b>\$ 40,408,801</b>	<b>\$ 23,671,681</b>	<b>\$ (16,737,120)</b>	(41.4)

# 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 2019 to 2020:

	Business-type Activities			
	2019	2020	Change	Percent Change
<b>Revenue</b>				
Operating revenue	\$ 14,362,822	\$ 9,511,372	\$ (4,851,450)	(33.8)
Nonoperating revenue - Net of expenses	37,612,276	37,058,861	(553,415)	(1.5)
Total revenue	51,975,098	46,570,233	(5,404,865)	(10.4)
<b>Expenses</b>				
Operating expense before depreciation	56,095,569	59,178,901	3,083,332	5.5
Depreciation expense	6,232,964	6,784,387	551,423	8.8
Total expenses	62,328,533	65,963,288	3,634,755	5.8
Capital contributions	14,291,000	2,655,935	(11,635,065)	(81.4)
<b>Change in Net Position</b>	3,937,565	(16,737,120)	(20,674,685)	(525.1)
<b>Net Position - Beginning of year</b>	36,471,236	40,408,801	3,937,565	10.8
<b>Net Position - End of year</b>	<b>\$ 40,408,801</b>	<b>\$ 23,671,681</b>	<b>\$ (16,737,120)</b>	(41.4)

### **Capital Assets and Debt Administration**

The Authority continues to invest in capital assets, including vehicles, infrastructure, and equipment. At September 30, 2020 and 2019, the Authority had \$49 million and \$53 million, respectively, invested in capital assets. During fiscal year 2020, the Authority made capital additions of \$3.3 million, of which \$2.5 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 has had a significant decrease in ridership leading to significant decreases in farebox and contractual revenue due to the COVID-19 pandemic. These decreases will continue through fiscal year 2021. The Authority has been awarded grant funding through the Coronavirus Aid, Relief, and Economic Security (CARES) Act of approximately \$18.3 million and has been awarded an additional \$16.2 million in grant funding through the Coronavirus Response and Relief Supplemental Appropriations Act of 2021 (CRRSAA). The Authority is evaluating how to best make use of these funds to serve the community over the next several years.

### **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, 2020

### Assets

#### Current assets:

Cash and cash equivalents (Note 3)	\$ 4,133,239
Investments (Note 3)	17,777,826
Receivables:	
Accrued interest receivable	93,512
Local contributions and contract revenue receivable	239,304
Due from other governments	1,144,246
Due from federal government	3,385,827
Due from state government	3,344,830
Inventories	1,448,972
Prepaid expenses	854,145

Total current assets 32,421,901

#### Noncurrent assets:

Net pension asset (Note 6)	1,043,043
Capital assets: (Note 4)	
Assets not subject to depreciation	3,044,075
Assets subject to depreciation - Net	46,224,997

Total noncurrent assets 50,312,115

Total assets 82,734,016

### Deferred Outflows of Resources

Deferred outflows related to pensions (Note 6)	3,527,714
Deferred OPEB costs (Note 7)	30,762,569

Total deferred outflows of resources 34,290,283

### Liabilities

#### Current liabilities:

Accounts payable	1,905,347
Accrued liabilities and other	2,976,493
Unearned revenue	29,790
Accrued vacation, incentive, and sick pay	1,177,741
Reserve for workers' compensation claims (Note 5)	259,076
Reserve for health insurance costs (Note 5)	552,000

Total current liabilities 6,900,447

#### Noncurrent liabilities:

Net pension liability (Note 6)	713,551
Net OPEB liability (Note 7)	79,849,424

Total noncurrent liabilities 80,562,975

Total liabilities 87,463,422

### Deferred Inflows of Resources

Deferred pension cost reductions (Note 6)	5,288,785
Deferred OPEB cost reductions (Note 7)	600,411

Total deferred inflows of resources 5,889,196

### Net Position

Net investment in capital assets	49,269,072
Restricted - Capital purchases	73,864
Unrestricted	(25,671,255)

Total net position \$ 23,671,681

# Capital Area Transportation Authority

## Statement of Revenue, Expenses, and Changes in Net Position

Year Ended September 30, 2020

<b>Operating Revenue</b>	
Linehaul	\$ 1,528,007
Contract services	6,955,277
Paratransit	518,538
Rural service	30,263
Senior shopping bus	4,453
Other revenue	474,834
	<u>9,511,372</u>
Total operating revenue	9,511,372
<b>Operating Expenses</b>	
Labor and fringe benefits	39,398,086
Services	3,499,301
Advertising	321,436
Materials, fuel, and supplies	3,789,745
Grant-funded supplies	608,873
Utilities	724,030
Insurance and self-insured costs	1,473,813
Purchased transportation services	8,941,371
Miscellaneous	370,607
Lease and rentals	51,639
Depreciation	6,784,387
	<u>65,963,288</u>
Total operating expenses	65,963,288
<b>Operating Loss</b>	(56,451,916)
<b>Nonoperating Revenue (Expense)</b>	
Investment income - Net	438,576
Property tax revenue	17,705,570
Government operating grants - Federal	2,091,976
Government operating grants - State	16,782,778
Gain on sale of assets	107,148
Loss on sale of assets	(65,003)
Interest on operating lease	(2,184)
	<u>37,058,861</u>
Total nonoperating revenue	37,058,861
<b>Loss - Before capital grants</b>	(19,393,055)
<b>Capital Grants</b>	<u>2,655,935</u>
<b>Change in Net Position</b>	(16,737,120)
<b>Net Position - Beginning of year</b>	<u>40,408,801</u>
<b>Net Position - End of year</b>	<u><u>\$ 23,671,681</u></u>

## Capital Area Transportation Authority

## Statement of Cash Flows

Year Ended September 30, 2020

### Cash Flows from Operating Activities

Receipts from operations	\$ 11,228,980
Payments to suppliers	(10,616,102)
Payments to employees and fringes	(32,537,241)
Other receipts	622,482
Payments for purchased transportation	<u>(8,941,371)</u>

Net cash and cash equivalents used in operating activities (40,243,252)

### Cash Flows from Noncapital Financing Activities

Federal operating grants	2,397,674
State of Michigan grants	18,765,228
Local nonoperating receipts	<u>17,453,244</u>

Net cash and cash equivalents provided by noncapital financing activities 38,616,146

### Cash Flows from Capital and Related Financing Activities

Receipt of capital grants	11,037,437
Proceeds from sale of capital assets	107,148
Purchase of capital assets	<u>(3,303,630)</u>

Net cash and cash equivalents provided by capital and related financing activities 7,840,955

### Cash Flows from Investing Activities

Investment income	422,548
Purchases of investment securities	<u>(2,557,400)</u>

Net cash and cash equivalents used in investing activities (2,134,852)

### Net Increase in Cash and Cash Equivalents

4,078,997

### Cash and Cash Equivalents - Beginning of year

54,242

### Cash and Cash Equivalents - End of year

\$ 4,133,239

### Reconciliation of Operating Loss to Net Cash Used in Operating Activities

Operating loss	\$ (56,451,916)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation	6,784,387
Changes in assets and liabilities:	
Receivables	2,340,211
Inventories	26,688
Prepaid and other assets	(126,749)
Accrued vacation, incentive, and sick pay	(3,467,591)
Accounts payable	325,363
Net pension and OPEB liabilities and related deferrals	<u>10,326,355</u>

Total adjustments 16,208,664

Net cash and cash equivalents used in operating activities \$ (40,243,252)

# Capital Area Transportation Authority

## Statement of Fiduciary Net Position

	Pension Plans December 31, 2019	Retiree OPEB Trust September 30, 2020	Total Fiduciary Funds
<b>Assets</b>			
Investments: (Note 3)			
Mutual funds	\$ -	\$ 11,118,899	\$ 11,118,899
Group annuity contracts	61,709,793	-	61,709,793
Total assets	61,709,793	11,118,899	72,828,692
<b>Liabilities</b>	-	-	-
<b>Net Position</b> - Restricted for pension and other employee benefits	<u>\$ 61,709,793</u>	<u>\$ 11,118,899</u>	<u>\$ 72,828,692</u>

## Capital Area Transportation Authority

### Statement of Changes in Fiduciary Net Position

	Pension Plans Year Ended December 31, 2019	Retiree OPEB Trust Year Ended September 30, 2020	Total Fiduciary Funds
<b>Additions</b>			
Investment income:			
Interest and dividends	\$ 757,720	\$ 206,350	\$ 964,070
Change in fair value of investments	8,675,759	948,524	9,624,283
Net investment income	9,433,479	1,154,874	10,588,353
Contributions:			
Employer contributions	1,684,996	2,344,240	4,029,236
Member contributions	1,207,364	43,679	1,251,043
Total contributions	2,892,360	2,387,919	5,280,279
Total additions	12,325,839	3,542,793	15,868,632
<b>Deductions</b>			
Benefit payments	2,749,861	1,703,794	4,453,655
Administrative expenses	77,256	-	77,256
Total deductions	2,827,117	1,703,794	4,530,911
<b>Net Increase in Net Position</b>	9,498,722	1,838,999	11,337,721
<b>Net Position Restricted for Pension and Other Employee Benefits - Beginning of year</b>	52,211,071	9,279,900	61,490,971
<b>Net Position Restricted for Pension and Other Employee Benefits - End of year</b>	<b>\$ 61,709,793</b>	<b>\$ 11,118,899</b>	<b>\$ 72,828,692</b>

September 30, 2020

### 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, 2020 financial statements of the Authority include certain pension plan data as of December 31, 2019.

#### ***Accounting and Reporting Principles***

The Capital Area Transportation Authority follows accounting principles generally accepted in the United States of America (GAAP), as 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 \$5,000 and an estimated useful life in excess of one year. 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.

September 30, 2020

### 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 (asset) 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 (asset), 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 health care 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.

**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 Pronouncements**

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 were originally effective for the Authority's financial statements for the year ended September 30, 2020 but were extended to September 30, 2021 with the issuance of GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*.

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 were originally effective for the Authority's financial statements for the year ending September 30, 2021 but were extended to September 30, 2022 with the issuance of GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*.

In January 2020, the GASB issued Statement No. 92, *Omnibus 2020*. This statement addresses eight unrelated practice issues and technical inconsistencies in authoritative literature. The standard addresses leases, intraentity transfers of assets, postemployment benefits, government acquisitions, risk financing and insurance-related activities of public entity risk pools, fair value measurements, and derivative instruments. The standard has various effective dates. The Authority does not believe this pronouncement will have a significant impact on its financial statements but is still making a full evaluation.

September 30, 2020

### Note 1 - Significant Accounting Policies (Continued)

In March 2020, the GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, to bring a uniform guidance on how to report public-private and public-public partnership arrangements. As a result, transferors in public-private or public-public arrangements will recognize receivables for installment payments, deferred inflows of resources, and, when applicable, capital assets. Operators will recognize liabilities for installment payments and intangible right-to-use assets and, when applicable, deferred outflows of resources and liabilities for assets being transferred. This statement also provides guidance for accounting and financial reporting for availability payment arrangements, in which a government compensates an operator for services such as designing, constructing, financing, maintaining, or operating an underlying asset for a period of time in an exchange or exchange-like transaction. The provisions of this statement are effective for the Authority's financial statements for the year ending September 30, 2023.

In May 2020, the Governmental Accounting Standards Board issued Statement No. 96, *Subscription-Based Information Technology Arrangements (SBITAs)*, which defines SBITAs and provides accounting and financial reporting for SBITAs by governments. This statement requires a government to recognize a subscription liability and an intangible right-to-use subscription asset for SBITAs. 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, 2023.

In June 2020, the Governmental Accounting Standards Board issued Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*. While this standard had certain aspects impacting defined contribution pension and OPEB plans and other employee benefit plans that were effective immediately, it also clarifies when a 457 should be considered a pension plan or an other employee benefit plan to assist in the application of GASB Statement No. 84 to these types of plans. The Authority is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement related to 457 plans are effective for the Authority's financial statements for the year ending September 30, 2022.

### 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, 2020.

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, 2017. The resulting increase in revenue has been finalized with the State but not paid back by the State as of September 30, 2020. Furthermore, the Authority awaits the final determination for the years ended September 30, 2018, 2019, and 2020 (open years). The Authority has recorded an estimated aggregate receivable of approximately \$2,600,000 as of September 30, 2020 based on management's anticipation of the results of the State's final determination of the Act 51 funding formula for the open years.

**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	\$ 4,133,239	\$ -	\$ 4,133,239
Investments	17,777,826	72,828,692	90,606,518
Total deposits and investments	<u>\$ 21,911,065</u>	<u>\$ 72,828,692</u>	<u>\$ 94,739,757</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 that matures no more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions that 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 health care 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 \$2,520,101 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.

***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.

September 30, 2020

**Note 3 - Deposits and Investments (Continued)**

At year end, the Authority had the following investments:

Investment	Fair Value	Weighted-average Maturity (Years)
<b>Primary Government</b>		
U.S. Treasury securities	\$ 1,765,665	2.26
U.S. government agency securities	<u>16,012,161</u>	1.59
Total	<u>\$ 17,777,826</u>	

Investment	Carrying Value	Weighted-average Maturity (Years)
<b>Fiduciary Funds</b>		
Group annuity contracts	\$ 61,709,793	N/A
Mutual funds	<u>11,118,899</u>	8.22
Total	<u>\$ 72,828,692</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 no more than 270 days after the date of purchase.

Investment	Carrying Value	Rating	Rating Organization
<b>Primary Government</b>			
U.S. Treasury securities	\$ 1,765,665	AA+	S&P
U.S. government agency securities	<u>16,012,161</u>	AA+	S&P
Total	<u>\$ 17,777,826</u>		

Investment	Carrying Value	Rating	Rating Organization
<b>Fiduciary Funds</b>			
Group annuity contracts	\$ 61,709,793	N/A	N/A
Mutual funds	<u>11,118,899</u>	3 stars	Morningstar
Total	<u>\$ 72,828,692</u>		

**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, and 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.

September 30, 2020

**Note 3 - Deposits and Investments (Continued)**

In instances where 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.

The Authority has the following recurring fair value measurements as of September 30, 2020:

	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, 2020
<b>Assets</b>				
Trading securities:				
Debt securities - U.S. government agency securities	\$ -	\$ 16,012,161	\$ -	\$ 16,012,161
Debt securities - U.S. Treasury securities	-	1,765,665	-	1,765,665
Mutual funds - Fixed income	4,206,185	-	-	4,206,185
Mutual funds - Equities	6,912,714	-	-	6,912,714
Group annuity contracts measured at net asset value				61,709,793
Total assets	\$ 11,118,899	\$ 17,777,826	\$ -	\$ 90,606,518

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, 2020 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 where 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.

At September 30, 2020, 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	\$ 61,709,793	\$ -	N/A	None

The group annuity contracts are investment contracts with principal and stated rates of return 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.

**September 30, 2020**

**Note 4 - Capital Assets**

Capital asset activity for the year ended September 30, 2020 was as follows:

	Balance October 1, 2019	Reclassifications and Adjustments	Additions	Disposals	Balance September 30, 2020
Capital assets not being depreciated:					
Land	\$ 2,442,267	\$ -	\$ -	\$ -	\$ 2,442,267
Construction in progress	424,448	(21,760)	199,120	-	601,808
Subtotal	2,866,715	(21,760)	199,120	-	3,044,075
Capital assets being depreciated:					
Buildings	40,771,425	-	60,121	(4,899)	40,826,647
Vehicles	73,811,267	21,760	2,484,071	(9,030,906)	67,286,192
Furniture, fixtures, and computers	8,631,153	-	329,356	(447,895)	8,512,614
Bus shelters and signs	1,052,070	-	107,524	(50,182)	1,109,412
Equipment	2,116,168	-	123,438	-	2,239,606
Subtotal	126,382,083	21,760	3,104,510	(9,533,882)	119,974,471
Accumulated depreciation:					
Buildings	21,234,264	-	1,286,152	-	22,520,416
Vehicles	45,640,641	-	4,871,797	(8,839,918)	41,672,520
Furniture, fixtures, and computers	7,344,232	-	379,139	-	7,723,371
Bus shelters and signs	497,911	-	67,153	-	565,064
Equipment	1,087,957	-	180,146	-	1,268,103
Subtotal	75,805,005	-	6,784,387	(8,839,918)	73,749,474
Net capital assets being depreciated	50,577,078	21,760	(3,679,877)	(693,964)	46,224,997
Net business-type activities capital assets	\$ 53,443,793	\$ -	\$ (3,480,757)	\$ (693,964)	\$ 49,269,072

Depreciation expense recognized in fiscal year 2020 is \$6,784,387.

**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.

**Note 5 - Risk Management (Continued)**

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	
	2020	2019	2020	2019
Estimated liability - Beginning of year	\$ 77,146	\$ 534,577	\$ 400,000	\$ 332,000
Estimated claims incurred, including changes in estimates	428,301	(376,404)	1,482,239	988,912
Claim payments	(246,371)	(81,027)	(1,330,239)	(920,912)
Estimated liability - End of year	<u>\$ 259,076</u>	<u>\$ 77,146</u>	<u>\$ 552,000</u>	<u>\$ 400,000</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.

**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, 2019	December 31, 2019
Inactive plan members or beneficiaries currently receiving benefits	141	38
Inactive plan members entitled to but not yet receiving benefits	47	43
Active plan members	<u>230</u>	<u>46</u>
Total employees covered by the plan	<u><u>418</u></u>	<u><u>127</u></u>

**Note 6 - Pension Plans (Continued)**

**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, 2020, the Authority's average contribution rate was 8 percent and 23 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's net pension liability	December 31, 2019	December 31, 2019

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

**Union Employees' Pension Plan**

Changes in Net Pension Liability (Asset)	Increase (Decrease)		
	Total Pension Liability	Plan Net Position	Net Pension Liability (Asset)
<b>Balance at January 1, 2019</b>	\$ 37,435,285	\$ 36,366,392	\$ 1,068,893
Changes for the year:			
Service cost	884,008	-	884,008
Interest	2,278,649	-	2,278,649
Differences between expected and actual experience	265,057	-	265,057
Changes in assumptions	790,739	-	790,739
Contributions - Employer	-	984,996	(984,996)
Contributions - Employee	-	984,997	(984,997)
Net investment income	-	6,011,788	(6,011,788)
Benefit payments, including refunds	(1,777,201)	(1,777,201)	-
Administrative expenses	-	(52,972)	52,972
Miscellaneous other charges	1,598,420	-	1,598,420
Net changes	4,039,672	6,151,608	(2,111,936)
<b>Balance at December 31, 2019</b>	\$ 41,474,957	\$ 42,518,000	\$ (1,043,043)

The Union Employees' Pension Plan's fiduciary net position represents 102.5 percent of the total pension liability.

**Note 6 - Pension Plans (Continued)**

**Administrative Employees' Pension Plan**

Changes in Net Pension Liability	Increase (Decrease)		
	Total Pension Liability	Plan Net Position	Net Pension Liability
<b>Balance at January 1, 2019</b>	\$ 18,840,267	\$ 15,844,679	\$ 2,995,588
Changes for the year:			
Service cost	567,036	-	567,036
Interest	1,135,258	-	1,135,258
Changes in benefits	205,693	-	205,693
Differences between expected and actual experience	(269,239)	-	(269,239)
Changes in assumptions	398,989	-	398,989
Contributions - Employer	-	700,000	(700,000)
Contributions - Employee	-	222,367	(222,367)
Net investment income	-	3,421,691	(3,421,691)
Benefit payments, including refunds	(972,660)	(972,660)	-
Administrative expenses	-	(24,284)	24,284
Net changes	1,065,077	3,347,114	(2,282,037)
<b>Balance at December 31, 2019</b>	<b>\$ 19,905,344</b>	<b>\$ 19,191,793</b>	<b>\$ 713,551</b>

The Administrative Employees' Pension Plan's fiduciary net position represents 96.4 percent of the total pension liability.

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

For the year ended September 30, 2020, the Authority recognized combined pension expense of \$2,342,765 from both plans.

At September 30, 2020, 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	\$ 975,699	\$ (699,127)
Changes in assumptions	1,482,759	-
Net difference between projected and actual earnings on pension plan investments	-	(4,589,658)
Employer contributions to the plan subsequent to the measurement date	1,069,256	-
Total	<b>\$ 3,527,714</b>	<b>\$ (5,288,785)</b>

**Note 6 - Pension Plans (Continued)**

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
2021	\$ (739,158)
2022	(716,805)
2023	(117,153)
2024	(1,257,211)
Total	<u>\$ (2,830,327)</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	Society of Actuaries Pub-2010 Public Retirement Plans Mortality Tables for annuitants and nonannuitants, Public General employment, sex distinct, MP-2018 improvement scale	Society of Actuaries Pub-2010 Public Retirement Plans Mortality Tables for annuitants and nonannuitants, Public General employment, sex distinct, MP-2018 improvement scale

**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.

**Note 6 - Pension Plans (Continued)**

***Investment Rate of Return***

Best estimates of arithmetic real rates of return as of the December 31, 2019 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 (Asset) Liability to Changes in the Discount Rate***

The following presents the net pension (asset) 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	\$ 3,930,160	\$ (1,043,043)	\$ (5,076,117)
Net pension liability (asset) of the Administrative Employees' Pension Plan	3,069,367	713,551	(1,249,657)

***Assumption Changes***

With the most recent actuarial valuations, the mortality assumptions were updated to the Society of Actuaries Pub-2010 Retirement Plans Mortality Tables with MP-2018 improvement scale from the RP-2014 Mortality Tables with MP-2018 improvement scale.

***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, 2020:

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	100.00 %	100.00 %

**Note 6 - Pension Plans (Continued)**

***Rate of Return***

For the year ended September 30, 2020, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 18.23 percent for the union plan and 20.01 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 health care 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 health care 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, 2019
Inactive plan members or beneficiaries currently receiving benefits	150
Active plan members	<u>284</u>
Total plan members	<u><u>434</u></u>

***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 health care 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, 2020 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, 2020 measurement date.

**Note 7 - Other Postemployment Benefit Plan (Continued)**

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
<b>Balance at October 1, 2019</b>	\$ 53,528,495	\$ 9,279,900	\$ 44,248,595
Changes for the year:			
Service cost	1,934,910	-	1,934,910
Interest	2,136,164	-	2,136,164
Differences between expected and actual experience	14,139,217	-	14,139,217
Changes in assumptions	20,889,644	-	20,889,644
Contributions - Employer	-	2,344,240	(2,344,240)
Contributions - Employee	-	43,679	(43,679)
Net investment income	-	1,154,874	(1,154,874)
Benefit payments, including refunds	(1,660,107)	(1,660,107)	-
Miscellaneous other charges	-	(43,687)	43,687
Net changes	37,439,828	1,838,999	35,600,829
<b>Balance at September 30, 2020</b>	<u>\$ 90,968,323</u>	<u>\$ 11,118,899</u>	<u>\$ 79,849,424</u>

The Plan's fiduciary net position represents 12.2 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, 2020, the Authority recognized OPEB expense of \$8,481,732.

At September 30, 2020, 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	\$ 12,285,102	\$ (50,948)
Changes in assumptions	18,477,467	(98,219)
Net difference between projected and actual earnings on OPEB plan investments	-	(451,244)
Total	<u>\$ 30,762,569</u>	<u>\$ (600,411)</u>

September 30, 2020

**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
2021	\$ 5,081,118
2022	5,081,118
2023	5,151,302
2024	4,912,070
2025	5,018,460
Thereafter	<u>4,918,090</u>
Total	<u>\$ 30,162,158</u>

**Actuarial Assumptions**

The total OPEB liability in the September 30, 2019 actuarial valuation was determined using an inflation assumption included in the expected return; assumed salary increases (including inflation) of 3.5 percent; an investment rate of return (net of investment expenses, including inflation) of 7.0 percent; a health care cost trend rate of 8.25 percent, graded 0.25 percent per year to an ultimate rate of 4.5 percent; and the Pub-2010 mortality tables with MP-2020 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 2.35 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, 2020 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

**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 2.35 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 (1.35%)	Current Discount Rate (2.35%)	1 Percentage Point Increase (3.35%)
Net OPEB liability of the Plan	\$ 96,655,294	\$ 79,849,424	\$ 66,614,668

**Sensitivity of the Net OPEB Liability to Changes in the Health Care Cost Trend Rate**

The following presents the net OPEB liability of the Authority, calculated using the health care cost trend rate of 8.25 percent, as well as what the Authority's net OPEB liability would be if it were calculated using a health care cost trend rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	1 Percentage Point Decrease (7.25%)	Current Health Care Cost Trend Rate (8.25%)	1 Percentage Point (9.25%)
Net OPEB liability of the Plan	\$ 64,432,852	\$ 79,849,424	\$ 99,915,995

**Assumption Changes**

Since the prior valuation, the mortality assumption was updated and the discount rate decreased from 3.91 percent to 2.35 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, 2020:

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, 2020, the Plan held approximately 100 percent of its investment portfolio in three Vanguard mutual funds.

**Rate of Return**

For the year ended September 30, 2020, the annual money-weighted rate of return on OPEB plan investments, net of OPEB plan investment expense, was 12.23 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

September 30, 2020

**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, 2020 was \$118,957.

The Authority also had commitments of approximately \$8,100,000 for the purchase of 15 large buses as of September 30, 2020.

**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, 2020 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 \$6,779,689 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 \$96,866 as building rental, \$162,689 as parking lot rental, and \$208,140 in other nontransportation revenue. Expenses of \$174,885 associated with building rental are shown as ineligible under PTMS code 56004. Expense of \$104,984 associated with other nontransportation revenue is shown as ineligible under PTMS code 55010.

Other expenses in the amount of \$313,451 are reported as ineligible under PTMS code 55008. This includes \$3,892 in Meals on Wheels revenue that was reported in revenue code 40400 and other ineligible items, such as gifts and donations. Ineligible interest of \$2,822 was reported under PTMS code 55006.

September 30, 2020

### Note 11 - Eligible and Ineligible Costs (Continued)

A portion of ineligible association dues in the amount of \$10,038 was reported as ineligible under PTMS code 55009.

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 \$608,872 (PTMS code 57604).

Loss on disposal of assets in the amount of \$65,003 was included in expenses and shown as ineligible under PTMS code 58009.

The Authority expensed \$2,339,547 in pension expense, of which \$660,564 has been shown as ineligible under PTMS code 58020 - Ineligible DB Pension. The amount of \$1,678,983 was paid into the pension trust in fiscal year 2020 by the Authority.

The Authority expensed \$7,765,976 in other postemployment benefits, of which \$6,134,536 has been shown as ineligible expense under PTMS code 58020 - Ineligible DB OPEB. An amount of \$684,132 was paid to the OPEB trust in fiscal year 2020. An additional \$1,174,656 was also paid in retirement health care expenses in fiscal year 2020 and is reported in fringe benefit expenses.

### Note 12 - COVID-19 Pandemic

On March 11, 2020, the World Health Organization declared the novel strain of coronavirus (COVID-19) a pandemic and recommended containment and mitigation measures worldwide. The COVID-19 outbreak in the United States has caused disruptions through mandated and voluntary closings of businesses and shelter-in-place orders for all but those deemed essential services. Since the outbreak, the Authority has continuously monitored the situation and made necessary adjustments to operations to ensure the safety of services. This includes reducing bus capacity, requiring face covers for riders, and additional bus-cleaning procedures. To reduce contact between riders and drivers, the Authority suspended collecting all fares for rides for the period from March 18, 2020 to June 14, 2020.

On March 18, 2020, the Authority temporarily halted its bus service as a result of decreased ridership due to the pandemic and shelter-in-place orders. In June 2020, the Authority reinstated bus service to approximately 60 percent of normal operations.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security (CARES) Act was enacted and signed into law. The CARES Act included provisions for grant funding to state and local governments. The Authority was allocated approximately \$18,300,000 of additional grant funding from the CARES Act. For fiscal year 2020, the Authority did not expend any moneys from the CARES Act funding received.

Subsequent to year end, in December 2020, the Authority was awarded approximately \$16,200,000 from the Coronavirus Response and Relief Supplemental Appropriations Act (CRRSAA). Management is currently evaluating strategies for utilizing these funds for fiscal year 2021 and beyond.

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## Required Supplemental Information

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## Capital Area Transportation Authority

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

**Last Six Fiscal Years**  
**Measurement Date is December 31 of the Previous Year**

	2020	2019	2018	2017	2016	2015
<b>Total Pension Liability</b>						
Service cost	\$ 884,008	\$ 761,585	\$ 778,029	\$ 769,047	\$ 901,345	\$ 878,914
Interest	2,278,649	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	265,057	287,885	137,767	474,688	600,589	336,591
Changes in assumptions	790,739	709,441	49,796	54,395	45,762	-
Benefit payments, including refunds	(1,777,201)	(1,439,726)	(1,734,240)	(1,442,944)	(1,408,792)	(1,698,741)
Other	1,598,420	-	-	-	-	-
<b>Net Change in Total Pension Liability</b>	<b>4,039,672</b>	<b>4,053,271</b>	<b>1,160,972</b>	<b>1,690,454</b>	<b>1,870,336</b>	<b>1,083,605</b>
<b>Total Pension Liability - Beginning of year</b>	<b>37,435,285</b>	<b>33,382,014</b>	<b>32,221,042</b>	<b>30,530,588</b>	<b>28,660,252</b>	<b>27,576,647</b>
<b>Total Pension Liability - End of year</b>	<b>\$ 41,474,957</b>	<b>\$ 37,435,285</b>	<b>\$ 33,382,014</b>	<b>\$ 32,221,042</b>	<b>\$ 30,530,588</b>	<b>\$ 28,660,252</b>
<b>Plan Fiduciary Net Position</b>						
Contributions - Employer	\$ 984,997	\$ 1,015,952	\$ 968,784	\$ 871,474	\$ 897,960	\$ 825,579
Contributions - Member	984,997	1,015,951	968,784	871,474	897,960	825,579
Net investment income (loss)	6,011,788	(352,613)	3,856,679	3,964,867	569,654	2,632,772
Administrative expenses	(52,973)	(46,522)	(41,047)	(51,928)	(1,408,792)	(63,761)
Benefit payments, including refunds	(1,777,201)	(1,439,726)	(1,734,240)	(1,442,944)	(73,743)	(1,698,741)
Other	-	-	-	(6,907)	-	-
<b>Net Change in Plan Fiduciary Net Position</b>	<b>6,151,608</b>	<b>193,042</b>	<b>4,018,960</b>	<b>4,206,036</b>	<b>883,039</b>	<b>2,521,428</b>
<b>Plan Fiduciary Net Position - Beginning of year</b>	<b>36,366,392</b>	<b>36,173,350</b>	<b>32,154,390</b>	<b>27,948,354</b>	<b>27,065,315</b>	<b>24,543,887</b>
<b>Plan Fiduciary Net Position - End of year</b>	<b>\$ 42,518,000</b>	<b>\$ 36,366,392</b>	<b>\$ 36,173,350</b>	<b>\$ 32,154,390</b>	<b>\$ 27,948,354</b>	<b>\$ 27,065,315</b>
<b>Authority's Net Pension (Asset) Liability - Ending</b>	<b>\$ (1,043,043)</b>	<b>\$ 1,068,893</b>	<b>\$ (2,791,336)</b>	<b>\$ 66,652</b>	<b>\$ 2,582,234</b>	<b>\$ 1,594,937</b>
<b>Plan Fiduciary Net Position as a Percentage of Total Pension Liability</b>	102.51 %	97.14 %	108.36 %	99.79 %	91.54 %	94.44 %
<b>Covered Payroll</b>	\$ 12,282,176	\$ 15,464,724	\$ 13,242,033	\$ 13,751,977	\$ 13,051,323	\$ 12,216,374
<b>Authority's Net Pension (Asset) Liability as a Percentage of Covered Payroll</b>	(8.49)%	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 2019 actuarial valuation, the mortality assumption was updated to the Society of Actuaries Pub-2010 Public Retirement Plans Mortality Tables with MP-2018 improvement scale from the RP-2014 Mortality Tables with MP-2018 improvement scale.

With the 2018 actuarial valuation, the mortality assumption was updated to the 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 Pension Contributions Union Employees' Retirement Plan

### Last Ten Fiscal Years Plan Years Ended December 31

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Actuarially determined contribution	\$ 790,244	\$ 807,612	\$ 742,482	\$ 777,218	\$ 897,960	\$ 825,579	\$ 770,772	\$ 804,565	\$ 767,572	\$ 743,022
Contributions in relation to the actuarially determined contribution	984,996	1,015,952	968,784	871,474	897,960	825,579	770,772	804,565	767,572	743,022
<b>Contribution Excess</b>	<b>\$ 194,752</b>	<b>\$ 208,340</b>	<b>\$ 226,302</b>	<b>\$ 94,256</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Covered Payroll</b>	<b>\$ 12,282,176</b>	<b>\$ 15,464,724</b>	<b>\$ 13,242,033</b>	<b>\$ 13,751,977</b>	<b>\$ 13,212,642</b>	<b>\$ 12,216,374</b>	<b>\$ 9,670,101</b>	<b>\$ 9,450,642</b>	<b>\$ 9,207,858</b>	<b>\$ 9,307,010</b>
<b>Contributions as a Percentage of Covered Payroll</b>	8.02 %	6.57 %	6.70 %	6.56 %	6.80 %	6.76 %	7.97 %	8.51 %	8.34 %	7.98 %

### Notes to Schedule of Pension Contributions - Union Employees' Retirement Plan

Actuarial valuation information relative to the determination of contributions:

Valuation date Actuarial determined contribution rates are calculated as of January 1.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal - Level of percentage of compensation
Asset valuation method	Equal to market value of assets
Inflation	2.00 percent
Salary increase	2.00 percent
Investment rate of return	6.00 percent
Retirement age	59 - Normal retirement age, as defined in the summary of plan provisions
Mortality	Pub-2010 Public Retirement Plans Mortality Tables with MP-2018 improvement scale

# Capital Area Transportation Authority

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

	Last Six Fiscal Years					
	Measurement Date is December 31 of the Previous Year					
	2020	2019	2018	2017	2016	2015
<b>Total Pension Liability</b>						
Service cost	\$ 567,036	\$ 559,994	\$ 441,360	\$ 505,572	\$ 414,794	\$ 424,887
Interest	1,135,258	1,198,325	1,181,777	1,192,736	1,137,093	1,065,211
Changes in benefit terms	205,693	-	-	-	-	-
Differences between expected and actual experience	(269,239)	(1,115,225)	1,751,137	110,949	232,973	329,293
Changes in assumptions	398,989	445,745	25,631	23,815	432,360	-
Benefit payments, including refunds	(972,660)	(3,321,283)	(3,164,209)	(738,853)	(2,022,338)	(952,299)
<b>Net Change in Total Pension Liability</b>	1,065,077	(2,232,444)	235,696	1,094,219	194,882	867,092
<b>Total Pension Liability - Beginning of year</b>	18,840,267	21,072,711	20,837,015	19,742,796	19,547,914	18,680,822
<b>Total Pension Liability - End of year</b>	<b>\$ 19,905,344</b>	<b>\$ 18,840,267</b>	<b>\$ 21,072,711</b>	<b>\$ 20,837,015</b>	<b>\$ 19,742,796</b>	<b>\$ 19,547,914</b>
<b>Plan Fiduciary Net Position</b>						
Contributions - Employer	\$ 700,000	\$ 700,000	\$ 700,000	\$ 633,906	\$ 395,223	\$ 409,598
Contributions - Member	222,366	217,558	192,200	88,907	180,979	193,090
Net investment income (loss)	3,421,692	(317,632)	2,776,672	846,742	144,288	1,556,717
Administrative expenses	(24,284)	(25,389)	(29,531)	(51,063)	(42,357)	(35,930)
Benefit payments, including refunds	(972,660)	(3,321,283)	(3,164,209)	(738,853)	(2,022,338)	(952,299)
Other	-	-	-	(4,358)	-	-
<b>Net Change in Plan Fiduciary Net Position</b>	3,347,114	(2,746,746)	475,132	775,281	(1,344,205)	1,171,176
<b>Plan Fiduciary Net Position - Beginning of year</b>	15,844,679	18,591,425	18,116,293	17,341,012	18,685,217	17,514,041
<b>Plan Fiduciary Net Position - End of year</b>	<b>\$ 19,191,793</b>	<b>\$ 15,844,679</b>	<b>\$ 18,591,425</b>	<b>\$ 18,116,293</b>	<b>\$ 17,341,012</b>	<b>\$ 18,685,217</b>
<b>Authority's Net Pension Liability - Ending</b>	<b>\$ 713,551</b>	<b>\$ 2,995,588</b>	<b>\$ 2,481,286</b>	<b>\$ 2,720,722</b>	<b>\$ 2,401,784</b>	<b>\$ 862,697</b>
<b>Plan Fiduciary Net Position as a Percentage of Total Pension Liability</b>	96.42 %	84.10 %	88.23 %	86.94 %	87.83 %	95.59 %
<b>Covered Payroll</b>	\$ 3,089,692	\$ 3,262,260	\$ 3,153,829	\$ 2,344,817	\$ 2,981,719	\$ 3,039,472
<b>Authority's Net Pension Liability as a Percentage of Covered Payroll</b>	23.09 %	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 2019 actuarial valuation, the mortality assumption was updated to the Society of Actuaries Pub-2010 Public Retirement Plans Mortality Tables with MP-2018 improvement scale from the RP-2014 Mortality Tables with MP-2018 improvement scale.

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**

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Required Supplemental Information  
Schedule of Pension Investment Returns

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	<b>Last Five Fiscal Years</b>				
	<b>Measurement Date is December 31 of the Previous Year</b>				
	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Union Employees' Retirement Plan - Annual money-weighted rate of return - Net of investment expense	18.23 %	(0.78)%	12.52 %	7.38 %	2.07 %
Administrative Employees' Retirement Plan - Annual money-weighted rate of return - Net of investment expense	20.01 %	(2.00)%	16.57 %	8.07 %	0.80 %

# Capital Area Transportation Authority

## Required Supplemental Information

### Schedule of Changes in the Net OPEB Liability and Related Ratios

	<b>Last Four Fiscal Years</b>			
	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
<b>Total OPEB Liability</b>				
Service cost	\$ 1,934,910	\$ 2,022,770	\$ 1,781,196	\$ 1,738,555
Interest	2,136,164	2,021,059	1,377,737	1,299,584
Differences between expected and actual experience	14,139,217	(80,917)	341,423	75,294
Changes in assumptions	20,889,644	(155,995)	1,155,482	-
Benefit payments, including refunds	(1,660,107)	(1,229,414)	(947,617)	(1,185,270)
<b>Net Change in Total OPEB Liability</b>	<b>37,439,828</b>	<b>2,577,503</b>	<b>3,708,221</b>	<b>1,928,163</b>
<b>Total OPEB Liability - Beginning of year</b>	<b>53,528,495</b>	<b>50,950,992</b>	<b>47,242,771</b>	<b>33,602,319</b>
<b>Total OPEB Liability - End of year</b>	<b><u>\$ 90,968,323</u></b>	<b><u>\$ 53,528,495</u></b>	<b><u>\$ 50,950,992</u></b>	<b><u>\$ 35,530,482</u></b>
<b>Plan Fiduciary Net Position</b>				
Contributions - Employer	\$ 2,344,240	\$ 1,880,969	\$ 1,568,146	\$ 1,725,577
Contributions - Employee	43,679	-	50,673	50,673
Net investment income	1,154,874	470,085	841,383	794,781
Benefit payments, including refunds	(1,660,107)	(1,229,414)	(947,617)	(1,185,271)
Other	(43,687)	-	3,047	3,047
<b>Net Change in Plan Fiduciary Net Position</b>	<b>1,838,999</b>	<b>1,121,640</b>	<b>1,515,632</b>	<b>1,388,807</b>
<b>Plan Fiduciary Net Position - Beginning of year</b>	<b>9,279,900</b>	<b>8,158,260</b>	<b>6,696,348</b>	<b>5,307,541</b>
<b>Plan Fiduciary Net Position - End of year</b>	<b><u>\$ 11,118,899</u></b>	<b><u>\$ 9,279,900</u></b>	<b><u>\$ 8,211,980</u></b>	<b><u>\$ 6,696,348</u></b>
<b>Net OPEB Liability - Ending</b>	<b><u>\$ 79,849,424</u></b>	<b><u>\$ 44,248,595</u></b>	<b><u>\$ 42,739,012</u></b>	<b><u>\$ 28,834,134</u></b>
<b>Plan Fiduciary Net Position as a Percentage of Total OPEB Liability</b>	<b>12.22 %</b>	<b>17.34 %</b>	<b>16.12 %</b>	<b>18.85 %</b>
<b>Covered-employee Payroll</b>	<b>\$ 22,057,485</b>	<b>\$ 21,304,311</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Net OPEB Liability as a Percentage of Covered-employee Payroll</b>	<b>362.01 %</b>	<b>207.70 %</b>	<b>- %</b>	<b>- %</b>

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**

In the 2020 valuation, the mortality assumption was updated, and the discount rate decreased from 3.91 percent to 2.35 percent.

In the 2019 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

	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Actuarially determined contribution	\$ 8,657,571	\$ 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
Contributions in relation to the actuarially determined contribution	2,344,240	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
<b>Contribution Deficiency</b>	<b>\$ (6,313,331)</b>	<b>\$ (5,796,470)</b>	<b>\$ (3,570,449)</b>	<b>\$ (2,980,347)</b>	<b>\$ (679,510)</b>	<b>\$ (1,546,157)</b>	<b>\$ (1,107,322)</b>	<b>\$ (1,247,257)</b>	<b>\$ (899,617)</b>	<b>\$ (522,850)</b>
<b>Covered-employee Payroll</b>	\$ 22,057,485	\$ 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, 2020 were determined based on the actuarial valuation as of September 30, 2019.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal (level percent)
Amortization method	Level dollar, closed
Remaining amortization period	8 years
Asset valuation method	Equal to market value of assets
Inflation	Not stated
Health care cost trend rates	8.25 percent, graded 0.25 percent per year to an ultimate rate of 4.5 percent
Salary increase	3.50 percent
Investment rate of return	7.0 percent (net of investment expense, including inflation)
Retirement age	60 years
Mortality	RPH 2014 Mortality Tables with the MP-2018 improvement scale

**Capital Area Transportation Authority**

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

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**Last Three Fiscal Years  
Years Ended September 30**

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Annual money-weighted rate of return - Net of investment expense	12.23 %	5.65 %	11.35 %

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## Other Supplemental Information

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**Capital Area Transportation Authority**

Other Supplemental Information  
Statement of Fiduciary Net Position  
Fiduciary Funds

	Union Pension Plan December 31, 2019	Admin Pension Plan December 31, 2019	Retiree OPEB Trust September 30, 2020	Total Fiduciary Funds
<b>Assets</b>				
Investments:				
Mutual funds	\$ -	\$ -	\$ 11,118,899	\$ 11,118,899
Group annuity contracts	42,518,000	19,191,793	-	61,709,793
Total assets	42,518,000	19,191,793	11,118,899	72,828,692
<b>Liabilities</b>				
	-	-	-	-
<b>Net Position</b> - Restricted for pension and other employee benefits	<b><u>\$ 42,518,000</u></b>	<b><u>\$ 19,191,793</u></b>	<b><u>\$ 11,118,899</u></b>	<b><u>\$ 72,828,692</u></b>

## Capital Area Transportation Authority

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

	Union Pension Plan Year Ended December 31, 2019	Admin Pension Plan Year Ended December 31, 2019	Retiree OPEB Trust Year Ended September 30, 2020	Total Fiduciary Funds
<b>Additions</b>				
Investment income:				
Interest and dividends	\$ 581,909	\$ 175,811	\$ 206,350	\$ 964,070
Change in fair value of investments	5,429,879	3,245,880	948,524	9,624,283
Net investment income	6,011,788	3,421,691	1,154,874	10,588,353
Contributions:				
Employer contributions	984,996	700,000	2,344,240	4,029,236
Member contributions	984,997	222,367	43,679	1,251,043
Total contributions	1,969,993	922,367	2,387,919	5,280,279
Total additions	7,981,781	4,344,058	3,542,793	15,868,632
<b>Deductions</b>				
Benefit payments	1,777,201	972,660	1,703,794	4,453,655
Administrative expenses	52,972	24,284	-	77,256
Total deductions	1,830,173	996,944	1,703,794	4,530,911
<b>Net Increase in Net Position Held in Trust</b>	6,151,608	3,347,114	1,838,999	11,337,721
<b>Net Position Held in Trust for Pension and Other Employee Benefits - Beginning of year</b>	36,366,392	15,844,679	9,279,900	61,490,971
<b>Net Position Held in Trust for Pension and Other Employee Benefits - End of year</b>	<b>\$ 42,518,000</b>	<b>\$ 19,191,793</b>	<b>\$ 11,118,899</b>	<b>\$ 72,828,692</b>

## Capital Area Transportation Authority

# Other Supplemental Information 1. Schedule of Operating Revenues

Year Ended September 30, 2020

### Local operating revenues:

40100	Linehaul - Farebox (Urban)	\$	1,528,008
40100	Paratransit - Farebox (Urban)		518,537
40100	Rural Services - Farebox		30,263
40100	Senior shopping bus - Fare Box		4,453
40400	Meals on Wheels		3,892
40720	Rental of Building		96,866
40725	Parking Lot		162,689
40760	Gain on Sale of Assets		107,148
40799	Other Miscellaneous Revenue		208,140
40950	Contract Services		6,958,402

### Total local operating revenues

9,618,398

### State of Michigan operating grants:

41101	Operating grant (Act 51) - Urban		14,777,827
41101	Operating grant (Act 51) - Urban - PY		800,064
41101	Operating grant (Act 51) - Rural		815,091
41101	Operating grant (Act 51) - Rural - PY		55,657
41101	Specialized Services		19,687
41111	Operating grant - Preventative Maintenance		200,000
41114	Other Capital Contract Reimburse for Operating Expenses		114,452

### Total State of Michigan operating grants

16,782,778

### Federal operating grants:

41301	Operating Grant - Rural - 5311		533,017
41301	Operating Grant - Rural - 5311 - PY		-
41311	Federal grant - Preventative Maintenance		800,000
41314	Other Capital Contract Reimburse for Operating Expenses		494,422
41361	Operating Grant - Rural - 5311 CARES Act		264,537

### Total Federal operating grants

2,091,976

### Local nonoperating revenues:

40800	Property tax		17,705,570
41400	Investment Income		438,576

### Total Local nonoperating revenue

18,144,146

### Total nonoperating revenue

37,018,900

### Total Revenue

\$ 46,637,298

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	\$ -	\$ -	\$ -
Federal Transit - Capital Investment Grants	20.500	MI-04-0085	No State match	-	-	-
Federal Transit - Formula Grants	20.507	MI-2017-014-04	2012-0055-P03D	275,237	68,809	344,046
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	281,543	70,386	351,929
Federal Transit - Formula Grants	20.507	MI-0095-X127	2012-0055-P28A	53,632	9,640	63,272
Federal Transit - Formula Grants	20.507	MI-0090-X647	2012-0055-P005	-	-	-
Federal Transit - Formula Grants	20.507	MI-0090-X672	2012-0055-P015	120,755	30,189	150,944
Federal Transit - Formula Grants	20.507	MI-0095-X105	2012-0055-P012	20,375	-	20,375
Federal Transit - Formula Grants	20.507	MI-0090-X805	2017-0027-P06D	859,951	214,988	1,074,939
Federal Transit - Formula Grants	20.507	MI-0090-X819	2019-0027-P11D	436,836	109,209	546,045
Federal Transit - Formula Grants	20.507	MI-0095-0007	2017-0027-P06A	-	-	-
Federal Transit - Formula Grants	20.507	MI-0090-X855	2019-0027-P013D	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	-	-	-
Bus and Bus Facilities Formula Program	20.526	MI-34-0001	2012-0055-P011	-	-	-
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	57,313	14,328	71,641
Bus and Bus Facilities Formula Program	20.526	MI-0034-0074	2019-0027-P11B	171,939	42,985	214,924
Bus and Bus Facilities Formula Program	20.526	MI-0034-0074	2019-0027-P11B	2,941	735	3,676
				-	-	-
Total Federal Transit Cluster				3,080,522	761,269	3,841,791
Transit Services Program Cluster:						
Formula Grants for Enhanced Mob of Sr & Ind. W Disab	20.513	MI-16-X010	2012-0055-P013	322,320	80,580	402,900
Formula Grants for Enhanced Mob of Sr & Ind. W Disab	20.513	MI-2017-014-02	2017-0027-P03B	-	-	-
Formula Grants for Enhanced Mob of Sr & Ind. W Disab	20.513	MI-34-0025	2012-0055-P28B	-	-	-
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				322,320	80,580	402,900
Formula Grants for Rural Areas						
Section 5311 Operating Formula Grant	20.509	MI-2017-0027-P12-R1		533,017	-	533,017
Section 5311 Operating Formula Grant - CARES Act	20.509	MI-2017-0027-P12-R1		264,537	-	264,537
				797,554	-	797,554
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	-	-	-
				-	-	-
Michigan Department of Transportation						
Operating Assistance - Act 51 (FY 19)						
Urban - Current Year	N/A		N/A		14,777,827	14,777,827
Urban - Prior Year	N/A		N/A		800,064	800,064
Nonurban - Current Year	N/A		N/A		815,091	815,091
Nonurban - Prior Year	N/A		N/A		55,657	55,657
				-	16,448,639	16,448,639
Specialized Services FY 20	N/A	N/A	2017-0027-P7	-	19,687	19,687
GAAP timing difference						
Section 5311 Operating Formula Grant - Prior Year	20.509	MI-2017-030-01		16,327	3,790	20,117
				-	-	-
<b>Total</b>				<b>\$ 4,216,723</b>	<b>\$ 17,313,965</b>	<b>\$ 21,530,688</b>

Description	MI-0095-X127	MI-90-X782	MI-2017-014D	MI-90-X672	MI-34-0074	MI-90-X805	MI-90-X819	MI-34-0057	MI-0095-X105	MI-0090-X855	FY 20 Specialized Services	General Operations Urban Large	General Operations Nonurban	Total
	2012-0055-P28A FY 16 S-5307	2012-0055-P28C FY 16 S-5307	2017-0027-P3D FY 17 S-5307	2012-0055-P15 FY 15 S-5307	2017-0027-P11B FY 19 S-5339b	2017-0027-P6C FY 18 S-5307	2017-0027-P11D FY 19 S-5307	2017-0027-P6B FY 18 S-5339	2012-0055-P012 FY 13 S-5307	2019-0027-P013D FY 20 S-5307				
Labor	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 20,375	\$ -	\$ 18,257	\$ 19,554,740	\$ 453,373	\$ 20,046,745
Other fringe benefits											\$ 17,623	\$ 18,894,157	\$ 437,600	\$ 19,349,380
Purchased services:														
Advertising	31,444	0	0	0	0	0	0	0	0	0	575	275,131	14,286	321,435
Other	31,330	74,025	116,589	39,701	0	40,964	0	0	0	0	5,768	3,047,704	143,218	3,499,299
Materials & Supplies	1,666	19,588	40	0	1,736	11,268	6,433	579	0	1,000,000	3,764	3,426,098	93,467	4,564,639
Utilities											1,296	690,555	32,180	724,031
Casualty and liability costs											2,638	1,405,670	65,504	1,473,812
Purchased transportation												7,653,757	1,287,614	8,941,371
Miscellaneous expenses	0	3,712	104,376	9,330	3,676	87,998	4,045	0	0	0	370	48,861	9,179	271,547
Interest												2,184		2,184
Leases and rentals											92	49,252	2,295	51,639
Depreciation											12,143	6,470,711	301,535	6,784,389
<b>Total</b>	<b>\$ 64,439</b>	<b>\$ 97,325</b>	<b>\$ 221,005</b>	<b>\$ 49,031</b>	<b>\$ 5,412</b>	<b>\$ 140,231</b>	<b>\$ 10,478</b>	<b>\$ 579</b>	<b>\$ 20,375</b>	<b>\$ 1,000,000</b>	<b>\$ 62,526</b>	<b>\$ 61,518,820</b>	<b>\$ 2,840,251</b>	<b>\$ 66,030,471</b>

(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, 2020

Code	Description	Amount
<b>Fare Revenue</b>		
40100	Passenger fares	\$ 2,046,545
<b>Nontransportation Revenue</b>		
40720	Rental of buildings or other properties	96,866
40725	Parking Lot Revenue	64,040
40760	Gain from Sale of Capital Assets	107,148
40799	Other Non-Transportation Revenue	306,911
<b>Local Revenue</b>		
40800	Taxes levied directly for/by transit agency	17,705,570
<b>Local Revenue</b>		
40950	Local Service Contracts/Local Source	5,598,302
<b>State Revenue</b>		
41101	State operating assistance	15,577,891
41111	Preventative maintenance	200,000
41114	Other Capital Contract Reimburse for Operating Expenses	114,452
<b>Federal Revenue</b>		
41311	Preventative maintenance	800,000
41314	Other Capital Contract Reimburse for Operating Expenses	494,422
<b>Other Revenue</b>		
41400	Investment Income	438,576
<b>Total Urban Regular Service Revenue</b>		<b>\$ 43,550,723</b>

Year Ended September 30, 2020

Code	Description	Operations	Maintenance	Administration	Total
<b>Labor:</b>					
50101	Operator salaries & wages	\$ 12,975,954	\$ -	\$ -	\$ 12,975,954
50102	Other salaries & wages		1,949,024	4,650,137	6,599,161
<b>Fringe Benefits</b>					
50200	Other fringe benefits	5,983,415	898,726	2,144,240	9,026,381
50220	Defined Benefit Pension	1,514,346	227,470	542,690	2,284,506
50250	Other post retirement benefits	5,026,799	755,039	1,801,432	7,583,270
<b>Services</b>					
50302	Advertising			306,574	306,574
50305	Audit costs			68,004	68,004
50399	Other		276,959	3,005,350	3,282,309
<b>Materials and supplies</b>					
50401	Fuel and Lubricants		1,393,870	39,118	1,432,988
50402	Tires and tubes		115,875	1,329	117,204
50499	Other materials and supplies		1,075,965	1,841,251	2,917,216
<b>Utilities</b>					
50500	Utilities			690,555	690,555
<b>Insurance</b>					
50603	Liability insurance			90,688	90,688
50699	Other insurance			1,314,982	1,314,982
<b>Taxes and fees</b>					
50700	Taxes and fees			1,897	1,897
<b>Purchased transportation services</b>					
50800	Purchased transportation services	7,653,757			7,653,757
<b>Miscellaneous expenses</b>					
50902	Travel, meetings & training			55,794	55,794
50903	Association dues & subscriptions			139,084	139,084
50909	Loss on disposal of assets			65,002	65,002
50999	Other miscellaneous expense			221	221
<b>Interest on short term debt</b>					
51102	Interest on short term debt			2,184	2,184
<b>Operating leases &amp; rentals</b>					
51200	Operating leases & rentals			49,252	49,252
<b>Depreciation</b>					
51300	Depreciation			6,470,711	6,470,711
<b>Total Expenses</b>		<u>33,154,271</u>	<u>6,692,928</u>	<u>23,280,495</u>	<u>63,127,694</u>
<b>Ineligible Expenses</b>					
55006	Other ineligible interest expense			2,184	2,184
55007	Ineligible depreciation			6,466,208	6,466,208
55008	Other ineligible			158,480	158,480
55009	Ineligible percent of association dues			9,594	9,594
55010	Ineligible expense associated with other revenue			104,984	104,984
55011	Ineligible preventative maintenance		1,000,000		1,000,000
56004	Ineligible expenses associated w/rentals			174,885	174,885
57604	Other ineligible operating expense paid by capital contract			608,872	608,872
58009	Loss on disposal of assets			65,002	65,002
58020	Ineligible DB Pension			636,715	636,715
58050	Ineligible DB OPEB			5,990,212	5,990,212
58099	Other ineligible benefits			216,762	216,762
<b>Total Ineligible Expenses</b>		<u>-</u>	<u>1,000,000</u>	<u>14,433,898</u>	<u>15,433,898</u>
<b>Total Eligible Expenses</b>		<u>\$ 33,154,271</u>	<u>\$ 5,692,928</u>	<u>\$ 8,846,597</u>	<u>\$ 47,693,796</u>

6. Urban Regular Service Nonfinancial Report (Unaudited)

Year Ended September 30, 2020

Code	Description	Weekday		Saturday		Sunday		Total
		LH	DR	LH	DR	LH	DR	
610	Vehicles hours	210,435	187,115	21,434	15,840	13,891	11,143	<b>459,858</b>
611	Vehicle miles	2,686,343	2,269,023	290,840	196,420	182,821	131,456	<b>5,756,903</b>

Miscellaneous Information

Description	LH	DR	Total
Vehicle Revenue Miles	2,951,545	2,132,424	<b>5,083,969</b>
Non-Revenue (Service) Vehicle Miles			<b>270,362</b>
Gallons Fuel - LPG	-	6,952	<b>6,952</b>
Gallons Fuel - Diesel	624,563	300,461	<b>925,024</b>
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, 2020**

<u>Code</u>	<u>Description</u>	<u>Amount</u>
	<b>Fare Revenue</b>	
40100	Passenger fares	\$ 30,264
	<b>Package Delivery/Meal Delivery Programs</b>	
40400	Package delivery/meal delivery programs	3,892
	<b>Local Service Contract</b>	
40950	Local service contract/local source	1,360,100
	<b>State Revenue</b>	
41101	State operating assistance	870,748
	<b>Federal Revenue</b>	
41301	Section 5311 Operating	533,017
41361	Section 5311 CARES Act Operating	264,537
<b>Total Revenue</b>		<b>\$ 3,062,558</b>

Other Supplemental Information  
**8. Nonurban County Regular Service Expense Report**  
 Year Ended September 30, 2020

Code	Description	Operations	Maintenance	Administration	Total
<b>Labor:</b>					
50101	Operator salaries & wages	\$ 202,539	\$ -	\$ -	\$ 202,539
50102	Other salaries & wages		34,137	216,697	250,834
<b>Fringe Benefits</b>					
50200	Other fringe benefits	93,394	15,741	99,922	209,057
50220	Defined Benefit Pension	23,637	3,984	25,289	52,910
50250	Other post retirement benefits	78,462	13,224	83,947	175,633
<b>Services</b>					
50302	Advertising			14,286	14,286
50305	Audit costs			3,169	3,169
50399	Other		0	140,049	140,049
<b>Materials and supplies</b>					
50401	Fuel and Lubricants		22,938	1,825	24,763
50402	Tires and tubes		1,623	62	1,685
50499	Other materials and supplies		9,590	57,429	67,019
<b>Utilities</b>					
50500	Utilities			32,180	32,180
<b>Insurance</b>					
50603	Liability insurance			4,226	4,226
50699	Other insurance			61,278	61,278
<b>Taxes and fees</b>					
50700	Taxes and fees			88	88
<b>Purchased transportation services</b>					
50800	Purchased transportation services	1,287,614			1,287,614
<b>Miscellaneous expenses</b>					
50902	Travel, meetings & training			2,600	2,600
50903	Association dues & subscriptions			6,481	6,481
50999	Other miscellaneous expense			10	10
<b>Operating leases &amp; rentals</b>					
51200	Operating leases & rentals			2,295	2,295
<b>Depreciation</b>					
51300	Depreciation			301,535	301,535
<b>Total Expenses</b>		<u>1,685,646</u>	<u>101,237</u>	<u>1,053,368</u>	<u>2,840,251</u>
<b>Ineligible Expenses</b>					
55006	Other ineligible interest expense			638	638
55007	Ineligible depreciation			301,326	301,326
55008	Other ineligible expenses			154,674	154,674
55009	Ineligible percent of association dues			428	428
58020	Ineligible DB Pension	0	0	22,404	22,404
58050	Ineligible DB OPEB	61,979	10,446	66,312	138,737
58099	Other ineligible benefits			7,255	7,255
<b>Total Ineligible Expenses</b>		<u>61,979</u>	<u>10,446</u>	<u>553,037</u>	<u>625,462</u>
<b>Total Eligible Expenses</b>		<u>\$ 1,623,667</u>	<u>\$ 90,791</u>	<u>\$ 500,331</u>	<u>\$ 2,214,789</u>

9. Nonurban County Regular Service Nonfinancial Report (Unaudited)

Year Ended September 30, 2020

Code	Description	Weekday	Saturday	Sunday	Total
610	Vehicles hours	16,853	497	-	17,350
611	Vehicle miles	361,523	11,480	-	373,003

Miscellaneous Information

Description	Total
Vehicle Revenue Miles	238,809
Gallons Fuel - Gasoline	35,653

**Capital Area Transportation Authority**

**Other Supplemental Information**  
**10. Specialized Services Revenue Report**

**Year Ended September 30, 2020**

<u>Code</u>	<u>Description</u>	<u>Amount</u>
	<b>Fare Revenue</b>	
40100	Passenger fares	\$ 4,453
	<b>State Revenue</b>	
41101	Specialized Services	19,687
<b>Total Revenue</b>		<b><u>\$ 24,140</u></b>

Other Supplemental Information  
11. Specialized Services Expense Report

Year Ended September 30, 2020

Code	Description	Operations	Maintenance	Administration	Total
	<b>Labor:</b>				
50101	Operator salaries & wages	\$ 8,156	\$ -	\$ -	\$ 8,156
50102	Other salaries & wages		10,101		10,101
	<b>Fringe Benefits</b>				
50200	Other fringe benefits	8,419			8,419
50220	Defined Benefit Pension	2,131			2,131
50250	Other post retirement benefits	7,073			7,073
	<b>Services</b>				
50302	Advertising			575	575
50305	Audit costs			128	128
50399	Other			5,640	5,640
	<b>Materials and supplies</b>				
50401	Fuel and Lubricants		997		997
50402	Tires and tubes		68		68
50499	Other materials and supplies		2,699		2,699
	<b>Utilities</b>				
50500	Utilities			1,296	1,296
	<b>Insurance</b>				
50603	Liability insurance			170	170
50699	Other insurance			2,468	2,468
	<b>Taxes and fees</b>				
50700	Taxes and fees			4	4
	<b>Miscellaneous expenses</b>				
50902	Travel, meetings & training			105	105
50903	Association dues & subscriptions			261	261
50999	Other miscellaneous expense			0	0
	<b>Operating leases &amp; rentals</b>				
51200	Operating leases & rentals			92	92
	<b>Depreciation</b>				
51300	Depreciation			12,143	12,143
<b>Total Expenses</b>		<u>25,779</u>	<u>13,865</u>	<u>22,882</u>	<u>62,526</u>
	<b>Ineligible expenses</b>				
55007	Ineligible depreciation			12,135	12,135
55008	Other ineligible			297	297
55009	Ineligible percent of association dues			16	16
58020	Ineligible DB Pension	0		1,445	1,445
58050	Ineligible DB OPEB	0		5,587	5,587
58099	Other ineligible benefits			468	468
<b>Total Ineligible Expenses</b>		<u>0</u>	<u>0</u>	<u>19,948</u>	<u>19,948</u>
<b>Total Eligible Expenses</b>		<u>\$ 25,779</u>	<u>\$ 13,865</u>	<u>\$ 2,934</u>	<u>42,578</u>

**Capital Area Transportation Authority**

**Other Supplemental Information**  
**12. Specialized Services Nonfinancial Report (Unaudited)**

**Year Ended September 30, 2020**

<u>Code</u>	<u>Description</u>	<u>Weekday</u>
610	Vehicles hours	<b>1,602</b>
611	Vehicle miles	<b>11,838</b>

**Miscellaneous Information**

<u>Description</u>	<u>Total</u>
Vehicle Revenue Miles	<b>9,617</b>
Gallons Fuel - Diesel	<b>2,732</b>

Other Supplemental Information  
 13. Operating Assistance Calculation

Year Ended September 30, 2020

	Urban	Nonurban
Total Expenses	<u>\$ 63,127,694</u>	<u>\$ 2,840,251</u>
Less: Ineligible expenses		
Ineligible depreciation	6,466,208	301,326
Ineligible interest expense	2,184	-
Other ineligible	158,480	154,674
Ineligible percent of association dues	9,594	428
Ineligible expense associated with other revenue	104,984	-
Ineligible preventative maintenance	1,000,000	-
Ineligible expenses associated w/rentals	174,885	-
Other ineligible operating expenses paid by capital contract	608,872	-
Loss on disposal of assets	65,002	-
Ineligible DB Pension	636,715	22,404
Ineligible DB OPEB	<u>5,990,212</u>	<u>138,737</u>
Other ineligible benefits	<u>216,762</u>	<u>7,255</u>
Total Ineligible Expenses Per R&E Manual	<u>15,433,898</u>	<u>624,824</u>
<b>Total State Eligible Expenses</b>	<u><u>\$ 47,693,796</u></u>	<u><u>\$ 2,215,427</u></u>

Eligible Expenses for State Reimbursement	\$ 47,693,796	\$ 2,215,427
x Reimbursement Percentage (Budgeted)	<u>30.98480%</u>	<u>36.79160%</u>
State Operating Assistance	<u><u>\$ 14,777,827</u></u>	<u><u>\$ 815,091</u></u>

**Total Federal Eligible Expenses**

Eligible Expenses for Federal Reimbursement		\$ 2,215,427
x Reimbursement Percentage (per Project Authorization)		<u>36.00%</u>
State Operating Assistance		<u><u>\$ 797,554</u></u>

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# Capital Area Transportation Authority

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**Federal Awards Supplemental Information  
September 30, 2020**

**Independent Auditor's Reports**

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Report on Schedule of Expenditures of Federal and State Awards Required by the Uniform Guidance

**Independent Auditor's Report**

To the Board of Directors  
Capital Area Transportation Authority

We have audited the 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, 2020 and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements. We issued our report thereon dated March 5, 2021, which contained an unmodified opinion on the financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. We have not performed any procedures with respect to the audited financial statements subsequent to March 5, 2021.

The accompanying schedule of expenditures of federal and state awards is presented for the purpose of additional analysis, as required by the Uniform Guidance, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the 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 information is fairly stated in all material respects in relation to the financial statements as a whole.

*Plante & Moran, PLLC*

March 5, 2021

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of  
Financial Statements Performed in Accordance with *Government Auditing Standards*

### **Independent Auditor's Report**

To Management and the Board of Directors  
Capital Area Transportation Authority

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the enterprise fund and fiduciary funds of the Capital Area Transportation Authority (the "Authority") as of and for the year ended September 30, 2020 and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated March 5, 2021.

#### **Internal Control Over Financial Reporting**

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as Finding 2020-001, that we consider to be a material weakness.

#### **Compliance and Other Matters**

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

#### **The Authority's Response to the Finding**

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

To Management and the Board of Directors  
Capital Area Transportation Authority

**Purpose of This Report**

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

*Plante & Moran, PLLC*

March 5, 2021

Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance  
Required by the Uniform Guidance

**Independent Auditor's Report**

To the Board of Directors  
Capital Area Transportation Authority

**Report on Compliance for Each Major Federal Program**

We have audited the Capital Area Transportation Authority's (the "Authority") compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Compliance Supplement that could have a direct and material effect on each of the Authority's major federal programs for the year ended September 30, 2020. The Authority's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

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

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the Authority's major federal programs based on our audit of the types of compliance requirements referred to above.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the "Uniform Guidance"). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Authority's compliance.

***Opinion on Each Major Federal Program***

In our opinion, the Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of the major federal programs for the year ended September 30, 2020.

***Other Matters***

The results of our auditing procedures disclosed an instance of noncompliance that is required to be reported in accordance with the OMB Uniform Guidance, which is described in the accompanying schedule of findings and questioned costs as Finding 2020-002. Our opinion on each major federal program is not modified with respect to this matter.

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

To the Board of Directors  
Capital Area Transportation Authority

### **Report on Internal Control Over Compliance**

Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Authority's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention of those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses, and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified a certain deficiency in internal control over compliance, described in the accompanying schedule of findings and questioned costs as Finding 2020-002, that we consider to be a material weakness.

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*Plante & Moran, PLLC*

March 5, 2021

# Capital Area Transportation Authority

## Schedule of Expenditures of Federal and State Awards

Year Ended September 30, 2020

Federal Agency/Pass-through Agency/Program Title	CFDA Number	Federal Project Number	State Project Number	Pass-through Entity Identifying Number	Federal Expenditures	State Expenditures	Total Expenditures	Amount Provided to Subrecipients
U.S. Department of Transportation - Direct programs:								
Federal Transit Cluster:								
Federal Transit - Formula Grants	20.507	MI-2017-014-04	2017-0027-P03D		\$ 275,237	\$ 68,809	\$ 344,046	\$ -
Federal Transit - Formula Grants	20.507	MI-0090-X782	2012-0055-P28C		281,543	70,386	351,929	-
Federal Transit - Formula Grants	20.507	MI-0095-X127	2012-0055-P28A		53,632	9,640	63,272	-
Federal Transit - Formula Grants	20.507	MI-0090-X672	2012-0055-P015		120,755	30,189	150,944	-
Federal Transit - Formula Grants	20.507	MI-0095-X105	2012-0055-P012		20,375	-	20,375	-
Federal Transit - Formula Grants	20.507	MI-0090-X805	2017-0027-P06D		859,951	214,988	1,074,939	-
Federal Transit - Formula Grants	20.507	MI-0090-X819	2017-0027-P11D		436,836	109,209	546,045	-
Federal Transit - Formula Grants	20.507	MI-0090-X855	2017-0027-P013D		800,000	200,000	1,000,000	-
Bus and Bus Facilities Formula Program	20.526	MI-0034-0057	2017-0027-P06B		57,313	14,328	71,641	-
Bus and Bus Facilities Formula Program	20.526	MI-0034-0074	2017-0027-P11B		171,939	42,985	214,924	-
Bus and Bus Facilities Formula Program	20.526	MI-0034-0074	2017-0027-P11B		<u>2,941</u>	<u>735</u>	<u>3,676</u>	<u>-</u>
Total Federal Transit Cluster					3,080,522	761,269	3,841,791	-
Transit Services Program Cluster -								
Formula Grants for Enhanced Mob of Sr & Ind. W Disab	20.513	MI-16-X010	2012-0055-P013		322,320	80,580	402,900	-
U.S. Department of Transportation - Pass-through programs from Michigan Department of Transportation (MDOT) -								
Formula Grants for Rural Areas:								
Section 5311 Operating Formula Grant	20.509	MI-2017-027-P12-R1	No State match	MI-2017-027-P12-R1	533,017	-	533,017	-
COVID-19 Section 5311 Operating Formula Grant	20.509	MI-2017-027-P12-R1	No State match	MI-2017-027-P12-R1	<u>264,537</u>	<u>-</u>	<u>264,537</u>	<u>-</u>
Total - Formula Grants for Rural Areas - Section 5311 Operating Formula Grant					<u>797,554</u>	<u>-</u>	<u>797,554</u>	<u>-</u>
Total federal awards					<u>\$ 4,200,396</u>	<u>\$ 841,849</u>	<u>\$ 5,042,245</u>	<u>\$ -</u>

## Capital Area Transportation Authority

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# Notes to Schedule of Expenditures of Federal and State Awards

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Year Ended September 30, 2020

### Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal and state awards (the "Schedule") includes the federal grant activity of the Capital Area Transportation Authority (the "Authority") under programs of the federal government for the year ended September 30, 2020. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the "Uniform Guidance"). Because the Schedule presents only a selected portion of the operations of the Authority, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Authority.

### Note 2 - Summary of Significant Accounting Policies

Expenditures reported in the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

The Authority has elected not to use the 10 percent *de minimis* indirect cost rate to recover indirect costs, as allowed under the Uniform Guidance.

**Capital Area Transportation Authority**

**Schedule of Findings and Questioned Costs**

**Year Ended September 30, 2020**

**Section I - Summary of Auditor's Results**

**Financial Statements**

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified?  X  Yes   No
- Significant deficiency(ies) identified that are not considered to be material weaknesses?   Yes  X  None reported

Noncompliance material to financial statements noted?   Yes  X  None reported

**Federal Awards**

Internal control over major programs:

- Material weakness(es) identified?  X  Yes   No
- Significant deficiency(ies) identified that are not considered to be material weaknesses?   Yes  X  None reported

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

Any audit findings disclosed that are required to be reported in accordance with Section 2 CFR 200.516(a)?  X  Yes   No

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
20.507, 20.526 20.509	Federal Transit Cluster Formula Grants for Rural Areas program

Dollar threshold used to distinguish between type A and type B programs: \$750,000

Auditee qualified as low-risk auditee?   Yes  X  No

# Capital Area Transportation Authority

## Schedule of Findings and Questioned Costs (Continued)

Year Ended September 30, 2020

### Section II - Financial Statement Audit Findings

Reference Number	Finding
2020-001	<p data-bbox="362 531 773 556"><b>Finding Type</b> - Material weakness</p> <p data-bbox="362 581 1482 821"><b>Criteria</b> - The Authority should obtain monthly third-party investment and activity statements for the retiree OPEB trust fund. Management should maintain a trial balance year-round for the retiree OPEB trust fund and follow their established practice of reconciling the general ledger balances to that third-party activity periodically throughout the year. These reconciliations should be reviewed by a second individual and signed off on by both a preparer and a reviewer. Additionally, the Authority should review the assumptions annually that are utilized by the actuary for the OPEB valuation to ensure that the assumptions both reasonable and consistent.</p> <p data-bbox="362 846 1482 993"><b>Condition</b> - The Authority did not follow its current procedures and controls in place to record, reconcile, and review the investment statements and trust activity for the retiree OPEB trust fund throughout the year. Additionally, management did not have an adequate system of procedures and controls in place to review the assumptions used in the OPEB actuarial valuation for reasonableness and consistency.</p> <p data-bbox="362 1018 1482 1224"><b>Context</b> - The Authority did not reconcile the retiree OPEB trust fund to the general ledger during the year. It was reconciled once this year as of September 30, 2020. We should note that there were no discrepancies found during this reconciliation process. In the current year, the OPEB actuarial valuation included assumptions about the future projected claims that were not consistent with the future expectations for those claims. The internal controls over the review of the actuarial valuation did not lead the Authority to assess the reasonableness of the increase in the projected liability in the current year.</p> <p data-bbox="362 1249 1482 1337"><b>Cause</b> - The Authority was unable to readily obtain the third-party benefit statements timely throughout the year, and internal controls were not established that would require management to assess the reasonableness of the assumptions used by the actuary.</p> <p data-bbox="362 1362 1482 1568"><b>Effect</b> - As a result, the Authority reconciled the full year of retiree OPEB trust fund activity subsequent to year end. Although there were no discrepancies identified in reviewing the reconciliation performed by management, the potential effect could have resulted in a misappropriation of assets. Additionally, the claims experience difference overstated the total OPEB liability by approximately \$14 million, resulting in material auditor-proposed journal entries that were recorded and an adjustment that needed to be made to the actuarial valuation.</p> <p data-bbox="362 1593 1482 1799"><b>Recommendation</b> - We recommend that the Authority's preestablished procedures and controls be followed to obtain the trust activity statements timely in order to review the activity and related actuarial assumptions, as well as to record and reconcile OPEB investment trust activity at least quarterly, if not monthly. We also recommend a second review and signoff on the retiree OPEB reconciliations by both the preparer and reviewer. Additionally, we recommend that a formal process be put into place related to the review of the annual OPEB valuation for reasonableness and consistency.</p>

**Capital Area Transportation Authority**

**Schedule of Findings and Questioned Costs (Continued)**

**Year Ended September 30, 2020**

**Section II - Financial Statement Audit Findings (Continued)**

Reference Number	Finding
2020-001 (Continued)	<b>Views of Responsible Officials and Planned Corrective Actions</b> - The Authority will refine its existing procedures in order to ensure timely reconciliation of the OPEB trust account during the year. In addition, the Authority is currently in the process of upgrading its financial accounting software and will include the OPEB trust as part of the general ledger within the new system. Regarding the controls over the review of the assumptions used in the actuarial valuation, in 2020, the Authority did conduct a formal review of the OPEB actuarial valuation, but the Authority will make adjustments to that review in order to ensure the assumptions are reasonable in the future.

# Capital Area Transportation Authority

## Schedule of Findings and Questioned Costs (Continued)

Year Ended September 30, 2020

### Section III - Federal Program Audit Findings

Reference Number	Finding
2020-002	<p><b>CFDA Number, Federal Agency, and Program Name</b> - Formula Grants for Rural Areas - Section 5311 Operating Formula Grant (CFDA 20.509)</p> <p><b>Federal Award Identification Number and Year</b> - MI-2017-027-P12-R1</p> <p><b>Pass-through Entity</b> - Michigan Department of Transportation (MDOT)</p> <p><b>Finding Type</b> - Material weakness and material noncompliance with laws and regulations</p> <p><b>Repeat Finding</b> - No</p> <p><b>Criteria</b> - Recipients must have procedures in place for verifying that an entity with which they plan to enter into a covered transaction is not debarred, suspended, or otherwise excluded (2 CFR Section 200.318(h); 2 CFR Section 180.300).</p> <p><b>Condition</b> - Contracts were entered into with contractors without verification that the entity was not debarred, suspended, or otherwise excluded.</p> <p><b>Questioned Costs</b> - None</p> <p><b>Identification of How Questioned Costs Were Computed</b> - N/A</p> <p><b>Context</b> - Of the sample of 25 contracts procured this year that we selected for testing, 4 of the contracts did not include adequate documentation regarding review that the contractor was not debarred, suspended, or otherwise excluded. The Authority has since confirmed, as of the date of the audit, that these 4 contractors were not on the suspended and debarred list.</p> <p><b>Cause and Effect</b> - Internal control procedures related to compliance with suspension and debarment did not operate effectively. As a result, the Authority did not perform procedures to ensure that a contractor is not suspended, debarred, or excluded from entering into contracts with federal funding. The Authority has since confirmed, as of the date of the audit, that these three contractors were not on the suspended and debarred list, and, therefore, there are no questioned costs.</p> <p><b>Recommendation</b> - Internal control procedures should be implemented to ensure that all contracts include verification that an entity with which the Authority plans to enter into a covered transaction is not debarred, suspended, or otherwise excluded and maintain documentation of this review in the contract file.</p> <p><b>Views of Responsible Officials and Corrective Action Plan</b> - The Authority will expand its existing procedures for all applicable contracts to ensure they are not debarred, suspended, or otherwise excluded prior to entering into a contract. This is already occurring for the vast majority of federal award program expenditures.</p>



Capital Area Transportation Authority  
September 30, 2020  
Summary Schedule of Prior Audit Findings

**Prior Year Finding Number:**

2019-001

**Fiscal Year in Which the Finding Initially Occurred:**

2019

**Federal Program, CFDA Number and Name:**

N/A as this is a financial statement finding

**Original Finding Description:**

There is a lack of segregation of duties over cash collections.

**Status/Partial Corrective Action (as applicable):**

Fully Corrected

**Planned Corrective Action:**

N/A

**Prior Year Finding Number:**

2019-002

**Fiscal Year in Which the Finding Initially Occurred:**

2018

**Federal Program, CFDA Number and Name:**

Federal Transit Cluster (CFDA 20.500, 20.507, and 20.526)

**Original Finding Description:**

While the total dollars reported on the SEFA were correct, the initial SEFA reported certain federal expenditures under the wrong CFDA number. The expenditures presented on the SEFA for the Federal Transit Cluster (CFDA 20.500, 20.507, 20.526) were initially understated by \$1,182,893, and expenditures for the Transit Services Program Cluster (CFDA 20.513) were initially overstated by \$1,182,893.

**Status/Partial Corrective Action (as applicable):**

Fully corrected

**Planned Corrective Action:**

N/A





**Capital Area Transportation Authority**

**September 30, 2020**

**Corrective Action Plan**

**Finding Number:** 2020-001

**Condition:** The Authority did not follow its current procedures and controls in place to record, reconcile, and review the investment statements and trust activity for the retiree OPEB trust fund throughout the year. Additionally, management did not have an adequate system of procedures and controls in place to review the assumptions used in the OPEB actuarial valuation for reasonableness and consistency.

**Planned Corrective Action:** The Authority will refine its existing procedures in order to ensure timely reconciliation of the OPEB trust account during the year. In addition, the Authority is currently in the process of upgrading its financial accounting software, and will include the OPEB trust as a part of the general ledger within the new system. Regarding the controls over the review of the assumptions used in the actuarial valuation, in 2020 Authority did conduct a formal review of the OPEB actuarial, but the Authority will make adjustments to that review in order to ensure the assumptions are reasonable in the future.

**Contact person responsible for corrective action:** James Frenndt, Director of Finance

**Anticipated Completion Date:** 09/30/2021

**Finding Number:** 2020-002

**Condition:** Recipients must have procedures in place for verifying that an entity with which it plans to enter into a covered transaction is not debarred, suspended, or otherwise excluded (2 CFR sections 200.212 and 200.318(h); 2 CFR section 180.300; 48 CFR sections 52.209-6). Contracts were entered into with vendors without verification that the entity was not debarred, suspended, or otherwise excluded.

**Planned Corrective Action:** The Authority will expand its existing procedures for all applicable vendors to ensure they are not debarred, suspended, or otherwise excluded prior to entering into a contract. This is already occurring for the vast majority of federal award program expenditures.

**Contact person responsible for corrective action:** James Frenndt, Director of Finance

**Anticipated Completion Date:** 09/30/2021



March 5, 2021

To the Board of Directors  
Capital Area Transportation Authority

We have audited the financial statements of the Capital Area Transportation Authority (the "Authority" or CATA) as of and for the year ended September 30, 2020 and have issued our report thereon dated March 5, 2021. 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 Jim and Patrick, 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.

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 L. Hill, CPA  
Partner

## **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 November 11, 2020, 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, 2021 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 4, 2020.

### **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, 2020.

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 health care 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 moneys 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 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 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.

### ***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.

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

***Management Representations***

We have requested certain representations from management that are included in the management representation letter dated March 5, 2021.

***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**

### **COVID-19 Resource Center**

Plante & Moran, PLLC has assembled a COVID-19 task force of leaders across the firm to monitor, address, and mitigate risks presented by the virus. We understand the unique challenges our local governments are facing in providing essential services to protect communities during the COVID-19 crisis, while, going forward, they face seemingly impossible choices around staffing, capital projects, pension obligations, and dozens of other items in the face of an uncertain revenue outlook. We are sharing our insights within our government COVID-19 resource center at <https://www.plantemoran.com/explore-our-thinking/areas-of-focus/covid-19-government-resource-center>. We will keep you updated with relevant economic analyses, crisis management guidelines, notices of changing regulations, and more to keep the Authority running as smoothly as possible amidst uncertainty and unprecedented disruption.

We are also sharing Coronavirus Aid, Relief, and Economic Security (CARES) Act-specific insights within our CARES Act COVID-19 resource center at <https://www.plantemoran.com/explore-our-thinking/areas-of-focus/cares-act-resource-center>. Have questions about the CARES Act? Submit them at <https://www.plantemoran.com/campaigns/firm/cares-act> by simply providing your contact information and agreeing to our terms and conditions, and an expert from our task force will contact you within 24 hours.

Want to receive relevant content directly to your email? Subscribe at <https://www.plantemoran.com/subscribe> where you can customize your subscription preferences based on your specific interests and industry selection.

### **Michigan's CARES Act-funded Grant Programs**

The Michigan Department of Treasury has developed a webpage with numbered letters, memorandums, webinars, and resources regarding COVID-19 updates and CARES Act-funded grant programs: [https://www.michigan.gov/treasury/0,4679,7-121-1751\\_98769---,00.html](https://www.michigan.gov/treasury/0,4679,7-121-1751_98769---,00.html).

### **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 their reputation, the ability to operate efficiently, and proprietary information or assets. Communities potentially can also 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.

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

### **Michigan's Virtual Meeting Legislation (PA 228 of 2020)**

Public Act 228 of 2020 was adopted on October 16, 2020 by Governor Whitmer, providing retroactive authorization for virtual meetings dating back to March 18, 2020. This legislation also provides authorization for virtual meetings for any circumstance through January 1, 2021 and for certain circumstances thereafter. For virtual meetings, each member of the public body that is meeting remotely must announce the county, city, township, or village and state from which the member is attending remotely, and this must be included in the meeting minutes. Specifically, this legislation provides the following circumstances for virtual meetings:

- March 18, 2020 - January 1, 2021 - For any circumstance, including, but not limited to, military leave, state or local emergency declaration, or a medical condition
- January 1, 2021 - December 31, 2021 - For only those circumstances requiring accommodation of members absent due to military duty, a medical condition, or statewide or local state of emergency. If absence is due to military duty or a medical condition, the accommodation only applies to that individual, and the other members must be physically present at the meeting.
- After December 31, 2021, only for reason of military duty

The Authority should ensure it is familiar with this legislation to ensure compliance.

### **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 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.

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

### ***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.
- 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.

### **Federal Procurement Threshold Changes**

The Office of Management and Budget (OMB) has issued significant reforms to the compliance requirements that must be followed by nonfederal entities. The Office of Management and Budget recently issued Memorandum M-18-18, which provides guidance on changes to micropurchases and simplified acquisition threshold requirements. The key changes are as follows:

- Threshold for micropurchases is increased to \$10,000.
- Threshold for simplified acquisitions (small purchase procedures limit) increased to \$250,000.

Key adoption considerations for micropurchase and simplified acquisition thresholds include the following:

- During the original adoption of the Uniform Guidance (UG) procurement standards, were specific amounts included within the Authority's procurement policy, or were references to the UG sections or amounts as adjusted referenced? If specific amounts were referenced, the procurement policy will need to be updated to take advantage of the changes.
- If the Authority's procurement policy was written to allow for changes in amounts, the procedures will need to be updated to conform.
- If this change is inconsistent with other procurement policies within the organization, the Authority must decide how the policy will be enacted. Remember local ordinances in place may limit full utilization of changes.
- If the Authority has chosen not to fully adopt the change and maintain a lower threshold, then the Authority is not required to use these thresholds but cannot exceed them.

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

### **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 health care 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.

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 roll-forward procedures in nonvaluation years utilizing any updates to the uniform assumptions to calculate the data.

This means that the local unit potentially may 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.

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

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](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 the 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.

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 likely will 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](mailto:LocalRetirementReporting@michigan.gov) or by visiting its website at [www.Michigan.gov/LocalRetirementReporting](http://www.Michigan.gov/LocalRetirementReporting).

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

### **Numbered Letter 2018-3**

On March 13, 2020, the Treasury issued Numbered Letter 2018-3 (Revised) as a revision to Numbered Letter 2018-3 that was first issued in September 2018. This revised numbered letter provides additional clarity and guidance for compliance with Public Act 202 related to the calculation and reporting of the actuarial determined contribution (ADC) for other postemployment benefit (OPEB) systems. The revision emphasized the following two key points:

1. The ADC, regardless of funding policy, must be calculated as the normal cost plus the amortization of the unfunded liability.
2. The ADC, calculated in accordance with the Act, must be reported in the audited financial statements. Note that OPEB plans that are not administrated through a trust are not required by GAAP to disclose the ADC in the required supplemental information section of the audited financial statements, but those plans should disclose this information in the footnotes to the financial statements, as required by this revised numbered letter.

Failure to calculate the ADC in compliance with this Numbered Letter 2018-3 (Revised) will be considered statutory noncompliance and shall be reported in the notes to the financial statements and result in an auditor finding for statutory noncompliance. Failure to report a compliance ADC in audited financial statements may result in the rejection of Form 5572 submissions and noncompliance with the Act and/or rejection of the local government's audited financial statements.

### **Upcoming Accounting Standards Requiring Preparation**

#### ***GASB Statement No. 95 - Postponement of the Effective Dates of Certain Authoritative Guidance***

This new pronouncement was adopted in May 2020 and is effective immediately. This statement postpones the effective dates of the following pronouncements and implementation guides by one year:

- Statement No. 83, *Certain Asset Retirement Obligations*
- Statement No. 84, *Fiduciary Activities*
- Statement No. 88, *Certain Disclosures Related to Debt*
- Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*
- Statement No. 90, *Majority Equity Interests*
- Statement No. 91, *Conduit Debt Obligations*
- Statement No. 92, *Omnibus 2020*
- Statement No. 93, *Replacement of Interbank Offered Rates*
- Implementation Guide No. 2017-3, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (and Certain Issues Related to OPEB Plan Reporting)*
- Implementation Guide No. 2018-1, *Implementation Guidance Update - 2018*
- Implementation Guide No. 2019-1, *Implementation Guidance Update - 2019*
- Implementation Guide No. 2019-2, *Fiduciary Activities*

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

The effective dates of the following pronouncement and implementation guide are postponed by 18 months:

- Statement No. 87, *Leases*
- Implementation Guide No. 2019-3, *Leases*

### ***GASB Statement No. 84 - Fiduciary Activities***

This new pronouncement is effective for reporting periods beginning after December 15, 2018 (December 15, 2019 after extension within GASB Statement No. 95). 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 fiduciary activities are identified, 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 may now be reported as such under certain circumstances. 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.

### ***GASB Statement No. 87 - Leases***

This new accounting pronouncement will be effective for reporting periods beginning after December 15, 2019 (June 15, 2021 after extension within GASB Statement No. 95). 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 trainings 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:

**Changes to CATA Procurement Manual** - While CATA's current procurement manual does address emergency purchases, which were executed in accordance with the procurement manual during the COVID-19 pandemic, we recommend that CATA review the current policy in place and consider revising the emergency purchase procedure to better address the processes implemented during the COVID-19 pandemic.

**Inventory** - As a best practice, we recommend that CATA perform an internal inventory count at least annually of all parts and supplies purchased and inventoried for repairs of the fleet of CATA-owned vehicles and reconcile the inventory count to the general ledger balances. This is an internal control that we see across the industry that could be utilized as a way to ensure that the Authority's assets are safeguarded.

**Farebox Process** - As part of the farebox revenue process, CATA currently relies on manually counting the coin that is deposited into fareboxes housed on each CATA bus. In an effort to automate the process and ensure efficiency and accuracy of the counting of all farebox coin, we recommend that CATA look into implementing new fareboxes that allow system reports to be reconciled against the manual counting process.

**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.