

**CAPITAL AREA RURAL TRANSPORTATION SYSTEM  
ANNUAL FINANCIAL REPORT  
AND  
INDEPENDENT AUDITORS' REPORT  
YEAR ENDED AUGUST 31, 2018**

# CAPITAL AREA RURAL TRANSPORTATION SYSTEM

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# CAPITAL AREA RURAL TRANSPORTATION SYSTEM

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## **INDEPENDENT AUDITORS' REPORT**

Board of Directors  
Capital Area Rural Transportation System

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities and general fund of Capital Area Rural Transportation System (CARTS) as of and for the year ended August 31, 2018, and the related notes to the financial statements, which collectively comprise CARTS' basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditors' Responsibility**

Our responsibility is to express opinions on these financial statements based on our 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 auditors' 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 auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and general fund of CARTS, as of August 31, 2018, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis on pages 5 to 13, budgetary comparison information on page 26. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

The Supplemental Statement of Revenue, Expenditures and Changes in Fund Balances - Local Government Funding and the Schedule of Expenditures of Federal and State Awards, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and the *State of Texas Single Audit Circular*, is presented for purposes of additional analysis and is not a required part of the 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 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 financial statements or to the 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.

As described in Note 11, CARTS has changed the definition of "available" when determining when to recognize revenue from grants and contracts, this resulted in a prior period adjustment to fund balance in the general fund. Our opinion is not modified for this matter.

## Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 29, 2019, on our consideration of CARTS' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and 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 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 CARTS' internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Atchley & Associates, LLP". The signature is written in a cursive, flowing style.

Austin, Texas

May 29, 2019

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**MANAGEMENT'S DISCUSSION AND ANALYSIS  
(UNAUDITED)**

**CAPITAL AREA RURAL TRANSPORTATION SYSTEM  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
AUGUST 31, 2018**

**INTRODUCTION**

The Capital Area Rural Transportation System (CARTS) is a single purpose agency that was created as an interlocal administrative agency of its member political subdivisions in 1978. The CARTS District is a Rural/Urban Transit District (RTD/UTD) of the State of Texas and a political subdivision of the state. It derives its statutory authority as a Rural/Urban Transit District from Chapter 458 of the Transportation Code, and is the RTD for the non-urbanized area of the nine-county area of Bastrop, Burnet, Blanco, Caldwell, Fayette, Hays, Lee, Travis and Williamson counties, and UTD for the urbanized area of San Marcos. The urbanized add-on to the CARTS District is the result of the 2010 census by which the City of San Marcos became a newly urbanized area, and joined CARTS. This added a representative to the CARTS District Board of Directors from the San Marcos City Council, increasing the board to ten (10) members.

CARTS operates, coordinates and plans transportation service in its district. As a transit district, the CARTS District is entitled to certain allocations of state and federal funds administered by the Texas Department of Transportation (TxDOT) that originate from federal and state appropriations for public transit services and infrastructure. These funds are either allocated to CARTS on an annual basis pursuant to funding formulae established by TxDOT, or are awarded to CARTS for specific projects based on a competitive process particular to the funding source. For the urbanized area CARTS receives a direct allocation from the Federal Transit Administration (FTA) and state funds from TxDOT. These funds are also distributed based on federal and state formulae that apply to the federal Section 5307 funds and state appropriated funds.

The formula funding of federal and state rural and small urban public transit funds from the FTA and TxDOT comprise the sole source of dedicated funding to CARTS. Though these funds are subject to federal and state appropriations processes they represent our only dedicated funding. TxDOT and sometimes the FTA distribute other funds that are discretionary on a competitive basis, and CARTS routinely submits projects for consideration. CARTS also provides transportation under contract with human service agencies, local governments, other transit authorities, transportation brokers and private bus companies in order to garner sufficient revenues to support a comprehensive transportation resource in its District. These other contract revenues account for a significant part of the total CARTS revenues. Most revenues are structured as cost-reimbursable contracts.

As the CARTS District has no taxing or bonding authority and derives all of its revenues from grants, contracts, fares, fees, leases and other compensation related to providing and coordinating transportation services in its District, this limits the agency financially since most grants and contracts it administers are cost-reimbursable. A positive cash flow is only maintained by a combination of strategies that include a line of credit, a fund balance, and any government grants that are advanced.

As a political subdivision CARTS operates with certain strictures that if it was a taxing entity, or did it have bonding authority, would not impede its ability to manage its finances proactively with debt management strategies. However, any debt incurred by CARTS cannot be long-term, and a combination of a line of credit and a fund balance is critical to its financial management strategy.

**CAPITAL AREA RURAL TRANSPORTATION SYSTEM  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
AUGUST 31, 2018**

**INTRODUCTION - CONTINUED**

Pursuant to its mobility management mission in its District, CARTS operates bus terminals, and at these terminals it serves as an independent agent for the private intercity bus companies that provide service from the CARTS Stations. As the agent for the companies, CARTS receives a commission on the sale of bus tickets and freight shipments, and also derives revenues from vending, Western Union sales and other activities related to its terminal operation. CARTS is also a member of the National Bus Traffic Association (NBTA), the National Bus Tariff Clearinghouse, and derives revenues for those trips on its Interurban routes that connect to the national bus network. All CARTS Stations are also Greyhound stations with the Interurban routes serving as connectors to the national network of Greyhound.

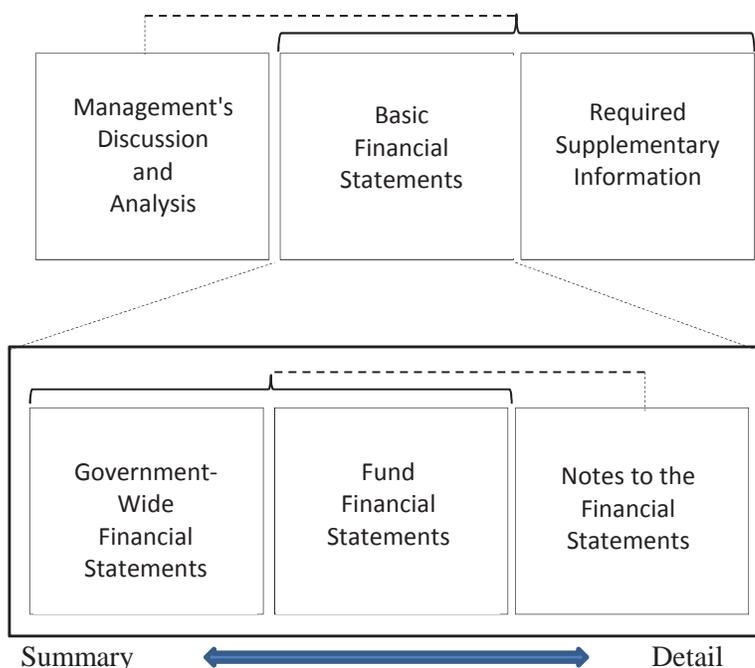
This section of the annual financial report presents our discussion and analysis of CARTS' financial performance during the fiscal year ended August 31, 2018. It should be read in conjunction with the financial statements, which follow this section.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This annual report consists of three parts - management's discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the CARTS District:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the CARTS District's overall financial status.
- The next four statements are fund level financial statements that focus on individual parts of the government, reporting the CARTS District's operations in more detail than the government-wide statements.
- The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements.

**FIGURE A-1  
REQUIRED COMPONENTS OF  
CARTS ANNUAL FINANCIAL REPORT**



**CAPITAL AREA RURAL TRANSPORTATION SYSTEM  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
AUGUST 31, 2018**

**I. Government-wide Statements**

The government-wide statements report information about CARTS as a whole using accounting methods similar to those used by private-sector companies.

The statement of net position includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the CARTS District's net position and if it has changed. Net position - the difference between the District's assets and liabilities - are one way to measure the District's financial health or position. Over time, increases or decreases in the CARTS District's net position is an indicator of whether its financial health is improving or deteriorating, respectively.

To assess the overall health of the District, it is necessary to consider additional factors such as changes in funding allocations or appropriations. The Texas Department of Transportation (TxDOT) has amended the allocation formulae and factors several times. These factors could have a significant impact on CARTS' finances over the succeeding years. If the Legislature or the U.S. Congress reduces appropriations for public transit or if TxDOT changes the formula distribution to the detriment of CARTS, the finances of the District will suffer, or conversely, if appropriations go up or formula distribution changes favor CARTS, its financial standing will improve.

The Medical Transportation contract with the Health and Human Services Commission (HHSC) grew to become a substantial part (50%) of the overall agency revenues beginning in FY2007. This contract ended August 31, 2014. A successor contract with a private broker was negotiated and took effect on September 1, 2014. The revenues from the successor contract and the service obligations continued to decline in the three succeeding fiscal years until it reached a point to where it was no longer in CARTS business interests to continue the service. During this fiscal year CARTS limited its hours of service to the broker and these revenues declined further as the private broker began diversifying its provider base, booking fewer trips with CARTS.

Consequently, in July 2018 we terminated the contract, reducing our revenue base. Increased opportunities under the Regional Mobility Agreement (RMA) we maintain with CapMetro is anticipated to replace lost revenues from the Medical Transportation contract.

The "Statement of Net Position" and the "Statement of Activities" report information on all of the CARTS District's activities. The CARTS District has only one fund (the General Fund). The "Statement of Net Position" includes the value of all assets and liabilities of the District as of August 31, 2018.

The "Statement of Activities" includes the various sources of revenue for the District and how CARTS used the revenue.

**CAPITAL AREA RURAL TRANSPORTATION SYSTEM  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
AUGUST 31, 2018**

**I. Government-wide Statements - Continued**

The government-wide financial statements of the District include the governmental activities. The CARTS District's basic service of providing, coordinating and planning transportation is included here. Grants, contracts, fares, leases and other revenues finance most of these activities.

**II. Fund Financial Statements**

The fund financial statements provide more detailed information about the CARTS District's fund (the general fund), not CARTS as a whole. Funds are accounting devices that the District uses to keep track of specific sources of funding and spending for particular purposes.

The CARTS District has the following fund:

Governmental fund - The District's basic service is included in the governmental fund, which focuses on (1) how cash and other financial assets can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps the reader to determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

**CONDENSED FINANCIAL INFORMATION**

	Governmental Activities	
	2018	2017
<b>Current Assets</b>		
Cash	\$ 5,993,283	\$ 6,020,148
Grant and other accounts receivable	2,977,724	4,058,348
Prepays	52,300	12,162
Total Current Assets	9,023,307	10,090,658
<b>Capital Assets</b>		
Land	1,289,611	1,289,611
Construction in progress	10,371,307	4,114,874
Buildings	13,188,541	13,225,077
Vehicles & equipment	17,999,256	18,093,902
Accumulated depreciation	(15,123,408)	(14,277,286)
Total Non-Current Assets	27,725,307	22,446,178
<b>Total Assets</b>	<b>\$ 36,748,614</b>	<b>\$ 32,536,836</b>

**CAPITAL AREA RURAL TRANSPORTATION SYSTEM  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
AUGUST 31, 2018**

**II. Fund Financial Statements - Continued**

	Governmental Activities	
	2018	2017
<b>Current Liabilities</b>		
Accounts payable	\$ 1,192,342	\$ 1,757,986
Accrued liabilities & line of credit	1,552,161	2,053,256
Total Current Liabilities	2,744,503	3,811,242
<b>Noncurrent Liabilities</b>		
Unearned revenue	2,768,232	2,876,183
Total Noncurrent Liabilities	2,768,232	2,876,183
<b>Deferred Inflows</b>		
Deferred grant and contract revenue	6,000	-
Total Deferred Inflows	6,000	-
<b>Net Position</b>		
Net investment in capital assets	27,725,307	22,446,178
Unrestricted	3,504,572	3,403,233
Total Net Position	31,229,879	25,849,411
<b>Total Liabilities, Deferred Inflows, and Net Position</b>	\$ 36,748,614	\$ 32,536,836
	Governmental Activities	
	2018	2017
<b>Program Revenue</b>		
Federal and State Awards	\$ 12,188,397	\$ 11,812,854
Contracts	2,701,260	2,808,799
Gain (loss) on sale of assets	(94,156)	1,575,856
Local government support	743,379	763,974
Tickets, net of direct commissions of \$101,245 and \$65,148, respectively	27,772	16,484
Fares	277,987	245,194
Other	136,577	49,697
Total Revenues	15,981,216	17,272,858
<b>Expenses</b>		
Operating	9,383,801	9,200,883
Administration	1,216,947	1,005,510
Total Expenses	10,600,748	10,206,393
<b>Increase (Decrease) in Net Position</b>	\$ 5,380,468	\$ 7,066,465

**CAPITAL AREA RURAL TRANSPORTATION SYSTEM  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
AUGUST 31, 2018**

**FINANCIAL ANALYSIS OF CARTS AS A WHOLE**

CARTS's net position was \$31,229,879 as of August 31, 2018. This is a net increase of \$5,380,468 over the August 31, 2017, balance of \$25,849,411.

During the year, the CARTS District's total revenue of \$15,981,216 was generated by grants, contracts, local government support, and commissions on ticket sales (intercity bus traffic), fares, sale of assets and other income. This is a decrease of \$1,291,642 (7%) from the prior year, primarily from gains on sales of assets in the prior year and fluctuations in procurement and delivery schedules for capital projects.

CARTS used \$7,094,729 in primarily capital grants (\$278 in general fund), investing \$397,467 architect and planning work on the Eastside Bus Plaza project, \$757,640 for five (5) buses and six (6) support vehicles. It also expended \$5,858,965 on the construction in progress at the Tucker Hill Lane site and invested \$63,146 in shop maintenance equipment and \$17,510 for bus radios.

CARTS only has one fund (the General Fund). The fund balance decreased \$186,657 this year. The primary reason for the decrease in the fund balance is due to retainage on the Tucker Hill Lane project which is recorded in the capital asset expenses but can only be recorded as revenue when the contract is completed and the retainage (\$452,288) is payable to the contractor. In fiscal year ending August 2019, the fund balance will reflect approximately an additional \$278,000. The restated fund balance at August 31, 2017, was \$3,240,998. The General Fund had a fund balance of \$3,054,341 as of August 31, 2018.

The total operating cost in the general fund of the CARTS District's was \$15,902,227 of which \$7,094,729 (45%) was for capital outlays. The remaining \$8,807,498 for all other activities increased by \$306,766 (4%) over the prior year. The 4% increase was primarily due to COLA adjustments to salaries, increased health insurance costs, increased fuel cost, and increased space costs precipitated by our moving to temporary quarters while the new HQ is under construction. Vehicle Insurance also escalated based on our vehicle census expanding due to capital acquisition and delays in disposition of retired units.

**BUDGET VARIANCES**

The final expenditures of approximately \$15.9 million were down by \$9.4 million from the original budgeted expenditures of \$25.4 million. \$8.7 million of this decrease was due to budgeted capital activities not completed during the fiscal year and the remaining \$0.7 million is the result of several line items (vehicle maintenance, fuel, salary, telephone) coming in well under budget.

Grant revenue was budgeted at approximately \$20.6 million. Actual grant revenue was \$11.9 million. Capital Outlays budgeted but not completed and projects deferred to the following fiscal year accounted for this difference.

**CAPITAL AREA RURAL TRANSPORTATION SYSTEM  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
AUGUST 31, 2018**

**BUDGET VARIANCES - CONTINUED**

Contract revenues were approximately \$2.7 million and were budgeted at approximately \$3.6 million. A decline in medical transportation revenues under the Logisticare contract is the primary factor contributing to the lower contract revenues.

These budget variances are not expected to have a significant effect on future services.

**OTHER FACTORS AND NEXT YEAR'S BUDGET**

As noted in every discussion, the Texas Department of Transportation has adopted funding formulae and factors for the Section 5311 federal funds that it administers as well as state funds appropriated by the Texas Legislature for rural and small urban transportation assistance. Trends show that CARTS funding has remained stable, but CARTS continues to develop other funding streams regionally and is aggressive in participating in TxDOT and FTA competitive calls for project funding. Appropriations by the Texas Legislature and the funding provided in the latest federal transportation act will govern overall funding amounts. The Texas Legislature must appropriate transit funds for the next biennium (2019-2020) and the U.S. Congress must continue to appropriate funds authorized in the federal transportation act.

Action by TxDOT to allocate a larger portion of federal 5311 discretionary funds to transit districts based on revenue miles will maintain TxDOT formula program revenues to CARTS for 2019, and operations supported by grants secured through the Capital Area MPO, Capital Metro, and TxDOT competitive programs for Intercity Bus Enhancements (ICB) programs will maintain our route service hours for 2019 on our Interurban routes.

In 2019 CARTS has additional capital funds coming for buses and ancillary equipment that will replenish the fleet somewhat, but capital funding for rolling stock will continue to be an ongoing need for CARTS. These capital needs will continue to be a priority for CARTS in 2019 and discretionary funding or other financial opportunities will be sought to fund these needs. The remaining phases of the Tucker Hill complex is under construction as it was funded last year by a TxDOT TIGER grant. This enabled us to complete disposition of our Austin HQ facility last year, which replenished our unrestricted fund balance that provides a cash-flow cushion essential to our effective operation. A portion of the proceeds were dedicated to the planning and eventual construction of a new Austin bus hub necessary for route exchanges on the Interurban routes.

The aging of the CARTS facility network, five buildings constructed between 1990 and 2001, and the two added in 2009-11, will continue to contribute to our ongoing expenses, as maintenance and repair of these facilities accelerate with age. Renovations and improvements will continue on these assets and this will continue to be a discretionary grant priority.

**CAPITAL AREA RURAL TRANSPORTATION SYSTEM  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
AUGUST 31, 2018**

**OTHER FACTORS AND NEXT YEAR'S BUDGET - CONTINUED**

Changes in the census designations in the region that affected CARTS in 2014, with San Marcos becoming an urbanized area and Georgetown and Kyle becoming a part of the Austin MSA, will continue to affect CARTS. Increased contract revenues from Capital Metro for service continuation in Georgetown and other suburban areas were dedicated during this year and may continue to grow as transit development plans in these areas are completed by Capital Metro. The Office of Mobility Management (OMM) jointly created by CARTS and Capital Metro continues to focus on eliminating gaps in services exacerbated by census changes and this activity will continue to create opportunity for additional collaboration between the two agencies.

These changes in our District configuration have affected our allocations and sources of funding from TxDOT and required CARTS to become a Federal Transit Administration (FTA) Direct Recipient of Section 5307 funds for the San Marcos urban area.

**COSTS OF SERVICE MEASURES**

The CARTS District plans and proposes service by using an annual process of determining its cost per hour of service provided. This tool is useful for forecasting costs for specific routes, or for pricing services for purchasers of service, or for responding to competitive grant opportunities to expand services in the District. Cost per mile is another performance/planning/indicator measured.

The methodology for determining the Cost per Hour (CPH) and the Cost per Mile (CPM) is straightforward. The CPH is the total number of dollars spent providing services, as determined by the accompanying financial statements, divided by the total number of hours provided by CARTS in all modes of its services provided. The CPM is the total number of dollars spent providing services, as determined by the accompanying financial statements, divided by the total number of vehicle miles provided by CARTS in all modes of its services provided. There are six (6) different ways that the respective numbers are calculated:

1. CPH / CPM total: This includes all General Fund expenditures, capital included.
2. CPH / CPM operating/bus capital: This includes all General Fund operating expenditures, plus capital expended for bus purchases.
3. CPH / CPM, operating/bus capital local match only: This includes all General Fund operating expenditures plus the 20% local share required to match capital bus purchases that are federally funded.
4. CPH / CPM, operating only: This includes General Fund expenditures, less total capital outlay. This is the most commonly used CPH as it reflects most accurately the direct costs to operate service.
5. CPH / CPM, capital: This includes capital outlay only.
6. CPH / CPM, bus capital: This includes only the cost of bus purchases.

**CAPITAL AREA RURAL TRANSPORTATION SYSTEM  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
AUGUST 31, 2018**

**COSTS OF SERVICE MEASURES - CONTINUED**

The basis of the calculations for the above planning numbers for 2018, based on expenses for 2018 is represented below.

Service Hour Source	Rate per Hour	Rate per Mile
CPH / CPM General Fund Expenditures per hour/mile	\$ 122.30	\$ 8.29
CPH / CPM General Fund Operating and Bus Capital	73.83	5.01
CPH / CPM General Fund Operating plus 20% Bus Capital	69.92	4.74
CPH / CPM General Fund Operating	68.94	4.67
CPH / CPM Total Capital Outlay	53.36	3.62
CPH / CPM Bus Capital Outlay	4.89	0.33

Service Hour Source	Mode	Total Hours	Vehicle Miles
Rural Paratransit	Paratransit	45,777	547,616
Medicaid Transportation	Paratransit	14,096	220,571
Bastrop Fixed Route Service	Fixed Route	2,460	32,785
Interurban	Fixed Route	13,480	326,431
Commuter	Fixed Route	1,722	29,915
Capital Metro Contract	Fixed Route	22,516	378,278
Capital Metro Contract	Paratransit	2,869	25,235
San Marcos Urban	Fixed Route	18,627	269,787
San Marcos Urban	Paratransit	6,200	53,480
Total Hours of Service/Miles FYE 8/31/18		127,747	1,884,098

**Total General Fund Expenditures** \$ 15,902,227

**General Fund Operating Expenditures (excludes capital)** \$ 8,807,498

**Total Bus Capital Outlays** \$ 624,450

**Total Capital Outlays** \$ 7,094,729

**CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide a general overview of CARTS finances and to demonstrate its accountability for the money it receives. If you have questions about this report or need additional financial information, contact Tammy Atkins, the Controller of CARTS, at (512) 481-1011.

## **BASIC FINANCIAL STATEMENTS**

**CAPITAL AREA RURAL TRANSPORTATION SYSTEM  
STATEMENT OF NET POSITION  
AUGUST 31, 2018**

**ASSETS**

Cash and cash equivalents	\$ 3,425,807
Federal and state government awards receivable	2,525,434
Accounts receivable	452,290
Prepaid expenses	52,300
Cash restricted for capital awards	2,567,476
Land and construction in progress	11,660,918
Building, vehicles, and equipment, net	16,064,389
<b>Total assets</b>	<b>36,748,614</b>

**LIABILITIES**

Accounts payable	1,192,342
Accrued liabilities	815,492
Unearned revenues	2,768,232
Debt-due within one year	736,669
<b>Total liabilities</b>	<b>5,512,735</b>

**Deferred inflows**

Deferred grant and contract revenue	6,000
<b>Total deferred inflows</b>	<b>6,000</b>

**NET POSITION**

Net investment in capital assets	27,725,307
Unrestricted	3,504,572
<b>Total net position</b>	<b>\$ 31,229,879</b>

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

**CAPITAL AREA RURAL TRANSPORTATION SYSTEM  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED AUGUST 31, 2018**

**REVENUE**

Federal and state government capital awards	\$ 8,941,121
Federal and state government operating awards	3,247,276
Contracts	2,701,260
Gain (loss) on sale of assets	(94,156)
Local government support	743,379
Other	442,336
<b>Total Revenue</b>	15,981,216

**EXPENDITURES**

Depreciation	1,802,977
Facility maintenance and repair	121,757
Fuel	898,577
Insurance	360,058
Interest expense	40,438
Internet, technology, & telephone	365,240
Marketing	15,551
Office equipment and supplies	75,398
Other	89,667
Payroll and related	5,946,410
Professional services	100,028
Rent	126,902
Toll fees	34,463
Utilities	99,669
Vehicle maintenance	523,613
<b>Total Expenditures</b>	10,600,748

<b>Revenue Over Expenditures</b>	5,380,468
<b>Beginning Fund Balance/Net Position</b>	25,849,411
<b>Ending Fund Balance/Net Position</b>	\$ 31,229,879

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

**CAPITAL AREA RURAL TRANSPORTATION SYSTEM  
BALANCE SHEET - GOVERNMENTAL FUNDS  
AUGUST 31, 2018**

**ASSETS**

Cash and cash equivalents	\$ 3,425,807
Federal and state government awards receivable	2,525,434
Accounts receivable	452,290
Prepaid expenses	52,300
Cash restricted for capital awards	2,567,476

<b>Total assets</b>	9,023,307
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**LIABILITIES**

Accounts payable	1,192,342
Accrued liabilities	815,492
Unearned revenues	2,768,232
Debt-due within one year	736,669

<b>Total liabilities</b>	5,512,735
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**Deferred inflows**

Deferred grant and contract revenue	456,231
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<b>Total deferred inflows</b>	456,231
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**FUND BALANCE**

Non-spendable	52,300
Unassigned	3,002,041

<b>Total fund balance</b>	\$ 3,054,341
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The accompanying notes are an integral part of this financial statement.

**CAPITAL AREA RURAL TRANSPORTATION SYSTEM  
RECONCILIATION OF THE BALANCE SHEET OF  
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION  
AUGUST 31, 2018**

**TOTAL FUND BALANCE - TOTAL GOVERNMENTAL FUNDS** \$ 3,054,341

Amounts reported for governmental activities in the statement of net position are different due to the following:

Capital assets, net of accumulated depreciation are not financial resources and, therefore, are not reported in the funds. 27,725,307

Certain receivables are not available to pay current-period expenditures and, therefore, are deferred in the funds. This amount includes deferred inflows related to retainage. 450,231

**NET POSITION - GOVERNMENTAL ACTIVITIES** \$ 31,229,879

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

**CAPITAL AREA RURAL TRANSPORTATION SYSTEM  
STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED AUGUST 31, 2018**

**REVENUE**

Federal and state government capital awards	\$ 8,662,852
Federal and state government operating awards	3,247,276
Contracts	2,701,260
Gain (loss) on sale of assets	(81,533)
Local government support	743,379
Other	442,336
<b>Total Revenue</b>	<b>15,715,570</b>

**EXPENDITURES**

Capital outlay	7,094,729
Facility maintenance and repair	121,757
Fuel	898,577
Insurance	360,058
Interest expense	50,165
Internet, technology, & telephone	365,240
Marketing	15,551
Office equipment and supplies	75,398
Other	89,667
Payroll and related	5,946,410
Professional services	100,028
Rent	126,902
Toll fees	34,463
Utilities	99,669
Vehicle maintenance	523,613
<b>Total Expenditures</b>	<b>15,902,227</b>

**Net change in fund balances** (186,657)

**Fund balances -**

Beginning of year	1,322,981
Prior period restatement	1,918,017
As restated	3,240,998

**Fund balances - end of year** \$ 3,054,341

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

**CAPITAL AREA RURAL TRANSPORTATION SYSTEM  
RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES, AND CHANGES IN FUND BALANCES OF  
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED AUGUST 31, 2018**

**NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS**                   \$           (186,657)

Amounts reported for *governmental activities* in the statement of activities are different due to the following:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlay expenses in the current period. 5,279,129

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. These include the recognition of unearned revenue. 278,269

The proceeds of debt issuances provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of debt principal is an expenditure in the governmental funds, but the long-term liabilities in the statement of net assets. This is the amount by which debt payments exceeded proceeds and changes in accrued interest and amortization of deferred outflows from refunding. 9,727

**CHANGE IN NET ASSETS - GOVERNMENTAL ACTIVITIES** \$       5,380,468

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

**CAPITAL AREA RURAL TRANSPORTATION SYSTEM**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**AUGUST 31, 2018**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**REPORTING ENTITY**

The Capital Area Rural Transportation System (CARTS) is a single purpose agency that was created in 1978 under the Interlocal Cooperation Act of 1971 as an Interlocal administrative agency of its member political subdivisions. CARTS is a Rural Transit District of the State of Texas and a political subdivision of the state. It derives its statutory authority as a Rural Transit District from Chapter 458 of the Transportation Code, and is the Rural Transit District for the nine-county area of Bastrop, Burnet, Blanco, Caldwell, Fayette, Hays, Lee, Travis and Williamson counties. The objective of CARTS is to coordinate resources for public transportation in Federal Planning Region 12. CARTS is not included in any other governmental reporting entity as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards.

The financial statements of CARTS have been prepared in conformity with U.S. generally accepted accounting principles as applied to governmental units. The Governmental Accounting Standards Board is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The financial statements include:

- 1 A Management's Discussion and Analysis (MD&A) section that provides an analysis of CARTS' overall financial position and results of operations.
- 2 Financial statements prepared using full accrual accounting for all of CARTS' activities, including capitalization and depreciation of fixed assets.
- 3 Fund financial statements to focus on the major funds.

These and other changes are reflected in the accompanying financial statements (including notes to the financial statements).

CARTS' basic financial statements include government-wide and fund financial statements. Both the government-wide and fund financial statements categorize primary activities as either governmental or business type. The government-wide focus is more on the sustainability of CARTS as an entity and the change in CARTS' net position resulting from the current year's activities. CARTS does not have any business type activities.

**GOVERNMENTAL FUND TYPES**

The focus of the governmental funds' measurement (in the fund statements) is upon determination of financial position and changes in financial position (sources, uses and balances of financial resources) rather than upon net income. The following is a description of the governmental funds of CARTS:

**CAPITAL AREA RURAL TRANSPORTATION SYSTEM  
NOTES TO THE FINANCIAL STATEMENTS  
AUGUST 31, 2018**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

GOVERNMENTAL FUND TYPES - CONTINUED

General Fund:

CARTS accounts for financial resources used for general operations in this fund. All financial resources are accounted for in the General Fund.

BASIS OF ACCOUNTING

The governmental fund financial statements are presented on the modified accrual basis of accounting, which recognizes revenues in the accounting period in which they become measurable and available and recognizes expenditures when the related fund liability is incurred, if measurable. All revenue is considered program revenue because CARTS receives no taxes or other general revenue. CARTS uses a 60-day period to determine if revenue is susceptible to accrual (available) under the modified basis of accrual.

DEPOSIT POLICY

CARTS has not adopted a policy limiting the government's allowable deposits.

CAPITAL ASSETS

Capital assets purchased or acquired with a cost of \$5,000 or more are reported at historical cost. Contributed assets are reported at estimated fair market value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line method over the estimated useful lives as follows:

Buildings	40 years
Vehicles and equipment	5-7 years

FEDERAL AND STATE GOVERNMENT AWARDS AND ACCOUNTS RECEIVABLE

CARTS has not recorded an allowance for uncollectible accounts against the grants or accounts receivable balances because the receivables are considered to be 100% collectible. All receivables on the statement of financial position are due within the next fiscal year. CARTS estimates allowances for doubtful accounts by evaluating the creditworthiness, the historical collections, and the aging of the accounts. Once an account is deemed uncollectible, it is written off. Receivables are considered delinquent based on how recently payments have been received.

**CAPITAL AREA RURAL TRANSPORTATION SYSTEM  
NOTES TO THE FINANCIAL STATEMENTS  
AUGUST 31, 2018**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

ACCRUED LEAVE

In accordance with CARTS' policy, each full-time employee earns eight hours of vacation and sick leave a month. Part-time employees earn a pro-rata portion based on the number of hours worked. Vacation hours may accumulate up to 120 hours and sick leave may accumulate up to 960 hours. Accumulated vacation earned but not used is vested and payable to the employee upon termination.

ESTIMATES

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

SUBSEQUENT EVENTS

Management of CARTS has evaluated subsequent events for disclosure through the date of the Independent Auditors' Report, the date the financial statements were available to be issued (see Note 9).

**NOTE 2: DEBT-DUE WITHIN ONE YEAR**

CARTS converted a short term line of credit into a note payable, effective June 1, 2015. Payments are due in monthly installments of \$7,928 until paid in full, with an interest rate of 6.50%. At August 31, 2018, this note had no outstanding balance and was closed.

CARTS has a revolving line of credit that may be renewed every six months with an interest rate of 2.55% and a total available balance of \$2,200,000. The balance outstanding at August 31, 2018, is \$736,669. The line of credit is collateralized by a CD with a value of \$2,220,907.

	Beginning Balance	Additions	Payments	Ending Balance
Note payable	\$ 9,727	\$ -	\$ (9,727)	\$ -
Line of credit	1,400,000	36,669	(700,000)	736,669
	<u>\$ 1,409,727</u>	<u>\$ 36,669</u>	<u>\$ (709,727)</u>	<u>\$ 736,669</u>

**CAPITAL AREA RURAL TRANSPORTATION SYSTEM**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**AUGUST 31, 2018**

**NOTE 3: CAPITAL ASSETS**

	Beginning Balance	Additions	Deletions	Ending Balance
Capital assets not being depreciated:				
Land	\$ 1,289,611	\$ -	\$ -	\$ 1,289,611
Construction in progress	4,114,874	6,256,433	-	10,371,307
	<u>\$ 5,404,485</u>	<u>\$ 6,256,433</u>	<u>\$ -</u>	<u>\$ 11,660,918</u>
Capital assets being depreciated:				
Buildings	\$ 13,225,077	\$ -	\$ (36,536)	\$ 13,188,541
Vehicles and equipment	18,094,656	838,296	(933,696)	17,999,256
Accumulated depreciation	<u>(14,277,289)</u>	<u>(1,802,977)</u>	<u>956,858</u>	<u>(15,123,408)</u>
	<u>\$ 17,042,444</u>	<u>\$ (964,681)</u>	<u>\$ (13,374)</u>	<u>\$ 16,064,389</u>

**NOTE 4: CONCENTRATIONS**

At year-end, bank balances in excess of Federal Deposit Insurance Corporation coverage amounted to \$5,563,324.

**NOTE 5: RETIREMENT PLAN**

CARTS offers a 457(b) retirement plan for its employees. The plan is an elective plan, which is available to all employees. CARTS matches 100% of all employee contributions up to 3%. CARTS' contributions during the current year were \$46,013.

**NOTE 6: BUDGET**

CARTS adopts an annual budget for the General Fund. CARTS amends the budget as needed during the year. All annual appropriations lapse at fiscal year-end. The original budget was not amended during the year. There were several negative variances in expenses due to no budget amendments being made during the year and difficulties in predicting expenses for the upcoming year.

**NOTE 7: COMMITMENTS**

CARTS entered into a 40-year lease on July 22, 2008, with the City of Georgetown, for use of the land on which a facility has been constructed. While the lease agreement contains provisions for rent, currently, the City of Georgetown is allowing CARTS use of the land for no cost.

**CAPITAL AREA RURAL TRANSPORTATION SYSTEM**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**AUGUST 31, 2018**

**NOTE 7: COMMITMENTS - CONTINUED**

During the year, CARTS entered into a contract for the construction of the administrative offices at the Tucker Hill Lane Facility. At August 31, 2018, the remaining balance to complete construction was \$1,694,683, which includes retainage of \$452,288.

CARTS has entered into agreements to purchase 9 additional vehicles. As of August 31, 2018, the total vehicle purchase orders is approximately \$1,110,000.

**NOTE 8: RISK MANAGEMENT**

CARTS is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. CARTS has joined with other cities/political subdivisions in the state to participate in the Texas Municipal League Intergovernmental Risk Pool, a public entity risk pool, consisting of approximately 2,600 member cities/political subdivisions located throughout the state of Texas. CARTS' premiums to the risk pool are for general liability, property, auto physical damage, auto liability, mobile equipment, errors and omissions, and workers' compensation.

Texas Municipal League Intergovernmental Risk Pool operates under the terms of interlocal agreements with the member entities and is a public entity risk pool operating as a common risk management and insurance program. The pool has a worker's compensation fund, a property fund, and a liability fund. Members may choose to participate in one or more of the funds. CARTS' risk is limited to the amount of premiums paid unless the pool should fail, in which case, CARTS would be liable for its ratable share of the pool deficit.

The funds of the public entity risk pool are intended to be self-sustaining through member contributions. CARTS pays an annual premium to the risk pool for its insurance coverages. The pool carries, as required by the interlocal agreements, insurance or reinsurance through commercial insurance companies that is believed, by the management of the pool, to be adequate to protect the financial stability of the existence of the pool. It is anticipated that such coverages will continue to vary in the future as the pool reserves the right to adjust the insurance/reinsurance coverage.

Commercial insurance is carried for employee fidelity. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three years, and there was no significant reduction of insurance coverage from the prior year.

**CAPITAL AREA RURAL TRANSPORTATION SYSTEM  
NOTES TO THE FINANCIAL STATEMENTS  
AUGUST 31, 2018**

**NOTE 9: SUBSEQUENT EVENT**

On September 1, 2018, grants were executed for the construction of a the Bastrop Station for \$393,000 and a Tucker Hill Lane Park and Ride for \$490,000. On January 18, 2019, a grant was executed for the Elgin Intermodal Station for \$500,000.

A request for proposal for professional services for construction of the Bastrop Station and construction administration on Elgin Intermodal Station is underway.

**NOTE 10: ADJUSTMENTS TO CONVERT FUND STATEMENT TO GOVERNMENT-WIDE**

Fund balance	\$ 3,054,341
Add capital assets not recorded in the fund statements	27,725,307
Add unavailable revenue not included in government-wide statements	<u>450,231</u>
 Net position	 <u><u>\$ 31,229,879</u></u>
 Change in fund balance	 \$ (186,657)
Purchases of capital assets	7,094,729
Debt service	9,727
Sale of capital assets	(12,623)
Depreciation expense not included in the fund statements	(1,802,977)
Change in unavailable revenue from prior year	<u>278,269</u>
 Change in net position	 <u><u>\$ 5,380,468</u></u>

**NOTE 11: RESTATEMENT**

CARTS has changed its definition of "available" in determining when to recognize revenue from grants and contracts. This resulted in a prior period adjustment to fund balance in the General Fund. See below for the impact on the statement of revenues, expenditures, and changes in fund balance governmental funds.

Fund balance as previously reported	\$ 1,322,981
Fund balance as restated	<u>3,240,998</u>
Effect of restatement	<u><u>\$ 1,918,017</u></u>

**REQUIRED SUPPLEMENTARY INFORMATION**

**CAPITAL AREA RURAL TRANSPORTATION SYSTEM  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) - GENERAL FUND  
FOR THE YEAR ENDED AUGUST 31, 2018**

	<b>Original/ Final Budget</b>	<b>Actual</b>	<b>Variance Favorable (Unfavorable)</b>
<b>REVENUES</b>			
Federal and state government capital awards	\$ 15,390,489	\$ 8,662,852	\$ (6,727,637)
Federal and state government operating awards	5,253,890	3,247,276	(2,006,614)
Contracts	3,620,007	2,701,260	(918,747)
Gain (loss) on sale of assets	-	(81,533)	(81,533)
Local government support	780,755	743,379	(37,376)
Other	305,509	442,336	136,827
Total revenues	<u>25,350,650</u>	<u>15,715,570</u>	<u>(9,635,080)</u>
<b>EXPENDITURES</b>			
Capital outlay	15,765,341	7,094,729	8,670,612
Facility maintenance and repair	107,500	121,757	(14,257)
Fuel	850,000	898,577	(48,577)
Insurance	295,000	360,058	(65,058)
Interest expense	50,000	50,165	(165)
Internet, technology, & telephone	738,000	365,240	372,760
Marketing	75,000	15,551	59,449
Office equipment and supplies	69,000	75,398	(6,398)
Other	112,077	89,667	22,410
Payroll and related	6,444,832	5,946,410	498,422
Professional services	128,500	100,028	28,472
Rent	3,000	126,902	(123,902)
Toll fees	15,000	34,463	(19,463)
Utilities	189,000	99,669	89,331
Vehicle maintenance	508,400	523,613	(15,213)
Total expenditures	<u>25,350,650</u>	<u>15,902,227</u>	<u>9,448,423</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>\$ -</u>	<u>\$ (186,657)</u>	<u>\$ (186,657)</u>

**CAPITAL AREA RURAL TRANSPORTATION SYSTEM  
SUPPLEMENTAL STATEMENT OF REVENUE, EXPENDITURES AND CHANGES  
IN FUND BALANCES - LOCAL GOVERNMENT FUNDING  
FOR THE YEAR ENDED AUGUST 31, 2018**

	Local Operating Revenue	Local Planning Revenue	Expenditures	Revenue Over Expenditures	Beginning Fund Balance	Ending Fund Balance
Bastrop County	\$ 10,000	\$ -	\$ 10,000	\$ -	\$ -	\$ -
Burnet County	8,000	-	8,000	-	-	-
Caldwell County	1,000	-	1,000	-	-	-
Hays County	20,000	-	20,000	-	-	-
Lee County	10,000	-	10,000	-	-	-
Travis County	205,755	-	205,755	-	-	-
Williamson County	10,000	-	10,000	-	-	-
City of Burnet	8,000	-	8,000	-	-	-
City of Elgin	2,700	-	2,700	-	-	-
City of Giddings	3,375	-	3,375	-	-	-
City of Lockhart	5,549	-	5,549	-	-	-
City of San Marcos	450,000	-	450,000	-	-	-
City of Taylor	9,000	-	9,000	-	-	-
	<u>\$ 743,379</u>	<u>\$ -</u>	<u>\$ 743,379</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

Board of Directors  
Capital Area Rural Transportation System

We have audited, in accordance with the 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 governmental activities and general fund of Capital Area Rural Transportation System (CARTS) as of and for the year ended August 31, 2018, and the related notes to the financial statements, which collectively comprise CARTS' basic financial statements, and have issued our report thereon dated May 29, 2019.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered CARTS' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the CARTS' internal control. Accordingly, we do not express an opinion on the effectiveness of CARTS' 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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## **Compliance and Other Matters**

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

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

A handwritten signature in cursive script that reads "Atchley & Associates, LLP".

Austin, Texas  
May 29, 2019



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR  
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE  
REQUIRED BY THE UNIFORM GUIDANCE AND THE STATE OF TEXAS  
SINGLE AUDIT CIRCULAR**

Board of Directors  
Capital Area Rural Transportation System

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

We have audited Capital Area Rural Transportation System's (CARTS) compliance with the types of compliance requirements described in the *OMB Compliance Supplement and the State of Texas Single Audit Circular* that could have a direct and material effect on each of CARTS' major federal and state programs for the year ended August 31, 2018. CARTS' major federal and state programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

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

**Auditors' Responsibility**

Our responsibility is to express an opinion on compliance for each of CARTS' 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 *Subpart F Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements*, and *Cost Principles (Uniform Guidance)*. Those standards and 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 CARTS' 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 CARTS' compliance.

## Opinion on Each Major Federal and State Program

In our opinion, CARTS complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2018.

## Report on Internal Control Over Compliance

Management of CARTS 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 CARTS' 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 Uniform Guidance and the *State of Texas Single Audit Circular*, 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 CARTS' 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 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 by 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 to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 and the *State of Texas Single Audit Circular*. Accordingly, this report is not suitable for any other purpose.



Austin, Texas  
May 29, 2019

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**CAPITAL AREA RURAL TRANSPORTATION SYSTEM  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED AUGUST 31, 2018**

Federal Grantor Pass Through Grantor/ Program Title	Term	Pass-Through Grantor's Number	Federal CFDA Number	Award Amount	Federal Expenditures
U.S. Department of Transportation/Passed Through the Federal Transit Authority: Project #TX-2016-077-00	09/01/2015 - ongoing	N/A	20.507	808,144	\$ 41,361
Project# TX-2017-074-01-00	09/01/2016 - ongoing	N/A	20.507	827,312	253,380
Project# TX-2018-077	09/01/2017 - ongoing	N/A	20.507	847,229	529,155
					823,896
U.S. Department of Transportation/Passed Through the Texas Department of Transportation: Section 5311 (Project# ICB 1701 (14) 013)	12/01/2016 - 11/30/2018	TX-2016-013	20.509	1,926,570	1,068,169
Section 5311 (Project# RPT 1601 (14) 013)	11/18/2016 - 12/31/2017	TX-2016-013	20.509	1,655,842	665,526
Section 5311 (Project# RPT 1701 (14) 032_17)	06/06/2017 - 08/31/2018	TX-2017-032	20.509	1,786,705	1,383,479
Section 5311 (Project#RPT 1801 (14) 030_18)	05/01/2018 - 08/31/2019	TX-2018-030	20.509	1,668,754	135,113
Section 5311 (Project# RPT 1899 (14) (EBP)	08/01/2017 - 08/31/2019	51018991418	20.509	1,878,090	410,556
Section 5311 (Project# RPT 1899 (14) (THL)	08/01/2017 - 08/31/2019	51018991418	20.509	1,000,000	529,488
					4,192,331
U.S. Department of Transportation/Passed Through the Texas Department of Transportation: Section 5311 ED 1801(14)071_16	09/06/2017 - 12/31/2018	TX-2016-071	20.513	101,046	101,046
					101,046
U.S. Department of Transportation/Passed Through the Federal Transit Authority: Section 5339 BBF 1701 (14)010_17	11/01/2017 - 02/28/2019	TX-2017-010	20.526	195,302	132,906
CMTA 5339-B Buses	11/27/2017 - 09/30/2021	TX-2017-075	20.526	4,950,000	209,361
					342,267
U.S. Department of Transportation/Passed Through the Texas Department of Transportation: Section 5311 (Project#TGR 1703 (14)043)	01/01/2016 - 12/31/2018	TX-2016-043	20.933	9,800,000	5,498,086
					5,498,086
					\$ 10,957,626

**CAPITAL AREA RURAL TRANSPORTATION SYSTEM  
 SCHEDULE OF EXPENDITURES OF STATE AWARDS  
 YEAR ENDED AUGUST 31, 2018**

Federal Grantor Pass Through Grantor/ Program Title	Term	Pass-Through Grantor's Number	Program or Award Amount	Federal Expenditures
Texas Department of Transportation: State match for CFDA #20.509.				
Section 5311 (Project# RUR 1701(14))	09/01/2016 - 11/30/2017	51218011417	983,021	\$ 286,302
Section 5311 (Project# URB 1701 (14))	10/04/2016 - 11/30/2017	51309011417	372,526	103,124
				<u>389,426</u>
Texas Department of Transportation Section 5311 State RUR 1801(14)	09/01/2017 - 08/31/2018	TX-2016-043	976,955	976,955
Section 5311 URB 1801 (14)	09/01/2017 - 08/31/2018	TX-2016-043	246,048	246,048
				<u>1,223,003</u>
				<u>\$ 1,612,429</u>

**CAPITAL AREA RURAL TRANSPORTATION SYSTEM**  
**NOTES TO THE SCHEDULES OF EXPENDITURES OF FEDERAL AND STATE AWARDS**  
**YEAR ENDED AUGUST 31, 2018**

**NOTE 1: BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal and state awards includes the federal and state grant activity of CARTS and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and *the State of Texas Single Audit Circular*.

**NOTE 2: INDIRECT COST RATE**

CARTS has not elected to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance

**CAPITAL AREA RURAL TRANSPORTATION SYSTEM  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED AUGUST 31, 2018**

<b>I. Summary of Auditors' Results</b>	<u>Description</u>
Financial statements	
a. Type of auditors' report issued	Unmodified
Internal control over financial reporting:	
b. Material weakness(es) identified?	None
c. Significant deficiency(ies) that are not considered to be material weaknesses?	None reported
d. Noncompliance material to the financial statements noted?	No
Federal awards	
Internal control over major programs:	
e. Material weakness(es) identified?	None
f. Significant deficiency(ies) identified that are not considered to be material weaknesses?	None reported
g. Type of auditors' report issued on compliance for major programs	Unmodified
h. Any audit findings disclosed that are required to be reported in accordance with section 2 CFR 200.516(a) and <i>State of Texas Single Audit Circular</i> ?	No
i. Major federal and state program(s) were:	
<u>CFDA No.</u> <u>Name of Program</u>	
20.933            Section 5311 (Project#TGR 1703 (14)043)	
State            Section 5311 State RUR 1801(14)	
j. Dollar threshold considered between Type A and Type B federal and state programs:	\$750,000
k. Auditee qualified as low risk?	Yes
<b>II. Findings Relating to the Financial Statements which are required to be reported in Accordance with Generally Accepted Government Auditing Standards</b>	
None	
<b>III. Findings and Questioned Costs for Federal Awards</b>	
None	

**CAPITAL AREA RURAL TRANSPORTATION SYSTEM  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
YEAR ENDED AUGUST 31, 2018**

Prior Audit Findings

None

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