

**CHATTANOOGA AREA REGIONAL  
TRANSPORTATION AUTHORITY**  
(A component unit of the City of Chattanooga, Tennessee)

**FINANCIAL REPORT**  
**For Fiscal Year Ended**

**June 30, 2019**

**CHATTANOOGA AREA REGIONAL  
TRANSPORTATION AUTHORITY**  
(A component unit of the City of Chattanooga, Tennessee)

**FINANCIAL REPORT  
For Fiscal Year Ended  
June 30, 2019**

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**CHATTANOOGA AREA REGIONAL  
TRANSPORTATION AUTHORITY**  
(A component unit of the City of Chattanooga, Tennessee)

**LISTING OF OFFICIALS**

**Board Members**

E. Stephen Jett, Chairman  
John Bilderback, Vice Chairman  
Jill Hindman, Secretary  
Patricia McKoy, Treasurer  
Bill Allen, Member  
Ernest Hedgecorth, Member  
John Lively, Member  
Mike Feely, Member  
Tamara Steward, Member  
Charlene Simmons, Member  
Daniel Bakari Welles, Member

**Management**

Lisa Maragnano, Executive Director  
Autumn Jewell, CFO  
Annie Powell, Director of Grants, Technology and Research  
Jeff Smith, Director of Human Resources  
Brent Matthews, Director of Parking and Projects  
Mary Sparda, Director of Operations, Safety and Training  
Lisa Suttles, General Manager of Care-A-Van and ADA Coordinator  
Matthew Higgins, General Manager of Incline  
Cyndi Bonds, General Manager of Security and Information Technology  
Ronnie Hendrix, General Manager of Maintenance  
Wade Butzer, General Manager of Electric Vehicle Program  
Veronica Peebles, Manager of Communications and Marketing  
Phillip Pugliese, Transportation System Planner

## INDEPENDENT AUDITOR'S REPORT

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To the Board of Directors  
Chattanooga Area Regional Transportation Authority  
Chattanooga, Tennessee

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

We have audited the accompanying financial statements of the **Chattanooga Area Regional Transportation Authority** ("CARTA"), a component unit of the City of Chattanooga, as of and for the fiscal year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise CARTA'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 an opinion 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 of 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 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 financial position of the Chattanooga Area Regional Transportation Authority, as of June 30, 2019, and the changes in its financial position and its cash flows for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 7 and the Schedules of Changes in the Authority's Net Pension Liability and Related Ratios, Schedules of the Authority's Contributions – Disability and Retirement Plan, and the Schedule of Changes in the Authority's Net OPEB Liability and Related Ratios – OPEB Plan on pages 29 through 31 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### ***Other Information***

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of the Chattanooga Area Regional Transportation Authority. The schedule of insurance coverage is presented for purposes of additional analysis as required by the State of Tennessee and is not a required part of the basic financial statements. Also, the schedule of expenditures of federal and state awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*, and is not a required part of the basic financial statements.

The schedule of insurance coverage and the schedule of expenditures of federal and state awards 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. The 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 information is fairly stated in all material respects in relation to the basic financial statements as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 27, 2019, on our consideration of CARTA's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely 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 effectiveness of the Library's 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 CARTA's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Mauldin & Jenkins, LLC". The signature is written in a cursive, flowing style.

Chattanooga, Tennessee  
December 27, 2019

**Chattanooga Area Regional Transportation Authority**  
**A Component Unit of the City of Chattanooga, Tennessee**  
**Management's Discussion and Analysis**  
**Years Ended June 30, 2019 and 2018**

As management of the Chattanooga Area Regional Transportation Authority, (CARTA), we offer readers of CARTA's financial statements this narrative overview and analysis of the financial activities of CARTA for the fiscal years ended June 30, 2019 and 2018. CARTA is a component unit of the City of Chattanooga, Tennessee. Readers are encouraged to consider the information presented here in conjunction with CARTA's financial statements.

**FINANCIAL HIGHLIGHTS**

- ❖ For the year ended June 30, 2019, operating revenues were approximately \$10,380,000 which is a slight increase from the prior year's revenues of \$10,340,000. Passenger fare revenues decreased slightly and there was a slight increase in Incline passenger fare revenue. Parking revenues increased approximately \$300,000 from the prior year. Advertising revenues decreased \$130,000.
- ❖ For the year ended June 30, 2019, net non-operating revenues were approximately \$8,200,000 compared to \$7,800,000 in the prior year. The current year amount was comprised primarily of operating subsidies of approximately \$7,300,000 and planning grants of approximately \$640,000.
- ❖ Total operating expenses for the year ended June 30, 2019 were approximately \$26,100,000 compared to \$25,300,000 for the prior year. This increase is due to increased overtime, increased fuel expense, increased maintenance expenses due to an aging fleet, and an increase in professional service expense, such as legal fees and advertising costs.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

The basic financial statements provide short-term and long-term information about CARTA's overall financial status. CARTA follows accounting principles generally accepted in the United States of America, as applied to governmental units. We present our basic financial statements on an accrual basis of accounting that is similar to the accounting basis used by most private-sector companies.

Under the accrual basis, the current year's revenues earned and expenses incurred are accounted for in the Statement of Revenues, Expenses, and Changes in Net Position regardless of when cash is received. This statement measures the financial success of CARTA's operations over the past year and can be used to determine whether CARTA has successfully recovered all of its costs through its user fees and other charges (business-type activities), profitability and credit worthiness. CARTA is an Authority created by the City of Chattanooga, Tennessee as a separate legal entity and provides public transportation in the City of Chattanooga, Tennessee.

In the Statement of Cash Flows, the primary purpose is to provide information about CARTA's cash receipts and cash payments during the reporting period. The statement reports cash receipts, cash payments and changes in cash resulting from operating, investing, and financing activities and provides answers to questions such as where did cash come from, what was cash used for, and what was the change in the cash balance during the period.

All of CARTA’s assets and liabilities are included in the Statement of Net Position. Net position – assets plus deferred outflows of resources minus liabilities minus deferred inflows of resources – is one measure of CARTA’s financial health or financial position. Over time, increases or decreases in CARTA’s net position are one indicator of whether our financial health is improving or deteriorating.

The basic financial statements can be found as listed on the table of contents of this report.

## FINANCIAL ANALYSIS OF CARTA

CARTA’s net position increased by approximately \$10,000 for fiscal year ended June 30, 2019.

### Net Position

	<u>2019</u>	<u>2018</u>
<b>Assets</b>		
Current and other assets	\$ 5,569,003	\$ 6,033,573
Capital assets, net	\$ 21,529,716	\$ <u>21,972,863</u>
Total Assets	<u>\$ 27,098,719</u>	<u>\$ 28,006,436</u>
<b>Deferred Outflows of Resources</b>	<u>\$ 3,335,282</u>	<u>\$ 1,808,896</u>
<b>Liabilities</b>		
Current and other liabilities	\$ 2,307,188	\$ 3,217,086
Long-term liabilities	<u>14,287,565</u>	<u>13,179,842</u>
Total Liabilities	<u>\$ 16,594,753</u>	<u>\$ 16,396,928</u>
<b>Deferred Outflows of Resources</b>	<u>\$ 440,868</u>	<u>\$ 29,703</u>
<b>Net Position</b>		
Net investment in capital assets	\$ 21,529,716	\$ 21,921,568
Unrestricted	<u>(8,131,336)</u>	<u>( 8,532,867)</u>
Total Net Position	<u>\$ 13,398,380</u>	<u>\$ 13,388,701</u>

## Changes in Net Position

	<u>2019</u>	<u>2018</u>
Operating Revenues	\$ 10,379,122	\$ 10,340,420
Operating Expenses	<u>\$ 26,054,669</u>	<u>\$ 25,736,162</u>
Operating Loss	\$ (15,675,547)	\$ (15,395,742)
Non-Operating Revenues	\$ 8,191,122	\$ 7,793,534
Capital Contributions	<u>\$ 7,494,104</u>	<u>\$ 6,531,507</u>
<b>Increase (Decrease) Net Position</b>	<b><u>\$ 9,679</u></b>	<b><u>\$ (1,070,701)</u></b>

For the year ended June 30, 2019, CARTA's operating revenues increased approximately 1% and operating expenses increased by approximately 1% from the prior year.

## Net Capital Assets

	<u>2019</u>	<u>2018</u>
Land	\$ 3,258,047	\$ 3,258,047
Land Improvements	67,105	67,105
Buildings & Improvements	33,447,436	33,379,408
Transportation Equipment	37,534,998	35,869,522
Parking Equipment	2,697,190	2,603,852
Construction in Progress	1,698,110	951,638
Other, primarily shop & garage equipment	<u>23,942,824</u>	<u>23,857,988</u>
Total Capital Assets	102,645,710	99,987,560
Less accumulated depreciation	<u>(81,115,994)</u>	<u>(78,014,697)</u>
Net Capital Assets	<b><u>\$ 21,529,716</u></b>	<b><u>\$ 21,972,863</u></b>

Capital assets consist of land, land improvements, buildings & improvements, transportation equipment, parking equipment, shop & garage equipment and other basic equipment and furnishings as well as some construction projects which are in progress at the end of the year. CARTA had approximately \$21,500,000 in capital assets, net of depreciation, at June 30, 2019.

For more detailed information about CARTA's capital assets, please see the notes to the basic financial statements.

## DEBT

CARTA has no outstanding debt at this time.

	<u>2019</u>	<u>2018</u>
Note Payable – City of Chattanooga	\$ 0	\$ 51,295
Total Debt	<u>\$ 0</u>	<u>\$ 51,295</u>

For more detailed information on CARTA’s debt, please see the notes to the basic financial statements.

## ECONOMIC FACTORS

The following factors were considered in preparing CARTA’s budget for the fiscal year 2019. CARTA received a \$300,000 increase from local government to cover the costs of service provided to Enterprise South due to grant funding lapsing. Otherwise, CARTA was level-funded from the local government. Despite rising costs, CARTA was able to cover its expenses without receiving an increase in local funding because it experienced increased Incline and parking revenues, which helped offset the deficiency in local funding.

CARTA budgeted for a significant rate increase on its medical insurance but actually received a much smaller rate increase than what was budgeted for its medical insurance premiums in fiscal year 2019. Increased pension costs and wage expenses were also considered in the preparation of the fiscal year 2019 budget in addition to increased maintenance costs due to aging vehicles. CARTA actively promotes cost cutting and cost-savings company wide.

## REQUESTS FOR INFORMATION

This financial report is designed for those interested with a general overview of CARTA’s finances and to demonstrate CARTA’s accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Chattanooga Area Regional Transportation Authority, 1617 Wilcox Boulevard, Chattanooga, Tennessee, 37406.

**CHATTANOOGA AREA REGIONAL TRANSPORTATION AUTHORITY**  
**(A Component Unit of the City of Chattanooga)**

**STATEMENT OF NET POSITION**  
**June 30, 2019**

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	<b>2019</b>
<b>ASSETS</b>	
<b>CURRENT ASSETS</b>	
Cash and cash equivalents	\$ 1,912,959
Receivables	1,881,055
Prepaid items	863,994
Materials and supplies inventories	<u>910,995</u>
Total current assets	<u>5,569,003</u>
<b>NONCURRENT ASSETS</b>	
Capital assets:	
Land	3,258,047
Land improvements	67,105
Buildings and improvements	33,447,436
Transportation equipment	37,534,998
Parking equipment	2,697,190
Construction in progress	1,698,110
Other, primarily garage and shop equipment	<u>23,942,824</u>
	102,645,710
Less accumulated depreciation	<u>(81,115,994)</u>
Capital assets, net	<u>21,529,716</u>
Total assets	27,098,719
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
	<u>3,335,282</u>
Total assets and deferred outflows of resources	<u>\$30,434,001</u>

The Notes to Basic Financial Statements are an integral part of this statement.

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	<b>2019</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION</b>	
<b>CURRENT LIABILITIES</b>	
Accounts payable - operating	\$ 851,768
Accounts payable - capital	344,337
Accrued liabilities	542,518
Compensated absences payable, current portion	505,697
Accident claims reserve	62,868
Total current liabilities	2,307,188
<b>NONCURRENT LIABILITIES</b>	
Total OPEB liability	235,891
Net pension liability	14,051,674
Total noncurrent liabilities	14,287,565
Total liabilities	16,594,753
<b>DEFERRED INFLOWS OF RESOURCES</b>	440,868
<b>NET POSITION</b>	
Investment in capital assets	21,529,716
Unrestricted (deficit)	(8,131,336)
Total net position	13,398,380
Total liabilities, deferred inflows of resources, and net position	\$30,434,001

**CHATTANOOGA AREA REGIONAL TRANSPORTATION AUTHORITY**  
**(A Component Unit of the City of Chattanooga)**

**STATEMENT OF REVENUES, EXPENSES, AND  
CHANGES IN NET POSITION**  
**Fiscal Year Ended June 30, 2019**

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	<b>2019</b>
<b>OPERATING REVENUES</b>	
Passenger fares	\$ 4,971,538
Incline ancillary	355,748
Parking	4,814,385
Advertising	<u>237,451</u>
Total operating revenues	<u>10,379,122</u>
<b>OPERATING EXPENSES</b>	
Operations	12,536,544
Maintenance	5,348,081
Administrative	5,068,747
Depreciation and amortization	<u>3,101,297</u>
Total operating expenses	<u>26,054,669</u>
<b>OPERATING LOSS</b>	<u>(15,675,547)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>	
Operating subsidies	7,331,419
Planning grants	640,859
Interest income	4,088
Interest expense	(429)
Other	<u>215,185</u>
Total nonoperating revenues	<u>8,191,122</u>
<b>LOSS BEFORE CONTRIBUTIONS</b>	(7,484,425)
Capital contributions	<u>7,494,104</u>
<b>CHANGE IN NET POSITION</b>	9,679
<b>NET POSITION, beginning of fiscal year</b>	<u>13,388,701</u>
<b>NET POSITION, end of fiscal year</b>	<u><u>\$ 13,398,380</u></u>

The Notes to Basic Financial Statements are an integral part of this statement.

**CHATTANOOGA AREA REGIONAL TRANSPORTATION AUTHORITY**  
**(A Component Unit of the City of Chattanooga)**

**STATEMENT OF CASH FLOWS**  
**Fiscal Year Ended June 30, 2019**

	<b>2019</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Receipts from customers	\$ 11,834,647
Payments to suppliers	(14,883,104)
Payments to employees	<u>(9,308,414)</u>
Net cash used in operating activities	<u>(12,356,871)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
Operating and planning grant funds received	<u>8,187,463</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Purchases of capital assets	(2,658,150)
Repayment of notes payable	(51,295)
Payment of interest	(429)
Capital contributions	<u>7,494,104</u>
Net cash provided by capital and related financing activities	<u>4,784,230</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest income	<u>4,088</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	618,910
<b>CASH AND CASH EQUIVALENTS, beginning of fiscal year</b>	<u>1,294,049</u>
<b>CASH AND CASH EQUIVALENTS, end of fiscal year</b>	<u>\$ 1,912,959</u>
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES</b>	
Operating loss	\$(15,675,547)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation expense	3,101,297
Changes in operating assets and liabilities:	
Receivables, net	1,455,525
Prepaid items	(245,828)
Other post employment benefit liability	(4,882)
Deferred outflows	(1,526,386)
Materials and supplies inventories	(126,217)
Accounts payable	(842,388)
Accrued liabilities and other	(16,215)
Net pension liability	1,112,605
Deferred inflows	<u>411,165</u>
Net cash used in operating activities	<u>\$(12,356,871)</u>

The Notes to Basic Financial Statements are an integral part of this statement.

**CHATTANOOGA AREA REGIONAL TRANSPORTATION AUTHORITY**  
**(A component unit of the City of Chattanooga)**

**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2019**

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**Note 1. Summary of Significant Accounting Policies**

Organization and operation:

The Chattanooga Area Regional Transportation Authority (ARTA) is a component unit of the City of Chattanooga (the City). The City appoints ten members of ARTA's eleven-member board of directors. Additionally, the City finances the majority of ARTA's operating deficits. ARTA operates a mass transit system for the Chattanooga Metropolitan Area.

Basis of presentation:

The financial statements of ARTA have been prepared in accordance with generally accepted accounting principles in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting. The GASB periodically updates its codification of existing Governmental Accounting and Financial Reporting Standards, which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental entities.

Basis of accounting:

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. The accompanying financial statements are prepared using the accrual basis of accounting. The measurement focus is upon determination of financial position, changes in net position, and changes in cash flows. The generally accepted accounting principles used are those applicable to comparable businesses in the private sector. Revenues are recognized when earned and expenses are recognized when incurred. All assets, deferred outflows of resources, deferred inflows of resources, and liabilities (whether current or noncurrent) associated with ARTA's activities are included in the statement of net position. The reported net position is segregated into net investment in capital assets, restricted and unrestricted components.

Operating revenues and expenses reported in ARTA's financial statements include activities related to the primary, continuing operations of ARTA. Operating revenues for ARTA are charges to customers for services. Operating expenses are the costs of providing services and include administrative expenses and depreciation of capital assets. Other revenues are classified as non-operating in the financial statements.

Federal, State, and local capital contributions:

The U.S. Department of Transportation and the Tennessee Department of Transportation, under contracts with ARTA, have provided funds for a significant portion of the cost of acquisition and development of the mass transit system. The remaining project costs (matching contributions) have been furnished by the City and other municipalities served by ARTA.

**CHATTANOOGA AREA REGIONAL TRANSPORTATION AUTHORITY**  
**(A component unit of the City of Chattanooga)**

**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2019**

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

At June 30, 2019, no amount of cash was designated for uses authorized by capital grant contracts.

Federal, State, and local operating subsidies:

CARTA receives operating subsidies from the U.S. Department of Transportation, the Tennessee Department of Transportation, and local governments under operating assistance grant contracts. The amounts received or contractually receivable under such grants have been recorded as operating subsidies in the statement of revenues, expenses and changes in net position. These operating assistance grant contracts are obtained on a year-to-year basis.

Federal, State, and local planning grants:

CARTA receives planning grants from the U.S. Department of Transportation and the Tennessee Department of Transportation. These planning grant contracts are obtained on a year-to-year basis.

Cash, cash equivalents and investments:

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, cash balances in banks and overnight cash investments. The carrying amount approximated market value as of June 30, 2019.

CARTA invests excess cash in interest-bearing accounts and overnight cash investments with local depository institutions as authorized by the Board of Directors and in accordance with applicable State laws. CARTA's investment policy with respect to cash and overnight cash investments is to maximize investment earnings while maintaining an acceptable level of risk.

At June 30, 2019, CARTA held no amounts in investments. The Disability and Retirement Plan of the Chattanooga Area Regional Transportation Authority and Local 1212 of the Amalgamated Transit Union (Disability and Retirement Plan) is a single-employer defined benefit pension plan. Investments held by the Disability and Retirement Plan is reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates.

**CHATTANOOGA AREA REGIONAL TRANSPORTATION AUTHORITY**  
**(A component unit of the City of Chattanooga)**

**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2019**

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

Custodial credit risk – CARTA’s policies limit deposits and investments to those instruments allowed by applicable State laws. State statutes require that all deposits with financial institutions must be collateralized by securities whose market value is equal to 105 percent of the value of the uninsured deposits. Those deposits must be covered by Federal depository insurance or the Tennessee Bank Collateral Pool, by collateral held by CARTA’s agent in CARTA’s name, or by the Federal Reserve Banks acting as third party agents. State statutes also authorize CARTA to invest in repurchase agreements utilizing obligations of the United States or its agencies as the underlying securities. Statutes also require that securities underlying repurchase agreements must have a market value at least equal to the amount of funds invested in the repurchase transaction. At June 30, 2019, all deposits were entirely covered by the Federal Deposit Insurance Corporation or the Tennessee Bank Collateral Pool.

Prepaid items:

Payments made to vendors for services that will benefit periods beyond June 30, 2019, are recorded as prepaid items using the consumption method by recording an asset for the prepaid amount and reflecting the expenditure/expense in the year in which services are consumed.

Materials and supplies inventories:

Materials, supplies, gasoline, diesel fuel, and oil are carried in inventory accounts at average cost and are subsequently charged to expenses when consumed. Office supplies and individual items valued at less than five thousand dollars are charged to expenses when purchased.

Capital assets:

Capital assets are stated at historical cost. Maintenance and repairs, including the cost of minor items of property, are expensed as incurred.

Depreciation on equipment is recorded on a straight-line basis over the estimated useful lives of the assets. Buildings are depreciated over 25 years. New transportation equipment is depreciated over 5 to 12 years, and used transportation equipment is depreciated over 5 years. Other equipment is being depreciated over estimated useful lives ranging from 3 to 25 years. Upon retirement or sale of equipment, the cost is removed from the asset account and, for financial statement purposes, depreciation through the date of retirement is removed from accumulated depreciation.

Donated capital assets are recorded at their estimated acquisition values as of the date received.

**CHATTANOOGA AREA REGIONAL TRANSPORTATION AUTHORITY**  
**(A component unit of the City of Chattanooga)**

**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2019**

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

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, deferred outflows of resources, deferred inflows of resources, and liabilities and disclosure of contingent 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.

Net position:

CARTA's financial statements utilize a net position presentation. Net position is categorized as net investment in capital assets, restricted and unrestricted.

**Net Investment in Capital Assets** – is intended to reflect the portion of net position which is associated with non-liquid capital assets less outstanding capital asset related debt.

**Restricted** – represents net position that has third party (statutory, bond covenant or granting agency) limitations on their use. CARTA's policy is generally to use any restricted net position first, as appropriate opportunities arise.

**Unrestricted** – represents unrestricted net position. While management may have categorized and segmented portions for various purposes, CARTA has the unrestricted authority to revisit or alter these managerial decisions.

Compensated absences:

CARTA employees are granted annual paid time off in varying amounts. A liability is recognized for amounts of accrued annual paid time off leave and related benefits attributable to services already rendered and for which it is probable that compensation will be paid. A liability for accumulated unused sick leave is recognized only for those employees who have elected the Deferred Retirement Option Program (DROP) since it is not paid upon termination for those employees that have not elected DROP.

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**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2019**

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

Deferred outflows of resources and deferred inflows of resources:

The Authority also has deferred inflows and outflows related to the recording of changes in its net pension liability and total OPEB liability. Certain changes in the net pension liability and total OPEB liability are recognized as pension/OPEB expense over time instead of all being recognized in the fiscal year of occurrence. Experience gains or losses result from periodic studies by the Authority's actuary which adjust the net pension liability and total OPEB liability for actual experience for certain trend information that was previously assumed, for example the assumed dates of retirement of Plan members. These experience gains or losses are recorded as deferred outflows of resources or deferred inflows of resources and are amortized into pension/OPEB expense over the expected remaining service lives of Plan members. Changes in actuarial assumptions which adjust the net pension liability are also recorded as deferred outflows of resources or deferred inflows of resources and are amortized into pension expense over the expected remaining service lives of Plan members. The difference between projected investment return on pension investments and actual return on those investments is also deferred and amortized against pension expense over a five year period. Contributions to the Plan which are made subsequent to the measurement date are deferred and recognized as a reduction of the total pension liability in the subsequent year.

**Note 2. Pension Plan**

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Authority's Pension Plan and additions to/deductions from the Pension Plan's fiduciary net position have been determined on the same basis as they are reported by the Pension Plan. The Pension Plan utilizes the accrual basis of accounting. Contributions are recognized when paid or legally due. Benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

*Plan administration.* The Disability and Retirement Plan is administered by a committee of four persons, two appointed by the Union and two appointed by CARTA. The Disability and Retirement Plan is a single-employer defined benefit pension plan that provides pensions for all permanent full-time employees of the Authority. The Disability and Retirement Plan of the Chattanooga Area Regional Transportation Authority and Local 1212 of the Amalgamated Transit Union issues a stand-alone financial report. A copy of the report may be obtained by writing to CARTA, 1617 Wilcox Boulevard, Chattanooga, Tennessee 37406.

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**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2019**

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**Note 2. Pension Plan (continued)**

*Plan membership.* At December 31, 2018, pension plan membership consisted of the following:

Inactive plan members or beneficiaries currently receiving benefits	107
Inactive plan members entitled to but not receiving benefits	6
Active plan members	<u>168</u>
	<u>281</u>

*Benefits.* All full-time, permanent employees are eligible to participate in the Plan. Participants who retire at or after age 65 with 5 years of continuous service, or when the sum of the employee's age and number of completed continuous years of service equals or exceeds 85, are entitled to a monthly benefit.

Early retirement is available, with a reduced benefit which starts immediately, to employees who have completed 15 years or more of credited service and are at least 55 years old. An employee retiring with 5 to 14 years of service is not eligible to receive any immediate benefits, but is eligible to receive benefits at age 65. Participants who terminate employment prior to the completion of 5 years of continuous credited service before termination are refunded their contributions to the Plan but are not entitled to receive any contributions made to the Plan by CARTA.

*Contributions.* All participants in the Plan are required to make a contribution to the Plan equal to 4.50 percent of their earnings, with CARTA contributing 17.2 percent of the employees' earnings for the fiscal year ended December 31, 2018. The monthly employer and employee contributions are subject to certain limitations as specified in the Plan. Covered payroll for the year ended December 31, 2018 was \$9,537,829.

*Net Pension Liability of the Authority.* Effective July 1, 2014, the Authority implemented the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, as well as Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*, which significantly changed the Authority's accounting for pension amounts. The information disclosed on the following page is presented in accordance with this new standard. The Authority's net pension liability was measured as of December 31, 2018 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

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**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2019**

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**Note 2. Pension Plan (continued)**

*Actuarial assumptions.* The total pension liability in the December 31, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Salary increases                      3.5% on average, including inflation

Investment rate of return    7.5 %, net of pension plan investment expense

Mortality rates were based on the RP-2014 Total Data Set Mortality Tables with generational projection.

The actuarial assumptions used in the December 31, 2018 valuation were based on the results of an actuarial experience analysis performed in conjunction with the January 1, 2015 valuation.

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 weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

*Discount rate.* The discount rate used to measure the total pension liability was 7.50 percent. The projection of cash flows used to determine the discount rate assumed that Plan member contributions will be made at the current contribution rate and that Authority contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. The discount rate of 7.50 percent was the single rate which, when applied to all projected benefit payments, resulted in the same present value of benefit payments when the above discussed calculations are combined.

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**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2019**

**Note 2. Pension Plan (continued)**

*Changes in the Net Pension Liability of the Authority.* The changes in the components of the net pension liability of the Authority for the year ended December 31, 2018, were as follows:

	<b>Total Pension Liability</b>	<b>Plan Fiduciary Net Position</b>	<b>Net Pension Liability</b>
	<b>(a)</b>	<b>(b)</b>	<b>(a) - (b)</b>
<b>Balances at 12/31/17</b>	\$ 27,574,579	\$ 14,867,617	\$ 12,706,962
<b>Changes for the year:</b>			
Service cost	897,515	-	897,515
Interest	1,998,546	-	1,998,546
Differences between expected and actual experience	(530,294)	-	(530,294)
Contributions—employer	-	1,639,268	(1,639,268)
Contributions—employee	-	403,345	(403,345)
Net investment income	-	(997,225)	997,225
Benefit payments, including refunds of employee contributions	(1,854,598)	(1,854,598)	-
Administrative expense	-	(24,333)	24,333
<b>Net changes</b>	511,169	(833,543)	1,344,712
<b>Balances at 12/31/18</b>	\$ 28,085,748	\$ 14,034,074	\$ 14,051,674

The Plan's fiduciary net position as a percentage of the total pension liability is 50.0%.

The required schedule of changes in the Authority's net pension liability and related ratios immediately following the notes to the financial statements presents multiyear trend information about whether the value of Plan assets is increasing or decreasing over time relative to the total pension liability.

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**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2019**

**Note 2. Pension Plan (continued)**

*Sensitivity of the net pension liability to changes in the discount rate.* The following presents the net pension liability of the Authority, calculated using the discount rate of 7.50 percent, as well as what the Authority's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50 percent) or 1-percentage-point higher (8.50 percent) than the current rate:

	<u>1% Decrease</u> <u>(6.50%)</u>	<u>Current</u> <u>Discount Rate</u> <u>(7.50%)</u>	<u>1% Increase</u> <u>(8.50%)</u>
Authority's net pension liability	\$ 16,611,653	\$ 14,051,674	\$ 11,871,273

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and actuarially determined amounts are subject to continual revision as results are compared to past expectations and new estimates are made about the future. Actuarial calculations reflect a long-term perspective. Calculations are based on the substantive plan in effect as of December 31, 2018 and the current sharing pattern of costs between employer and employee.

*Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions.* For the fiscal year ended June 30, 2019, the Authority recognized pension expense of \$2,122,934. At June 30, 2019, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

**CHATTANOOGA AREA REGIONAL TRANSPORTATION AUTHORITY**  
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**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2019**

**Note 2. Pension Plan (continued)**

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 621,810	\$ (440,868)
Authority contributions received after the measurement date	1,177,922	-
Net difference between projected and actual earnings on pension plan investments	1,534,400	-
 Total	 \$ 3,334,132	 \$ (440,868)

Authority contributions subsequent to the measurement date of \$1,177,922 are reported as deferred outflows of resources and will be recognized as a reduction of the net pension liability in the year ending June 30, 2020. Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Fiscal Year Ending June 30:	
2020	\$ 677,350
2021	446,583
2022	281,022
2023	389,400
2024	(79,013)
Thereafter	-
 Total	 \$ 1,715,342

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**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2019**

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**Note 3. Other Postemployment Benefit Plans**

CARTA has adopted an other postemployment benefit obligation (OPEB) plan that was established by the Authority’s Board. The Board is authorized to approve amendments to the Plan. The Board has not elected to advance fund the Plan, but rather maintain the Plan as a “pay as you go” basis, in that claims are paid as they arise, rather than establishing an irrevocable trust to accumulate restricted funds. The Plan does not issue separate financial statements.

*Plan Description.* CARTA provides health care, life insurance, and supplemental retirement benefits for certain members of management and their spouses. The Plan is a single-employer defined benefit plan. Participants of this plan who retire are entitled to a set monthly benefit of \$1,500 for life insurance, with additional supplemental benefits available based on the retirees age.

*Funding Policy Contributions.* CARTA pays for all of the costs of the health care, life insurance, and supplemental retirement benefits. The contribution requirements of CARTA are established and may be amended by CARTA’s Board of Directors. Plan members are currently not required to contribute. For the fiscal year ended June 30, 2019 the Authority contributed \$16,568 for the pay as you go benefits.

*Membership:* The following schedule (derived from the most recent actuarial valuation report) reflects membership for the OPEB Health Care Plan as of June 30, 2019.

Inactive employees or beneficiaries currently receiving benefits	95
DROP members	10
Active employees	<u>168</u>
Total	<u><u>273</u></u>

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**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2019**

**Note 3. Other Postemployment Benefit Plans (continued)**

*Total OPEB Liability.* The required schedule of changes in the Authority’s total OPEB liability and related ratios immediately following the notes to the financial statements presents multi-year trend information about whether the value of plan assets are increasing or decreasing over time relative to the total OPEB liability.

*Change in the Total OPEB Liability.* The Authority’s changes in the total OPEB liability by source for the fiscal year ended June 30, 2019, is reflected below:

Total OPEB liability as of June 30, 2018	\$ 240,773
Changes for the year:	
Service cost at the end of the year	3,273
Interest on TOL and cash flows	6,975
Difference between actual and expected	1,438
Benefit Payments	(16,568)
Net changes	<u>(4,882)</u>
Total OPEB liability as of June 30, 2019	<u>\$ 235,891</u>

*Actuarial assumptions.* The total OPEB liability was determined by an actuarial valuation as of the Valuation Date, June 30, 2019. An expected total OPEB liability is determined as of June 30, 2018, the Prior Measurement Date, using standard roll back techniques. The rollback calculation begins with the total OPEB liability, as of the Measurement Date, June 30, 2019, adds the expected benefit payments for the year, deducts interest at the Discount Rate for the year, and then subtracts the annual Normal Cost (also called the Service Cost).

The following actuarial assumptions apply to all periods included in the measurement:

Discount rate	3.00%
Salary increases	N/A
Inflation rate	3.00%,
Municipal bond index rate	3.50%
Long-term expected rate of return	3.00%

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**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2019**

**Note 3. Other Postemployment Benefit Plans (continued)**

Mortality rates were based on the RP-2014 Total Data Set Mortality Table projected generationally with Scale MP-2014, for service. The RP-2014 Disabled Retiree Mortality Table projected generationally with Scale MP-2014 is used for the period after disability retirement.

*Sensitivity of the total OPEB liability to changes in the discount rate.* The following presents the total OPEB liability of the Authority, calculated using the discount rate, as well as what the Authority's total OPEB liability would be if it were calculated using a discount rate rate that is one percentage point lower or one percentage point higher than the current rate.

The following table represents the sensitivity analysis discussed above as of June 30, 2019:

	1% Decrease (2.00%)	Current Assumption (3.00%)	1% Increase (4.00%)
Authority's total OPEB Liability	\$ 267,898	\$ 235,891	\$ 210,141

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 1,150	\$ -
Total	\$ 1,150	\$ -

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**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2019**

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**Note 3. Other Postemployment Benefit Plans (continued)**

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

Fiscal Year Ending June 30:		
2020	\$	288
2021		288
2022		288
2023		286
2024		-
Thereafter		-
		<hr/>
Total	\$	<u><u>1,150</u></u>

**Note 4. Risk Management**

CARTA 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. CARTA purchases commercial insurance for claims and for all other risks of loss. At June 30, 2019, there are no significant claims liabilities outstanding. CARTA's exposure to risks of loss is detailed as follows:

Accident claims reserve:

CARTA is insured for public liability and property damage with the Tennessee Municipal League and is responsible for the deductible portion of claims up to a maximum of \$10,000 per individual claim. Amounts over this limit are fully covered by insurance. CARTA has recorded an estimated reserve of \$62,868 at June 30, 2019. In the opinion of management, these reserves are sufficient to provide for the estimated costs of claims not covered by insurance.

Workers' compensation insurance:

CARTA is fully-insured for workers' compensation claims, to an annual maximum of \$1,000,000. The charges to operating expenses associated with workers' compensation insurance for the fiscal year ended June 30, 2019, was \$538,449. Settled claims resulting from these insured risks have not exceeded the Authority's insurance coverage in any of the past three fiscal years.

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**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2019**

**Note 5. Long-Term Debt**

Long-term debt at June 30, 2019, consist of the following:

	Outstanding 6/30/2018	Additions	Deductions	Outstanding 6/30/2019	Amounts Due in One Year
Net Pension Liability	\$ 12,939,069	\$ 3,917,619	\$ 2,805,014	\$ 14,051,674	\$ -
Net OPEB Liability	240,773	11,686	16,568	235,891	-
Notes Payable	51,295	-	51,295	-	-
Compensated Absences	422,625	505,697	422,625	505,697	505,697
<b>Total</b>	<b>\$ 13,653,762</b>	<b>\$ 4,435,002</b>	<b>\$ 3,295,502</b>	<b>\$ 14,793,262</b>	<b>\$ 505,697</b>

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**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2019**

**Note 6. Capital Assets**

Capital assets are summarized as follows:

	<u>June 30, 2018</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2019</u>
Capital assets (nondepreciable):				
Land	\$ 3,258,047	\$ -	\$ -	\$ 3,258,047
Construction in progress	<u>951,638</u>	<u>746,472</u>	<u>-</u>	<u>1,698,110</u>
Total capital assets (nondepreciable)	<u>4,209,685</u>	<u>746,472</u>	<u>-</u>	<u>4,956,157</u>
Capital assets (depreciable):				
Land improvements	67,105	-	-	67,105
Parking equipment	2,603,852	93,338	-	2,697,190
Building and improvements	33,379,408	68,028	-	33,447,436
Transportation equipment	35,869,522	1,665,476	-	37,534,998
Other, primarily garage and shop equipment	<u>23,857,988</u>	<u>84,836</u>	<u>-</u>	<u>23,942,824</u>
Total capital assets (depreciable)	<u>95,777,875</u>	<u>1,911,678</u>	<u>-</u>	<u>97,689,553</u>
Total capital assets	99,987,560	2,658,150	-	102,645,710
Less accumulated depreciation	<u>(78,014,697)</u>	<u>(3,101,297)</u>	<u>-</u>	<u>(81,115,994)</u>
Net capital assets	<u>\$ 21,972,863</u>	<u>\$ (443,147)</u>	<u>\$ -</u>	<u>\$ 21,529,716</u>

**Note 7. Sublease Agreement and Agreement for Grant Support**

During 2009, CARTA entered into a sublease agreement and agreement for grant support with Southeast Tennessee Human Resources Agency (SETHRA). CARTA provided SETHRA \$300,000 in financial assistance from CARTA's New Freedom grant for the creation of a "call center" within the new building constructed by SETHRA.

CARTA and SETHRA intend that the new call center will not only help CARTA improve its services to disadvantaged individuals relying on CARTA's Care-A-Van services, but will also allow CARTA's and SETHRA's combined efforts to provide better and more coordinated transportation services to their urban and rural clients.

In return for the financial assistance, SETHRA will provide CARTA office and call center space under the terms of the sublease agreement. The term of the sublease agreement is for 20 years through September 2029. No further rent is due under the agreement.

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**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2019**

**Note 8. Parking Authority**

Effective October 22, 2012, the City of Chattanooga (City) authorized CARTA to serve as the City of Chattanooga Parking Authority (Parking Authority) in addition to CARTA's normal operations. As the Parking Authority, CARTA is responsible for all metered parking and the enforcement of parking in the City. City Ordinance, Article X, Division 2, Section 24-311 through 24-349 discusses the formation of the Parking Authority and authorizes the Parking Authority to use parking revenues "...for the purpose of rental, acquisition, establishment, erection, maintenance, replacement and operation of all parking meters, parking garages and lots, and other parking facilities provided by the Parking Authority; for the purpose of making the parking system safe and effective; for the expenses incurred by and through the Parking Authority in the regulation of vehicular parking and enforcement of these ordinances; and for providing downtown shuttle service. Any sums remaining after expenses for the foregoing purposes shall be remitted to the general fund of the City of Chattanooga..."

Summarized operating results for the Parking Authority portion of CARTA's operations for the fiscal year ended June 30, 2019 is as follows:

	<u>2019</u>
Revenues:	
Parking meters	\$ 1,720,196
Parking enforcement	1,115,272
Grants - shuttle	<u>591,170</u>
Total revenues	<u>3,426,638</u>
Expenses:	
Operating	1,074,910
Maintenance	881,991
Administrative	1,561,241
Depreciation	<u>472,217</u>
Total expenses	<u>3,990,359</u>
Net loss	<u><u>\$ (563,721)</u></u>

**CHATTANOOGA AREA REGIONAL TRANSPORTATION AUTHORITY**  
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**REQUIRED PENSION PLAN SUPPLEMENTARY INFORMATION**

**SCHEDULES OF CHANGES IN THE AUTHORITY'S  
NET PENSION LIABILITY AND RELATED RATIOS**

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
<b>Total pension liability</b>					
Service cost	\$ 897,515	\$ 876,699	\$ 825,353	\$ 781,830	\$ 640,413
Interest on total pension liability	1,998,546	1,889,138	1,793,901	1,685,711	1,702,982
Differences between expected and actual experience	(530,294)	315,281	120,854	427,251	599,063
Benefit payments, including refunds of employee contributions	<u>(1,854,598)</u>	<u>(1,390,100)</u>	<u>(1,550,446)</u>	<u>(1,354,069)</u>	<u>(1,863,839)</u>
<b>Net change in total pension liability</b>	511,169	1,691,018	1,189,662	1,540,723	1,078,619
<b>Total pension liability - beginning</b>	<u>27,574,579</u>	<u>25,883,561</u>	<u>24,693,899</u>	<u>23,153,176</u>	<u>22,074,557</u>
<b>Total pension liability - ending (a)</b>	<u>\$28,085,748</u>	<u>\$27,574,579</u>	<u>\$25,883,561</u>	<u>\$24,693,899</u>	<u>\$23,153,176</u>
<b>Plan fiduciary net position</b>					
Contributions - employer	1,639,268	1,481,647	1,209,166	1,151,775	948,691
Contributions - employee	403,345	342,803	316,547	301,249	285,125
Net investment income	(997,225)	1,741,636	717,533	(234,245)	689,053
Benefit payments, including refunds of employee contributions	(1,854,598)	(1,390,100)	(1,550,446)	(1,354,069)	(1,863,839)
Administrative expenses	<u>(24,333)</u>	<u>(86)</u>	<u>(25,581)</u>	<u>(104,038)</u>	<u>(91,581)</u>
<b>Net change in plan fiduciary net position</b>	(833,543)	2,175,900	667,219	(239,328)	(32,551)
<b>Plan fiduciary net position - beginning</b>	<u>14,867,617</u>	<u>12,691,717</u>	<u>12,024,498</u>	<u>12,263,826</u>	<u>12,296,377</u>
<b>Plan fiduciary net position - ending (b)</b>	<u>\$14,034,074</u>	<u>\$14,867,617</u>	<u>\$12,691,717</u>	<u>\$12,024,498</u>	<u>\$12,263,826</u>
<b>Net pension liability - ending (a) - (b)</b>	<u>\$14,051,674</u>	<u>\$12,706,962</u>	<u>\$13,191,844</u>	<u>\$12,669,401</u>	<u>\$10,889,350</u>
<b>Plan fiduciary net position as a percentage of the total pension liability</b>	50.0%	53.9%	49.0%	48.7%	53.0%
<b>Covered payroll</b>	\$ 9,537,829	\$ 9,407,872	\$ 8,721,617	\$ 8,249,619	\$ 7,460,259
<b>Authority's net pension liability as a percentage of covered payroll</b>	147.3%	135.1%	151.3%	153.6%	146.0%

**Notes to the Schedule**

The schedule will present 10 years of information once it is accumulated.

**CHATTANOOGA AREA REGIONAL TRANSPORTATION AUTHORITY**  
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**SCHEDULES OF AUTHORITY CONTRIBUTIONS**  
**DISABILITY AND RETIREMENT PLAN**

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Actuarially determined contribution	\$ 1,435,535	\$ 1,379,283	\$ 1,390,734	\$ 1,231,247	\$ 1,231,247
Contributions in relation to the actuarially determined contribution	<u>1,639,268</u>	<u>1,481,647</u>	<u>1,209,166</u>	<u>1,151,775</u>	<u>948,691</u>
Contribution deficiency (excess)	<u>\$ (203,733)</u>	<u>\$ (102,364)</u>	<u>\$ 181,568</u>	<u>\$ 79,472</u>	<u>\$ 282,556</u>
Covered payroll	\$ 9,537,829	\$ 9,407,872	\$ 8,721,617	\$ 8,249,619	\$ 7,460,259
Contributions as a percentage of Covered payroll	17.2%	15.7%	13.9%	14.0%	12.7%

**Notes to the Schedule**

Valuation Date	12/31/2018
Cost Method	Entry Age
Actuarial Asset Valuation Method	Market Value
Assumed Rate of Return	
On Investments	7.50%
Projected Salary Increases	3.5% (including 3.0% for inflation)
Cost-of-living Adjustment	None
Amortization Method	Level dollar, closed
Remaining Amortization Period	28.1 years

The schedule will present 10 years of information once it is accumulated.

**CHATTANOOGA AREA REGIONAL TRANSPORTATION AUTHORITY**  
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**REQUIRED PENSION PLAN SUPPLEMENTARY INFORMATION**

**SCHEDULES OF CHANGES IN THE AUTHORITY'S  
TOTAL OPEB LIABILITY AND RELATED RATIOS**

	<u>2019</u>	<u>2018</u>
<b>Total OPEB liability</b>		
Service Cost at end of year	\$ 3,273	\$ 3,246
Interest	6,975	6,877
Changes of benefit terms	1,438	8,107
Benefit payments	<u>(16,568)</u>	<u>(13,418)</u>
<b>Net change in total pension liability</b>	(4,882)	4,812
<b>Total OPEB liability - beginning</b>	240,773	235,961
<b>Total OPEB liability - ending</b>	<u>\$ 235,891</u>	<u>\$ 240,773</u>
<b>Covered payroll</b>	\$ 9,537,829	\$ 9,407,872
<b>Authority's total OPEB liability as a percentage of covered payroll</b>	2.47%	2.56%

**Notes to the Schedule**

The schedule will present 10 years of information once it is accumulated.

**CHATTANOOGA AREA REGIONAL TRANSPORTATION AUTHORITY**  
**(A component unit of the City of Chattanooga)**

**SUPPLEMENTAL SCHEDULE OF INSURANCE COVERAGE**  
**June 30, 2019**

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The following schedule is presented to conform to the requirements of the State of Tennessee, Comptroller of the Treasury Standards for Reporting:

<u>Type of Coverage</u>	<u>Amount of Coverage</u>
Felonious assault	\$ 100,000
Auto and general liability	5,000,000
Boiler and machinery	54,905,181*
Workers' compensation excess	1,000,000
Electronics floater	530,875
Fiduciary	2,000,000
Crime – employee dishonesty	500,000
Crime – forgery and alteration	150,000
Crime – computer fraud	150,000
Crime – theft, disappearance or destruction	150,000
Cyber	1,000,000

\*Includes a maximum of \$2,500,000 of business interruption coverage.

**CHATTANOOGA AREA REGIONAL TRANSPORTATION AUTHORITY**  
**(A Component Unit of the City of Chattanooga)**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS**  
**Fiscal Year Ended June 30, 2019**

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	(Accrued) Deferred Grant Revenue June 30, 2018	Grant Revenue Received	Expenditures	Adjustments	(Accrued) Deferred Grant Revenue June 30, 2019
<b>FEDERAL GRANTS</b>							
<b>U.S. DEPARTMENT OF TRANSPORTATION</b>							
<b>Federal Transit Cluster</b>							
<b>Direct:</b>							
Federal Transit - Capital Investment Grants	20.500	TN-04-0058	\$ -	\$ 87,391	\$ 101,956	\$ -	\$ (14,565)
Federal Transit - Capital Investment Grants	20.500	TN-54-0005	(26,593)	27,495	902	-	-
Federal Transit - Capital Investment Grants	20.500	TN-2017-048	(37,496)	350,244	314,686	-	(1,938)
Total Federal Transit - Capital Investment Grants			(64,089)	465,130	417,544	-	(16,503)
<b>Direct:</b>							
Bus and Bus Facilities Formula Program	20.526	TN-34-0006	(1,260)	6,685	13,532	(1,101)	(9,208)
Total Bus and Bus Facilities Formula Program			(1,260)	6,685	13,532	(1,101)	(9,208)
<b>Direct:</b>							
Federal Transit - Formula Grants	20.507	TN-90-0359	(18,889)	17,788	-	1,101	-
Federal Transit - Formula Grants	20.507	TN-90-0375	-	94,400	103,844	-	(9,444)
Federal Transit - Formula Grants	20.507	TN-2016-023	(520)	28,874	28,874	-	(520)
Federal Transit - Formula Grants	20.507	TN-2016-026	(47,974)	92,819	85,341	-	(40,496)
Federal Transit - Formula Grants	20.507	TN-2017-049	(9,529)	17,352	26,480	-	(18,657)
Federal Transit - Formula Grants	20.507	TN-2018-040	-	3,517,252	3,823,459	-	(306,207)
Federal Transit - Formula Grants	20.507	TN-2019-030	-	-	2,060	-	(2,060)
Total Federal Transit - Formula Grants			(76,912)	3,768,485	4,070,058	1,101	(377,384)
<b>Direct:</b>							
CMAQ - FHWA Transfer	20.507	TN-2017-045	(45,572)	121,791	121,791	-	(45,572)
Total CMAQ Grant			(45,572)	121,791	121,791	-	(45,572)
<b>Direct:</b>							
STP - FHWA Transfer	20.507	TN-95-0063	-	11,272	11,272	-	-
STP - FHWA Transfer	20.507	TN-95-0073	-	215,200	215,200	-	-
STP - FHWA Transfer	20.507	TN-2017-029	-	116,514	372,510	-	(255,996)
Total STP - FHWA Transfer			-	342,986	598,982	-	(255,996)
Total Federal Transit Cluster			(187,833)	4,705,077	5,221,907	-	(704,663)
<b>Direct:</b>							
Enhanced Mobility of Seniors & Individuals with Disabilities	20.513	TN-16-0011	-	-	-	-	-
Enhanced Mobility of Seniors & Individuals with Disabilities	20.513	TN-2018-010	(648)	3,792	42,191	-	(39,047)
Total Enhanced Mobility of Seniors & Individuals with Disabilities			(648)	3,792	42,191	-	(39,047)
<b>Direct:</b>							
New Freedom Program	20.521	TN-57-0016	-	31,793	31,793	-	-
Total New Freedom Program			-	31,793	31,793	-	-
Total Transit Services Program Cluster			(648)	35,585	73,984	-	(39,047)
<b>Direct:</b>							
Transit Investments for Greenhouse Gas and Energy Reduction	20.523	TN-88-0001	(1,048,148)	2,389,618	1,341,470	-	-
Total Transit Investments			(1,048,148)	2,389,618	1,341,470	-	-
<b>Direct:</b>							
State of Good Repair Formula Grants (Section 5337)	20.523	TN-2017-053	(48,087)	88,398	90,780	-	(50,469)
Total State of Good Repair Formula Grant			(48,087)	88,398	90,780	-	(50,469)
<b>Direct:</b>							
Energy Efficiency & Renewable Energy	81.086	DE-EE0008467	-	103,804	140,646	-	(36,842)
Total Energy Efficiency & Renewable Energy Grant			-	103,804	140,646	-	(36,842)
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ (1,284,716)	\$ 7,322,482	\$ 6,868,787	\$ -	\$ (831,021)

**CHATTANOOGA AREA REGIONAL TRANSPORTATION AUTHORITY**  
**(A Component Unit of the City of Chattanooga)**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS**  
**Fiscal Year Ended June 30, 2019**

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	(Accrued) Deferred Grant Revenue June 30, 2018	Grant Revenue Received	Expenditures	Adjustments	(Accrued) Deferred Grant Revenue June 30, 2019
STATE GRANTS							
TENNESSEE DEPARTMENT OF TRANSPORTATION							
Direct:							
State Funding for TN-34-0003	N/A	GG-1545343	\$ (179)	\$ 179	\$ -	\$ -	\$ -
State Funding for TN-57-0016	N/A	GG-1438893	(1,133)	-	3,974	-	(5,107)
State Funding for TN-34-0006	N/A	GG-1752125	(2,267)	2,110	1,692	-	(1,849)
State Funding for TN-54-0005	N/A	GG-1752124	(12,665)	12,778	113	-	-
State Funding for TN-04-0058	N/A	GG-1239593	(9,103)	-	12,745	-	(21,848)
State Funding for TN-95-0063	N/A	GG-1543150	(47,463)	-	1,409	-	(48,872)
State Funding for TN-90-0359	N/A	GG-1439131	(32,205)	29,982	-	-	(2,223)
State Funding for TN-90-0375	N/A	GG-1544558	-	-	12,980	-	(12,980)
State Funding for TN-2016-023	N/A	GG-1753104	(8,670)	9,136	3,609	-	(3,143)
State Funding for TN-2016-026	N/A	GG-1752814	(25,902)	21,568	10,667	-	(15,001)
State Funding for TN-16-0011	N/A	GG-1752121	(11,203)	-	-	-	(11,203)
State Funding for TN-2017-048	N/A	GG-1858026	(44,193)	43,688	39,336	-	(39,841)
State Funding for TN-2017-049	N/A	GG-1857971	(527,910)	528,545	3,310	-	(2,675)
State Funding for TN-2018-040	N/A	Z-19-5307-07	-	221,046	438,508	-	(217,462)
State Funding for TN-2017-053	N/A	GG-1858761	(11,012)	12,427	11,348	-	(9,933)
State Funding for TN-2018-010	N/A	GG-1960772	-	1,357	6,835	-	(5,478)
State Funding for TN-88-0001	N/A	GG-1959939	(131,019)	19,452	167,684	-	(279,251)
State Funding	N/A	GG-1856005	(21,461)	21,461	-	-	-
State Funding TN-2019-030	N/A	Not Available			258		(258)
State Operating	N/A	Z18UROP-01-00	(747,782)	747,782	-	-	-
State Operating	N/A	Z19UROP-10-00	-	1,880,479	2,272,100	-	(391,621)
TOTAL EXPENDITURES OF STATE AWARDS			<u>(1,634,167)</u>	<u>3,551,990</u>	<u>2,986,568</u>	<u>-</u>	<u>(1,068,745)</u>
TOTAL EXPENDITURES OF FEDERAL AND STATE AWARDS			<u>\$ (2,918,883)</u>	<u>\$ 10,874,472</u>	<u>\$ 9,855,355</u>	<u>\$ -</u>	<u>\$ (1,899,766)</u>

The Notes to Schedule of Expenditures of Federal and State Awards are an integral part of this schedule.

**CHATTANOOGA AREA REGIONAL TRANSPORTATION AUTHORITY**  
**(A component unit of the City of Chattanooga)**

**NOTES TO SCHEDULE OF EXPENDITURES**  
**OF FEDERAL AND STATE AWARDS**  
**Fiscal Year Ended June 30, 2019**

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**Note 1. Basis of Presentation**

The accompanying supplemental Schedule of Expenditures of Federal and State Awards includes the Federal and State grant activity of CARTA under programs of the Federal and State governments for the year ended June 30, 2019. The information in this schedule is presented in accordance with the requirements of Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Costs Principles, and Audit Requirements for Federal Awards*. Because the schedule presents only a selected portion of the operations of CARTA, it is not intended to and does not present the financial position, changes in net position or cash flows of CARTA.

**Note 2. Summary of Significant Accounting Policies**

Expenditures reported on 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, Costs Principles, and Audit Requirements for Federal Awards* wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available. CARTA has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

**Note 3. Subrecipients**

There were no payments to subrecipients during the fiscal year ended June 30, 2019.

**Note 4. Adjustments**

Adjustments to the Schedule of Expenditures of Federal and State Awards reflect adjustments to prior fiscal year ending accrued revenues that will not be received, adjustments to record accruals not recorded in prior years, or reclassifications of accrual amounts to the proper grants.

Independent Auditor's Report on Internal Control Over Financial Reporting  
and on Compliance and Other Matters Based on an Audit of  
Financial Statements Performed in Accordance With  
Government Auditing Standards

To the Board of Directors  
Chattanooga Area Regional Transportation Authority  
Chattanooga, Tennessee

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 Chattanooga Area Regional Transportation Authority ("CARTA"), a component unit of the City of Chattanooga, as of and for the fiscal year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise CARTA's basic financial statements, and have issued our report thereon dated December 27, 2019.

**Internal Control Over Financial Reporting**

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2019-001 through 2019-004 that we consider to be material weaknesses.

## **Compliance and Other Matters**

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

## **CARTA's Responses to Findings**

CARTA's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. CARTA's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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 black ink that reads "Mauldin & Jenkins, LLC". The signature is written in a cursive, flowing style.

Chattanooga, Tennessee  
December 27, 2019

Independent Auditor's Report on Compliance  
For Each Major Program and on Internal Control  
Over Compliance Required by the Uniform Guidance

To the Board of Directors  
Chattanooga Area Regional Transportation Authority  
Chattanooga, Tennessee

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

We have audited the Chattanooga Area Regional Transportation Authority's (CARTA's), a component unit of the city of Chattanooga, compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the fiscal year ended June 30, 2019. CARTA'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 CARTA's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about CARTA'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 CARTA's compliance.

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

In our opinion, CARTA 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 fiscal year ended June 30, 2019.

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

Management of CARTA 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 CARTA'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 our 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 CARTA'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 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. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in black ink that reads "Mauldin & Jenkins, LLC". The signature is written in a cursive, flowing style.

Chattanooga, Tennessee  
December 27, 2019

**CHATTANOOGA AREA REGIONAL TRANSPORTATION AUTHORITY**  
**(A component unit of the City of Chattanooga)**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**Fiscal Year Ended June 30, 2019**

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: Unmodified

Internal control over financial reporting:

- Material weaknesses identified?  yes  no
- Significant deficiencies identified?  yes  none reported
- Noncompliance material to financial statements noted?  yes  no

Federal Awards

Internal control over major programs:

- Material weaknesses identified?  yes  no
- Significant deficiencies identified?  yes  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 2 CFR 200.516(a)  yes  no

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
	Federal Transit Cluster:
20.500	Federal Transit - Capital Investment Grants
20.507	Federal Transit - Formula Grants
20.525	State of Good Repairs Grants
20.526	Bus and Bus Facilities Formula

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

Auditee qualified as low-risk auditee?  yes  no

**CHATTANOOGA AREA REGIONAL TRANSPORTATION AUTHORITY**  
**(A component unit of the City of Chattanooga)**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**Fiscal Year Ended June 30, 2019**

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**SECTION II - FINANCIAL STATEMENT FINDINGS**

**2019-001      CAPITAL ASSET MAINTENANCE**

***Criteria:*** Internal controls should be in place to ensure CARTA's capital assets are reconciled to the general ledger. Additionally, subsidiary ledgers should be maintained to track the capital assets by cost, calculate annual depreciation, and track accumulated depreciation for capital assets.

***Condition:*** Material misstatements were detected in the reporting of capital asset balances of CARTA.

***Context/Cause:*** During our testing of CARTA's capital assets, management determined certain adjustments were required to correct the capital assets. The nature of these adjustments are as follows:

- An adjustment to accumulated depreciation of approximately \$18,000 was posted by management of CARTA in order to properly adjust the capital assets for an understatement of the accumulated depreciation.
- An adjustment was made to accumulated depreciation of approximately \$4,387,000 in order to properly adjust the depreciation expense to actual and adjust capital assets for an understatement of the accumulated depreciation.
- An adjustment was made to accumulated depreciation of approximately \$1,303,000 in order to adjust depreciation due to issues with the depreciation software utilized by CARTA to record depreciation.

***Effects:*** Audit adjustments were needed to correctly report capital asset balances.

***Recommendation:*** We recommend CARTA carefully review the subsidiary ledgers throughout the year for items reported as depreciation expense and additions to accumulated depreciation. Additionally, CARTA should perform monthly reconciliations of the subsidiary ledger to the general ledger accounts to ensure the activity is being properly reported between the two systems.

**CHATTANOOGA AREA REGIONAL TRANSPORTATION AUTHORITY**  
**(A component unit of the City of Chattanooga)**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**Fiscal Year Ended June 30, 2019**

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SECTION II - FINANCIAL STATEMENT FINDINGS (CONTINUED)

**2019-001      CAPITAL ASSET MAINTENANCE (Continued)**

*Auditee's Response:* We concur with the finding. At year end-June, 2019, CARTA's CFO, took another position. We brought on a temporary finance person to assist with year-end close and audit. The concerns that have been identified were part of the transition for the new person to learn the software and how the accounts were set up. All of the findings in this report were entries that were made into the wrong account and needed to be corrected. We are very confident in the processes and procedures that we have in place. CARTA's new Director of Finance will be starting on January 20th.

**2019-002      EXPENSE RECOGNITION**

*Criteria:* Expenses should be recognized as soon as a liability is incurred, regardless of the timing of the related cash flows in accordance with generally accepted accounting principles.

*Condition:* Misstatements were detected in the reporting of CARTA's expenses and the related balance sheet accounts.

*Context/Cause:* During our testing, audit adjustments were required to properly report CARTA's expenses and related balance sheet accounts. The nature of these adjustments are as follows:

- An adjustment was made by management of approximately \$56,000 to correct expenses that were accrued to an equity account rather than accounts payable.
- An adjustment was made by management of approximately \$365,000 to correct for a pension accrual which was accrued twice.
- An adjustment was made by management to correct accounts payable and expenses for approximately \$45,000 related to auditing and legal expenses.
- During our testing, we made an adjustment to decrease prepaid insurance of approximately \$172,000 was proposed to correct prepaid insurance.
- An adjustment was made by management of approximately \$182,000 to adjust for pension expenses recorded in net position.

*Effects:* Audit adjustments were needed to correctly report expenses and related balance sheet accounts.

**CHATTANOOGA AREA REGIONAL TRANSPORTATION AUTHORITY**  
**(A component unit of the City of Chattanooga)**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**Fiscal Year Ended June 30, 2019**

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SECTION II - FINANCIAL STATEMENT FINDINGS (CONTINUED)

**2019-002      EXPENSE RECOGNITION (Continued)**

**Recommendation:** We recommend CARTA ensure all expenses are properly reported in accordance with generally accepted accounting principles.

**Auditee's Response:** We concur with the finding. At year end-June, 2019, CARTA's CFO, took another position. We brought on a temporary finance person to assist with year-end close and audit. The concerns that have been identified were part of the transition for the new person to learn the software and how the accounts were set up. All of the findings in this report were entries that were made into the wrong account and needed to be corrected. We are very confident in the processes and procedures that we have in place. CARTA's new Director of Finance will be starting on January 20th.

**2019-003      REVENUE RECOGNITION**

**Criteria:** Internal controls should be in place to ensure that amounts reported as revenues and related balance sheet accounts are appropriate, properly valued, and recorded in the proper period in accordance with generally accepted accounting principles.

**Condition:** Internal controls were not sufficient to detect misstatements in the reporting of CARTA's revenues and related balance sheet accounts.

**Context/Cause:** During our testing, audit adjustments were required to properly report CARTA's revenues and related balance sheet accounts. The nature of these adjustments are as follows:

- An adjustment was made by management of approximately \$12,000 to increase the insurance accounts receivable balances.
- An adjustment of approximately \$129,000 was made in order to properly reduce deferred revenue and increase the related revenue in the current year.
- An adjustment was made by management of approximately \$344,000 to increase grant revenue to actual.

**Effects:** Audit adjustments were needed to correctly report revenues and related balance sheet accounts.

**CHATTANOOGA AREA REGIONAL TRANSPORTATION AUTHORITY**  
**(A component unit of the City of Chattanooga)**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**Fiscal Year Ended June 30, 2019**

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SECTION II - FINANCIAL STATEMENT FINDINGS (CONTINUED)

**2019-003      REVENUE RECOGNITION (Continued)**

***Recommendation:*** We recommend CARTA carefully review all revenues to ensure they are reported in the proper reporting period and in accordance with generally accepted accounting principles.

***Auditee's Response:*** We concur with the finding. At year end-June, 2019, CARTA's CFO, took another position. We brought on a temporary finance person to assist with year-end close and audit. The concerns that have been identified were part of the transition for the new person to learn the software and how the accounts were set up. All of the findings in this report were entries that were made into the wrong account and needed to be corrected. We are very confident in the processes and procedures that we have in place. CARTA's new Director of Finance will be starting on January 20th.

**2019-004      CASH**

***Criteria:*** Internal controls should be in place to ensure that amounts reported as cash are appropriate, and recorded in the proper period in accordance with generally accepted accounting principles.

***Condition:*** Internal controls were not sufficient to detect a misstatement in the reporting of CARTA's cash accounts.

***Context/Cause:*** During our testing, an audit adjustment was required to properly report CARTA's cash accounts. The bank reconciliation process was not sufficient to detect control deficiencies which led to:

- An audit adjustment was made by management of approximately \$61,000 to adjust cash to actual for transactions which were not recorded in the general ledger.

***Effects:*** An audit adjustment was needed to correctly report cash accounts.

***Recommendation:*** We recommend CARTA carefully review all cash accounts and prepare monthly reconciliations which are reviewed in a timely manner to ensure they are reported in the proper reporting period and in accordance with generally accepted accounting principles.

**CHATTANOOGA AREA REGIONAL TRANSPORTATION AUTHORITY**  
**(A component unit of the City of Chattanooga)**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**Fiscal Year Ended June 30, 2019**

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SECTION II - FINANCIAL STATEMENT FINDINGS (CONTINUED)

**2019-004**      **CASH (Continued)**

*Auditee's Response:* We concur with the finding. At year end-June, 2019, CARTA's CFO, took another position. We brought on a temporary finance person to assist with year-end close and audit. The concerns that have been identified were part of the transition for the new person to learn the software and how the accounts were set up. All of the findings in this report were entries that were made into the wrong account and needed to be corrected. We are very confident in the processes and procedures that we have in place. CARTA's new Director of Finance will be starting on January 20th.

**CHATTANOOGA AREA REGIONAL TRANSPORTATION AUTHORITY**  
**(A component unit of the City of Chattanooga)**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**Fiscal Year Ended June 30, 2019**

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**SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

None reported.

**CHATTANOOGA AREA REGIONAL TRANSPORTATION AUTHORITY**  
**(A component unit of the City of Chattanooga)**

**SCHEDULE OF PRIOR AUDIT FINDINGS**  
**Fiscal Year Ended June 30, 2018**

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None reported.



Chattanooga Area Regional Transportation Authority  
**FY 2019 Corrective Action Plan**

**2019-001 CAPITAL ASSET MAINTENANCE**  
*Contact Person Responsible for Corrective Action Plan:* Sonja Green Sparks,  
Director of Finance

*Corrective Action Plan:* We will carefully review the subsidiary ledgers throughout the year for items reported as depreciation expense and additions to accumulated depreciation. Additionally, we will perform monthly reconciliations of the subsidiary ledger to the general ledger accounts to ensure the activity is being properly reported between the two systems.

*Anticipated Completion Date:* June 30, 2020

**2019-002 EXPENSE/EXPENDITURE RECOGNITION**  
*Contact Person Responsible for Corrective Action Plan:* Sonja Green Sparks,  
Director of Finance

*Corrective Action Plan:* We are currently implementing controls to ensure these year-end adjustments are considered and reflected in the general ledger, as appropriate.

*Anticipated Completion Date:* June 30, 2020

**2019-003 REVENUE RECOGNITION**  
*Contact Person Responsible for Corrective Action Plan:* Sonja Green Sparks,  
Director of Finance

*Corrective Action Plan:* We are taking necessary steps to ensure that revenues and related balance sheet accounts are properly recorded.

*Anticipated Completion Date:* June 30, 2020

**2019-004 CASH**  
*Contact Person Responsible for Corrective Action Plan:* Sonja Green Sparks, Director  
of Finance

*Corrective Action Plan:* We are taking steps to carefully review all cash accounts and prepare monthly reconciliations which are reviewed in a timely manner to ensure they are reported in the proper reporting period and in accordance with generally accepted accounting principles.

*Anticipated Completion Date:* June 30, 2020

*Chattanooga's Driving Force.*