

# Capital Metropolitan Transportation Authority

## FY 2023 Audit Results

Report to the Finance, Audit and Administration  
Committee of the Board of Directors

September 30, 2023



Finance, Audit and Administration Committee of the Board of Directors  
Capital Metropolitan Transportation Authority

We are pleased to present this report related to our September 30, 2023 audit of Capital Metropolitan Transportation Authority's (CapMetro) financial statements. Our report shares the results of our audit work, as required by professional standards, alongside other meaningful insights, which we believe will help you in executing your oversight responsibility for CapMetro's financial reporting process.

It will be our pleasure to respond to any questions you have regarding this report. We appreciate the opportunity to continue to be of service to CapMetro.

*RSM US LLP*

*This report is intended solely for the information and use of the Finance, Audit and Administration Committee and management, and is not intended to be, and should not be, used by anyone other than these specified parties.*

# Table of contents

<b>Executive summary</b>	<b>4</b>
<b>Compliance audits</b>	
Federal results	5
State results	6
<b>Required communication</b>	
Accounting policies and practices	7
Significant accounting estimates	8
Reporting matters	11
Observations about the audit process	12
Independence	13

# Executive summary

## Audit status

The FY2023 audit is completed.

We issued an unqualified opinion on the financial statements.

## Significant changes to the planned audit strategy

There were no significant changes to the planned audit strategy communicated to CapMetro on February 5, 2024.

## Adoption of new accounting policy

In 2023, CapMetro adopted Governmental Accounting Standards Board Statement No. 96, *Subscription-Based Information Technology Arrangements*.

## Audit adjustments or uncorrected misstatements

There were not audit adjustments and we are not aware of uncorrected misstatements.

## Deficiencies in internal control

We did not identify any material weaknesses or significant deficiencies.

Understand the client

Risk assessment

Further audit procedures

Evaluation

Delivery

# Compliance audit federal results

## Single audit Report

## Schedule of Findings and Questioned Costs

### Section I

#### Summary of Auditor's Results

##### 1. Financial Statements

Type of auditor's report issued on whether the financial statements audited were prepared in accordance with accounting principles generally accepted in the United States of America:

Unmodified

Internal control over financial reporting:

Material weakness(es) identified?

☐ Yes ☒ No

Significant deficiency(ies) identified?

☐ Yes ☒ None Reported

Noncompliance material to financial statements noted?

☐ Yes ☒ No

##### 2. Federal Awards

Internal control over major federal programs:

Material weakness(es) identified?

☐ Yes ☒ No

Significant deficiency(ies) identified?

☐ Yes ☒ None Reported

Type of auditor's report issued on compliance each major federal program:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with Section 2 CFR 200.516 (a)

☐ Yes ☒ No

Identification of major federal programs:

Federal assistance listing Number(s)  
20.500; 20.507  
20.205

Name of Federal Program or Cluster  
Federal Transit Cluster  
Highway Planning and Construction Program

Dollar threshold used to distinguish between type A and type B programs:

\$ 2,269,663

Auditee qualified as low-risk auditee?

☒ Yes ☐ No

# Compliance audit state results

## Single audit Report

### Schedule of Findings and Questioned Costs

#### 1. Financial Statements

Type of auditor's report issued on whether the financial statements audited were prepared in accordance with accounting principles generally accepted in the United States of America:

Unmodified

Internal control over financial reporting:

Material weakness(es) identified? ☐ Yes ☒ No

Significant deficiency(ies) identified? ☐ Yes ☒ None Reported

Noncompliance material to financial statements noted?

☐ Yes ☒ No

#### 2. State Awards

Internal control over major state programs:

Material weakness(es) identified? ☐ Yes ☒ No

Significant deficiency(ies) identified? ☐ Yes ☒ None Reported

Type of auditor's report issued on compliance each major state program:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with Section 315

☐ Yes ☒ No

Identification of major state programs:

State assistance listing Number(s)  
582-19-96644-3240

Name of State Program  
Texas Clean Fleet Program

Dollar threshold used to distinguish between type A and type B programs:

\$ 750,000

Auditee qualified as low-risk auditee?

☒ Yes ☐ No

## REQUIRED COMMUNICATIONS



# Accounting policies and practices

The following required communications summarize our responsibilities regarding the financial statement audit as well as observations arising from our audit that are significant and relevant to your responsibility to oversee the financial reporting process.

Matter to Report	Yes	No
Changes to the planned scope and timing of the audit	✓	We have issued a separate communication dated February 5, 2024, regarding the planned scope and timing of our audit and identified significant risks.
<b>Accounting policies and practices</b>		
Preferability of accounting policies and practices	✓	<p>Under accounting principles generally accepted in the United States of America, management may select among alternative accounting practices in certain circumstances.</p> <p>In our view, in such circumstances, management has selected the preferable accounting practice.</p>
Adoption of, or change in, accounting policies	✓	<p>Management has the ultimate responsibility for the appropriateness of the accounting policies used by the CapMetro.</p> <p>The following is a description of significant accounting policies or their application that were either initially selected or changed during the year:</p> <ul style="list-style-type: none"><li>• CapMetro adopted Governmental Accounting Standards Board Statement No, 96, <i>Subscription Based Information Technology Arrangements</i>.</li></ul>
Significant accounting policies	✓	We did not identify any significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.
Significant unusual transactions	✓	We did not identify any significant unusual transactions.



# Significant accounting estimates

Accounting estimates are an integral part of the preparation of financial statements and are based upon management's current judgment. The process used by management encompasses their knowledge and experience about past and current events, and certain assumptions about future events.

## Fair value of investments

### Accounting policy

Except for the investments that qualify for reporting at amortized cost, which generally includes investment pools and non-negotiable certificates of deposit, the investments are valued at fair value based on quoted market prices.

### Management's estimation process

Fair value is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. Investments are reported based on the quoted price from closing bid prices as of the last business day of the month as supplied by a third party. Where prices are not available from generally recognized sources, the securities are priced using a yield-based matrix system to arrive at an estimated market value. Prices that fall between data points are interpolated.

### Basis for our conclusion on the reasonableness of the estimate

We tested the fair value of the investments and concluded that the valuation methods and estimates are reasonable.

## Net pension liability

### Accounting policy

CapMetro contributes to the Capital Metro Retirement Plan for Administrative Employees and StarTran Plan (the Plans), single-employer employee retirement plans. CapMetro measures the net pension asset/liability based on approved demographic and economic assumptions approved by the Plans. The Plans disclosed the net pension liability in Note 10 to the financial statements.

### Management's estimation process

The net pension liability was measured as of December 31, 2023. This calculation is prepared by an independent actuarial company engaged by CapMetro, and CapMetro's management reviews and consider the appropriateness of the assumptions.

### Basis for our conclusion on the reasonableness of the estimate

We obtained the actuarial valuation report for the Plans and we confirmed that the reported balances agreed with the actuarial report. We reviewed the significant assumptions and conclusions for reasonableness and tested the underlying data for completeness and accuracy. We concluded the estimates used by management are reasonable.



# Significant accounting estimates

Accounting estimates are an integral part of the preparation of financial statements and are based upon management's current judgment. The process used by management encompasses their knowledge and experience about past and current events, and certain assumptions about future events.

## Total Other Post Employment Benefits (OPEB) liability

### Accounting policy

CapMetro administers a single-employer health care plan (the Plan). The Plan is administered by CapMetro and it has the authority to establish or amend the plan provisions or contribution requirements. No assets are accumulated in a trust for the Plan.

CapMetro measures the total OPEB liability based on approved demographic and economic assumptions approved by CapMetro. The Plan disclosed the total OPEB liability in Note 14 to the financial statements.

### Management's estimation process

The total OPEB liability was measured as of September 30, 2023. This calculation is prepared by an independent actuarial company engaged by CapMetro, and CapMetro's management reviews and consider the appropriateness of the assumptions.

### Basis for our conclusion on the reasonableness of the estimate

We obtained the actuarial valuation report and reviewed the significant assumptions and conclusions for reasonableness. We concluded the estimates used by management are reasonable.

## GASB 87, Leases

### Accounting policy

CapMetro recognizes a right to use asset as a lessee with a corresponding lease liability and a lease receivable as a lessor with an offset to deferred inflows-leases.

### Management's estimation process

The lease liability and lease receivable are measured using the net present value of future lease payments to be paid/received under the lease term at the beginning of the lease term. CapMetro uses the fixed payment terms under the lease, other criteria outlined by the reporting requirements and its estimated incremental borrowing rate as the discount rate for the measurement of the net present value.

### Basis for our conclusion on the reasonableness of the estimate

We obtained the calculations of lease liability and lease receivable and tested for reasonableness. We concluded the estimates used by management are reasonable.

# Significant accounting estimates

Accounting estimates are an integral part of the preparation of financial statements and are based upon management's current judgment. The process used by management encompasses their knowledge and experience about past and current events, and certain assumptions about future events.

## GASB 96 Subscription-Based Information Technology Arrangements (SBITA)

### Accounting policy

CapMetro recognizes an intangible right to use subscription asset with a corresponding subscription liability for executed subscription contracts as further described in the SBITA footnote 1.

### Management's estimation process

The subscription liability and intangible right to use subscription asset are generally measured using the net present value of future subscription payments to be paid under the terms at the beginning of the subscription contract. CapMetro uses the fixed payment terms under the contract, other criteria outlined by the reporting requirements and its estimated incremental borrowing rate as the discount rate for the measurement of the net present value.

### Basis for our conclusion on the reasonableness of the estimate

We obtained the calculations of the subscription liability, the related right to use asset and tested for reasonableness. We concluded the estimates used by management are reasonable.

## Depreciable useful lives of capital assets

### Accounting policy

Capital assets include all items purchased that have a useful life of more than one year, are of a tangible nature, and have a cost of \$5,000 or more. Capital assets are recorded at cost and are depreciated over their useful lives using the straightline method as further described in the Capital Asset footnote 1.

### Management's estimation process

The determination is made at the time the asset is placed into service and involves various judgments and assumptions, including the estimated useful life and prior experience.

### Basis for our conclusion on the reasonableness of the estimate

We concluded the estimates used by management are reasonable.

# Reporting matters

## Matter to Report

### Departure from the auditor's standard report

Expected emphasis-of-matter paragraph

CapMetro adopted GASB Statement No 96. In light of this matter, we included an emphasis-of-matter paragraph in the auditor's report.

#### Emphasis of Matter

As discussed in Note 6 to the financial statements, CapMetro adopted Governmental Accounting Standards Board Statement No. 96, *Subscription-Based Information Technology Arrangements*, as of October 1, 2021. Our opinions are not modified with respect to this matter.

Other-matter paragraph

#### Other Matter

Our responsibility for other information in documents containing CapMetro's Annual Comprehensive Financial Report is to read the information and consider whether its content or manner of its presentation is materially inconsistent with the financial information covered by our auditor's report or whether it contains a material misstatement of fact.

Thus, in regard to the Annual Comprehensive Financial Report, specifically the introductory and statistical sections of this report, we did not perform any procedures or corroborate other information included in these sections. However, we did read the introductory and statistical sections and consider whether the information or the manner in which it is presented is materially inconsistent with information or the manner of presentation of the basic financial statements. Based on our reading, we determined if the information or manner of presentation requires any revisions.

# Observations about the audit process

Matter to Report	Yes	No
<b>Observations about the audit process</b>		
Significant issues discussed with management	✓	No significant issues arising from the audit were discussed or the subject of correspondence with management.
Disagreements with management	✓	There were no disagreements with management.
Significant difficulties encountered in performing the audit	✓	We did not encounter any significant difficulties in dealing with management during the audit.
Consultations with other accountants	✓	We are not aware of any consultations management had with other accountants about accounting or auditing matters.
Difficult or contentious matters that required consultation	✓	We did not encounter any significant and difficult or contentious matters that required consultation outside our engagement team.

# Independence

## Shared responsibilities: AICPA independence

The American Institute of Certified Public Accountants (AICPA) regularly emphasizes that auditor independence is a **joint responsibility** and is managed most effectively when management, audit committees (or their equivalents), and audit firms work together in considering compliance with AICPA and Government Accountability Office (GAO) independence rules. For RSM to fulfill its professional responsibility to maintain and monitor independence, management, the audit committee, and RSM each play an important role.

### Our responsibilities

- AICPA and GAO rules require independence both of mind and in appearance when providing audit and other attestation services. RSM is to ensure that the AICPA's and GAO General Requirements for performing non-attest services are adhered to and included in all letters of engagement.
- Maintain a system of quality management over compliance with independence rules and firm policies.

### CapMetro's responsibilities

- Timely inform RSM, before the effective date of transactions or other business changes, of the following:
  - New affiliates, directors, or officers
  - Change in the reporting entity impacting such as partnerships, related entities, investments, joint ventures, component units and jointly governed organizations
- Provide necessary affiliate information such as new or updated investment structure charts, as well as financial information required to perform materiality calculations needed for making affiliate determinations.
- Understand and conclude on the permissibility, prior to the CapMetro and its affiliates, officers, directors, or persons in a decision-making capacity, engaging in business relationships with RSM.
- Not entering into relationships resulting in close family members of RSM covered persons, temporarily or permanently acting as an officer, director, or person in an accounting or financial reporting oversight role at the CapMetro.

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