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CAPITAL AREA TRANSIT SYSTEM
(Formerly Capital Transportation Corporation)

Financial Statements and Schedules

December 31, 2004

With Independent Auditors' Report Thereon

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Postlethwaite & Netterville

A Professional Accounting Corporation
Associated Offices in Principal Cities of the United States
www.pncpa.com

Independent Auditors' Report

Board of Directors
Capital Area Transit System:

We have audited the accompanying balance sheets of Capital Area Transit System (the "System"), formerly Capital Transportation Corporation, a component unit of the City of Baton Rouge - Parish of East Baton Rouge, and the Capital Area Transit System's Employees' Pension Trust Fund (a fiduciary fund of the System) as of December 31, 2004 and 2003, which collectively comprise the System's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and *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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the System and its fiduciary fund as of December 31, 2004 and 2003, and the results of its operations and its cash flows for the years then ended in conformity with auditing standards generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the System will continue as a going concern. As shown in the financial statements, the System incurred net losses before capital contributions of $1,234,314 and $1,322,218 for 2004 and 2003, respectively, and a has a deficit balance in unrestricted net assets of $890,465 and $226,356, as of December 31, 2004 and 2003, respectively. Current liabilities exceed current assets by $1,287,351 at December 31, 2004. Those conditions raise substantial doubt about its ability to continue as a going concern. Management's plans regarding those matters are described in note 12. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

The Management's Discussion and Analysis on pages 3 through 6 and the Pension Trend Information in schedule 1 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board (GASB). We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

8550 United Plaza Blvd, Suite 1001 • Baton Rouge, LA 70809 • Tel: 225.922.4600 • Fax: 225.922.4611

In accordance with *Government Auditing Standards*, we have also issued a report dated May 16, 2005 on our consideration of the System's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

Postlethwaite & Netterville

Baton Rouge, Louisiana
May 16, 2005

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CAPITAL AREA TRANSIT SYSTEM
(Formerly Capital Transportation Corporation)
Management's Discussion and Analysis
Year ended December 31, 2004

This section of the System's annual financial report presents a discussion and analysis of the System's financial performance during the fiscal year that ended December 31, 2004. Please read this section in conjunction with the System's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The System's net assets are $3,804,668 as of December 31, 2004, representing a decrease of $616,812 or 13.95% from that of December 31, 2003. A substantial portion of the net assets are invested in capital assets.
- A deficit in net assets exists which signifies that obligations exceed resources to satisfy those obligations as of December 31, 2004.
- Net losses before capital contributions were $1,234,314 and $1,322,818 for 2004 and 2003, respectively.

OVERVIEW OF THE FINANCIAL STATEMENTS

This financial report consists of four parts: management's discussion and analysis (this section), the basic financial statements, the notes to the financial statements, and required supplementary information.

The financial statements provide both long-term and short-term information about the System's overall financial status. The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of other supplementary information that further explains and supports the information in the financial statements required by GASB 25. The System maintains two different funds: a proprietary fund and a fiduciary fund.

The System is a component unit of the City of Baton Rouge - Parish of East Baton Rouge (City-Parish).

Proprietary Fund. The System has one type of proprietary fund, an enterprise fund, which is used to report the same functions presented as business-type activities; for the System, the fund accounts for all transit activity. The basic proprietary fund statements can be found on pages 7 through 9 of this report.

The System's proprietary fund financial statements are prepared on an accrual basis in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. Under this basis of accounting, revenues are recognized in the period in which they are earned, expenses are recognized in the period in which they are incurred, and depreciation of assets is recognized in the Statement of Revenues, Expenses, and Changes in Net Assets. All assets and liabilities associated with the operation of the System are included in the Statement of Net Assets.

The Statement of Net Assets reports the System's net assets. Net assets, which are the difference between the System's assets and liabilities, are one way to measure the System's financial health or position. The net assets are classified into three categories: invested in capital assets, restricted, and unrestricted.

Fiduciary Fund. The System has one type of fiduciary fund, a pension trust fund, which is used to account for resources, held for the benefit of parties outside the government. The fiduciary fund assets are not available to finance transit operations. The accounting used for fiduciary funds is much like that used for proprietary funds. The basic fiduciary fund statements can be found on pages 10 through 11 of this report.

CAPITAL AREA TRANSIT SYSTEM
(Formerly Capital Transportation Corporation)
Management's Discussion and Analysis
Year ended December 31, 2004

FINANCIAL ANALYSIS OF THE SYSTEM:

Net Assets
The System's total net assets at December 31, 2004 decreased from $4,421,480 to $3,804,668. Table A-1 summarizes the System's net assets as of December 31, 2004.

Current assets have decreased, reflecting an ongoing "tight" cash position. Restricted assets represent resources contractually restricted, primarily related to matching funds to be used for federally funded activities. Equipment, net of accumulated depreciation, has increased primarily as a result of the System upgrading its fleet of busses with the purchase of 28 new buses during 2004. The System does not own land and buildings; rather, the City-Parish provides the System with the use of its administrative building and terminal facility.

Long-term liabilities increased from $1,114,017 to $8,836,732 as a result of capital lease obligations entered into during 2004 from the upgrade to the bus fleet. Future federal grants are anticipated as the funding source for these leases. The System's decrease in net assets reflects the continued strain on current resources resulting from operating expenses exceeding operating and non-operating revenue. However, management believes that the System's operations will generate adequate cash flow for the 2005 fiscal year.

Table A-1
Capital Area Transit System's Net Assets
December 31, 2004 and 2003

	2004	2003
Current unrestricted assets	$ 920,400	$ 1,301,357
Restricted current assets	251,688	742,818
Total current assets	1,172,088	2,044,175
Equipment, net	12,508,579	4,544,416
Net pension asset, long-term	1,168,484	958,078
	$ 14,849,151	$ 7,546,669
Liabilities and Net Assets		
Current	$ 2,207,751	$ 2,011,172
Long term claims payable and related liabilities	1,099,112	395,332
Long term other liabilities	7,737,620	718,685
	11,044,483	3,125,189
Net Assets-Invested in Capital Assets	4,591,025	4,544,416
Net Assets-Restricted	104,108	103,420
Net Assets-Unrestricted	(890,465)	(226,356)
Total net assets	3,804,668	4,421,480
	$ 14,849,151	$ 7,546,669

CAPITAL AREA TRANSIT SYSTEM
(Formerly Capital Transportation Corporation)
Management's Discussion and Analysis
Year ended December 31, 2004

Changes in Net Assets
The System's operating revenues decreased slightly from the prior year amount of $3,833,900 to $3,624,865 or 5.45%. This decrease is primarily attributable to a slight decrease in revenues generated from the contract with Louisiana State University.

Operating expenses increased by $420,464 or 3.45% to $12,622,123. Personal services, supplies, fuel and claims expenses were all areas of increased costs.

Net non-operating revenues in 2004 increased as a result of increases in federal operating grant revenue and an increase in funding from the City-Parish of East Baton Rouge.

Capital contributions decreased from 2003 to 2004 due to less cash purchases of equipment charged to federal grants.

Table A-2
Capital Area Transit System's Changes in Net Assets
Years ended December 31, 2004 and 2003

	2004	2003
Operating revenues:		
Charges for services	$ 3,549,894	$ 3,769,738
Other	74,971	64,162
Total operating revenues	3,624,865	3,833,900
Direct operating expenses:		
Operating expenses	11,867,329	11,341,788
Depreciation expense	754,794	859,871
Total direct operating expenses	12,622,123	12,201,659
Loss from operations	(8,997,258)	(8,367,759)
Nonoperating revenues, net:		
Government operating grants	4,396,008	4,137,413
Hotel/motel tax	788,776	862,228
Other revenue	337,950	55,671
Operating transfers from City-Parish Government	2,240,210	1,989,629
Total nonoperating revenues	7,762,944	7,044,941
Net loss before capital contributions	(1,234,314)	(1,322,818)
Capital contributions - Federal subsidy	617,502	1,517,418
Net income (loss) after capital contributions	(616,812)	194,600
Net assets, beginning of year	4,421,480	4,226,880
Net assets, end of year	$ 3,804,668	$ 4,421,480

FINANCIAL OUTLOOK

The 2005 budget anticipates a modest increase in passenger fares and contract revenue, while federal grant revenues, taxes, and transfers from the City-Parish will remain constant. Overall, the System is budgeted to operate at a break-even position.

CONTACTING THE SYSTEM"S FINANCIAL MANAGEMENT

This financial report is designed to provide the community, the Council of the City-Parish, and other interested parties with a general overview of the System's finances and to demonstrate the System's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the System at (225) 389-8920.

CAPITAL AREA TRANSIT SYSTEM
(Formerly Capital Transportation Company)

Balance Sheets - Proprietary Fund

December 31, 2004 and 2003

		2004		2003
Assets				
Current assets:				
Cash and cash equivalents	$	19,808	$	316,250
Accounts receivable		47,874		46,948
Inventories		354,667		236,738
Due from other governments		494,559		622,191
Prepaid expenses and other assets		3,492		79,230
Total current assets		920,400		1,301,357
Restricted assets, cash and investments:				
Cash and cash equivalents		251,688		742,818
Total restricted assets		251,688		742,818
Net pension asset, long-term		1,168,484		958,078
Equipment, net		12,508,579		4,544,416
		14,849,151		7,546,669
Liabilities and Net Assets				
Liabilities:				
Current liabilities				
Accounts payable and accrued expenses		1,033,589		560,000
Deferred revenue		239,597		514,072
Claims payable and related liabilities		115,780		731,918
Capital lease payable		523,964		-
Accrued compensated absences		294,821		205,182
Total current liabilities		2,207,751		2,011,172
Long-term liabilities:				
Accrued compensated absences, less current portion		262,924		307,402
Deferred revenue		81,106		411,283
Claims payable and related liabilities, less current portion		1,099,112		395,332
Capital lease payable, less current portion		7,393,590		-
Total long-term liabilities		8,836,732		1,114,017
Total liabilities		11,044,483		3,125,189
Net assets:				
Invested in capital assets, net of related debt		4,591,025		4,544,416
Restricted		104,108		103,420
Unrestricted		(890,465)		(226,356)
Net assets		3,804,668		4,421,480
	$	14,849,151	$	7,546,669

See accompanying notes to financial statements.

CAPITAL AREA TRANSIT SYSTEM
(Formerly Capital Transportation Corporation)

Statements of Revenues, Expenses and Changes in Net Assets - Proprietary Fund
For the years ended December 31, 2004 and 2003

	2004	2003
Operating revenues:		
Charges for services	$ 3,549,894	$ 3,769,738
Advertising revenue	74,971	64,162
Total operating revenues	3,624,865	3,833,900
Direct operating expenses:		
Personal services and fringe benefits	7,072,858	5,910,203
Supplies, fuel and other bus related expenses	1,856,991	1,260,150
Contractual services and liability costs	2,937,480	4,171,435
Depreciation expense	754,794	859,871
Total direct operating expenses	12,622,123	12,201,659
Loss from operations	(8,997,258)	(8,367,759)
Nonoperating revenues (expenses):		
Interest and financial charges	355	2,182
Government operating grants:		
Federal operating subsidy	4,269,915	4,172,447
Planning and technical study grants	152,661	221,492
Planning and technical study expenses	*(26,568)*	*(256,526)*
Hotel/motel tax	788,776	862,228
Other revenue	337,595	53,489
Operating transfers from Primary Government	2,240,210	1,989,629
Total nonoperating revenues (expenses)	7,762,944	7,044,941
Loss before capital contributions	(1,234,314)	(1,322,818)
Capital contributions - Federal and State subsidies	617,502	1,517,418
Net income (loss) after capital contributions	(616,812)	194,600
Net assets:		
Balance, beginning of year	4,421,480	4,226,880
Balance, end of year	$ 3,804,668	$ 4,421,480

See accompanying notes to financial statements.

CAPITAL AREA TRANSIT SYSTEM
(Formerly Capital Transportation Corporation)
Statements of Cash Flows - Proprietary Fund
For the years ended December 31, 2004 and 2003

	2004	2003
Cash flows from operating activities:		
Cash received from customers	$ 3,549,894	$ 3,769,738
Cash received from other sources	74,045	127,341
Cash paid to suppliers and others	(4,749,020)	(5,238,887)
Cash paid to employees for compensation and related expenses	(6,616,779)	(6,010,816)
Net cash (used in) operating activities	(7,741,860)	(7,352,624)
Cash flows from noncapital financing activities:		
Operating subsidies received from other governments	3,669,473	4,404,017
Non-operating grant expenses	(26,568)	(256,526)
Hotel-Motel tax	917,123	837,470
Other revenue	337,595	53,489
Operating transfers Primary Government	2,240,210	2,539,629
Net cash provided by noncapital financing activities	7,137,833	7,578,079
Cash flows from capital and related financing activities:		
Capital contributions received	617,502	1,203,259
Acquisition and construction of capital assets	(801,402)	(1,539,251)
Net cash (used in) capital financing activities	(183,900)	(335,992)
Cash flows from investing activities - interest payments received	355	2,182
Net decrease in cash and cash equivalents	(787,572)	(108,355)
Cash and cash equivalents at beginning of year	1,059,068	1,167,423
Cash and cash equivalents at end of year	271,496	1,059,068
Reconciliation of cash as listed on the balance sheets:		
Unrestricted cash	19,808	316,250
Restricted cash	251,688	742,818
	271,496	1,059,068
Reconciliation of loss from operations to net cash used in operating activities:		
Loss from operations	(8,997,258)	(8,367,759)
Adjustments to reconcile loss from operations to net cash (used in) operating activities:		
Depreciation	754,794	859,871
(Increase) decrease in accounts receivable	(927)	63,179
Decrease in prepaid assets	75,738	29,649
(Increase) in net pension asset	(210,406)	(122,475)
(Increase) in inventory	(117,930)	(7,555)
Increase in accounts payable and accrued expenses	666,487	21,862
Increase in the provision for claims liability	87,642	170,604
Net cash (used in) operating activities	$ (7,741,860)	$ (7,352,624)
Supplemental disclosure of non-cash activity:		
Purchase of rolling stock through capital leasing arrangement	$ 7,997,184	$ -

See accompanying notes to financial statements.

CAPITAL AREA TRANSIT SYSTEM
(Formerly Capital Transportation Corporation)
Statements of Plan Net Assets - Pension Trust Fund

December 31, 2004 and 2003

	2004	2003
Assets:		
Cash and equivalents	$ 513,622	$ 672,960
Receivables	21,702	42,212
Investments	5,550,235	4,497,633
Plan Net Assets	$ 6,085,559	$ 5,212,805

See accompanying notes to financial statements.

CAPITAL AREA TRANSIT SYSTEM
(Formerly Capital Transportation Corporation)
Statements of Changes in Plan Net Assets - Pension Trust Fund

Years ended December 31, 2004 and 2003

		2004		2003
Additions:				
Contributions:				
Employer contributions	$	370,342	$	338,493
Employee contributions		325,659		296,621
Total contributions		696,001		635,114
Investment income:				
Investment and dividend income		162,138		142,912
Net appreciation (depreciation) in fair value		415,972		670,054
		578,110		812,966
Less investment expense		50,943		62,699
Net investment income		527,167		750,267
Total additions		1,223,168		1,385,381
Deductions:				
Benefits		186,975		174,484
Employee refunds		120,367		124,815
Administrative expenses		43,072		34,011
Total deductions		350,414		333,310
Change in plan net assets		872,754		1,052,071
Plan net assets at beginning of year		5,212,805		4,160,734
Plan net assets at end of year	$	6,085,559	$	5,212,805

See accompanying notes to financial statements.

CAPITAL AREA TRANSIT SYSTEM
(Formerly Capital Transportation Corporation)
Notes to Financial Statements

(1) Summary of Significant Accounting Policies

(a) Report Issued Under Separate Coverage

The Capital Area Transit System's ("the System") financial statements are an integral part of the City of Baton Rouge - Parish of East Baton Rouge's (City-Parish) Comprehensive Annual Financial Reports (CAFR). The System has an operating agreement with the City-Parish that addresses the use of City-Parish facilities as well as other operating matters.

(b) Financial Reporting Entity

Capital Area Transit System is a corporation created by East Baton Rouge Parish to provide bus transportation services. In 2004, the Louisiana State Legislature enacted House Bill 1682, Act 581 to recognize the System as a political subdivision and provide that all its assets are public property. The Metropolitan Council exercises oversight over the System by approving fare changes and by approving operating subsidies from the City-Parish's general fund. Operating subsidies are also provided through federal grants. The fiscal year for the System and the City-Parish government is the calendar year.

Government Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, established criteria for determining which component units should be considered part of the City of Baton Rouge - Parish of East Baton Rouge for financial reporting purposes. The basic criteria are as follows:

1. Legal status of the potential component unit including the right to incur its own debt, levy of its own taxes and charges, expropriate property in its own name, sue and be sued, and the right to buy, sell and lease property in its own name.

2. Whether the City-Parish governing the System (Metropolitan Council or Mayor-President) appoints a majority of board members of the potential component unit.

3. Fiscal interdependency between the City-Parish and the potential component unit.

4. Imposition of will by the City-Parish on the potential component unit.

5. Financial benefit/burden relationship between the City-Parish and the potential component unit.

Based on the previous criteria, the System is considered a component unit of the City of Baton Rouge, Parish of East Baton Rouge. In addition, based on the previous criteria, the System's management has included the Capital Area Transit System's Employees' Pension Trust Fund as a Blended Component Unit within the financial statements of the Corporation.

The Capital Area Transit System Employees' Pension Trust Fund (the Trust) exists for the benefit of current and former System employees who are members of the plan. The Trust is governed by an equal number of Employer Trustees and Union Trustees.

(1) Summary of Significant Accounting Policies (continued)

Currently, the Trust is governed by a four member board composed of two members representing the Employer Trustees and two members elected as Union Trustees. The Trust is funded by the investment of the contributions from the System and member employees who are obligated to make the contributions to the Trust. The Trust does not issue a separately issued audit report.

(c) *Measurement Focus, Basis of Accounting and Presentation*

The accounting policies of the System conform to accounting principles generally accepted in the United States of America as applicable to governments. The proprietary fund and the pension trust fund financial statements are reported using the economic resource measurement focus and the accrual basis of accounting. The System uses fund accounting to report its financial position and results of operations. The operations of each fund are accounted for with a set of self-balancing accounts that comprise its assets, liabilities, net assets, revenue, and expenses. The System has no governmental funds. A further explanation of the funds and their reporting classifications follows:

Proprietary Fund

Enterprise Fund - Enterprise Funds are used to account for operations: (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenue earned, expenses incurred, and/or change in net assets is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Accordingly, the System maintains its records on the accrual basis of accounting. Revenue from operations, investments and other sources are recorded when earned. Revenue received in advance is reflected as deferred revenue. Expenses (including depreciation and amortization) of providing services to the public are accrued when incurred.

The System applies all applicable FASB pronouncements issued on or before November 30, 1989 in accounting for its operations unless those pronouncements conflict or contradict GASB pronouncements.

Fiduciary Fund

Pension Trust Fund is used to account for the accumulation of contributions for a defined benefit single employer pension plan providing retirement benefits to qualified employees.

(1) Summary of Significant Accounting Policies (continued)

The Pension Trust Fund's financial statements are prepared on the accrual basis of accounting. Contributions from the System and its employees are recognized as revenue in the period in which employees provide service to the System. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

(d) Restricted Assets and Liabilities

Certain assets, consisting of cash and cash equivalents, are segregated and classified as restricted assets which may not be used except in accordance with contractual terms, under certain conditions. These assets consist of a certificate of deposit restricted for insurance and held by the State of Louisiana and cash related to federal grants and related matching.

(e) Investments

Investments are stated at fair value based on quoted prices. The change in fair value is recognized in operations.

(f) Inventories

Inventories, principally repair parts and supplies, are stated at cost, which approximates market. Cost is determined by the first-in, first-out method.

(g) Equipment

Equipment is recorded at cost. Depreciation or amortization is charged to expense over the estimated useful lives of the assets and is determined using the straight-line method. Expenditures for maintenance and repairs which do not materially extend the useful life of the assets are charged to expense as incurred. Useful lives for equipment range from depreciation rates used in computing depreciation range from 12 years for rolling stock to 3 years for certain office equipment.

(h) Federal Grants and Dedicated Taxes

Federal grants are made available to the System for the acquisition of public transit facilities, buses and other transit equipment. Unrestricted operating grants and grants restricted as to purpose, but not contingent on the actual expenditures of funds, are recognized at that point in time when the right to the funds becomes irrevocable. Where the expenditure of funds is the prime factor for determining the eligibility for the grant proceeds, the revenue is recognized at the time when the expense is incurred.

In addition to Federal grants, the System is the recipient of monies established under R.S. 47:302.29(B) and R.S. 47:322.1, which sets aside the Louisiana State sales tax on hotel occupancy. These monies are provided into the East Baton Rouge Parish Community Improvement Fund (Improvement Fund). The System's share of these funds shall not be used to displace, replace or supplant funds previously appropriated or otherwise used for urban mass transit purposes. The monies in the Improvement Fund are appropriated annually by the State legislature. In addition, the System also receives monies from the East Baton Rouge Enhancement Fund (Enhancement Fund), which has similar restrictions and is created by the State legislature.

(1) Summary of Significant Accounting Policies (continued)

(i) Compensated Absences

Employees earn vacation and sick leave in varying amounts according to continuing years of service as follows:

Years of Service	Vacation	Sick
0	None	1 day/month
1	7 days per year	1 day/month
2	13 days per year	1 day/month
6	17 days per year	1 day/month
15	24 days per year	1 day/month

Vacation must be taken by December 31, or it is lost. Sick leave is accumulated without time limitations and there is no limitation as to the amount paid upon termination or retirement. Vacation and sick leave are accrued as earned for operators.

(j) Claims and Judgements

The System provides for losses, including any anticipated related expenses, resulting from claims and judgments. A liability for such losses, (including related out-of-pocket expenses) is reported when it is probable that a loss has occurred and the amount can be reasonably estimated.

(k) Cash Flows

For the purposes of the statements of cash flows, cash and cash equivalents include all highly liquid investments.

(l) Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities 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.

(m) Operating vs. Non-Operating Revenue

The System recognizes rider fares, contracted fare services and advertising revenue as operating. All other revenues, including federal and state grants, and operating subsidies from the primary government are recognized as non-operating.

(n) Reclassifications

Certain amounts presented in the 2003 columns have been reclassified from prior year's presentation. Such reclassifications effected prior year determination of restricted and unrestricted net assets.

(2) Cash and Investments

Cash and Cash Equivalents

The System's cash and cash equivalents consisted of the following as of December 31, 2004 and 2003:

	2004		
	Proprietary Enterprise Fund	Fiduciary Pension Trust Fund	Totals
Cash on hand and in banks	$ 169,211	$ -	$ 169,211
Certificates of deposit	102,285	-	102,285
Money Market Accounts	-	513,622	513,622
Total cash and cash equivalents	$ 271,496	$ 513,622	$ 785,118

	2003		
	Proprietary Enterprise Fund	Fiduciary Pension Trust Fund	Totals
Cash on hand and in banks	$ 956,783	$ -	$ 956,783
Certificates of deposit	102,285	-	102,285
Money Market Accounts	-	672,960	672,960
Total cash and cash equivalents	$ 1,059,068	$ 672,960	$ 1,732,028

Proprietary Fund cash and cash equivalents of $271,496 include $19,808 of unrestricted assets and $251,688 of restricted assets as of December 31, 2004. Proprietary Fund cash and cash equivalents of $1,059,068 include $316,250 of unrestricted assets and $742,818 of restricted assets as of December 31, 2003.

Proprietary Fund cash and cash equivalents includes $533,078 as of December 31, 2003 of amounts that are included in the City-Parish's consolidated cash and investment pool, which consist of primarily deposits with financial institutions. These deposits are collateralized by the financial institutions pledging government securities which are held in safekeeping with the financial institution's agent in the City-Parish's name.

Proprietary Fund cash and cash equivalents aggregate bank balances were $486,796 and $575,965 as of December 31, 2004 and 2003, respectively. These deposits are insured through federal depository insurance or by collateral held by the System's agent, in the System's name. The Fiduciary Pension Trust Fund contains money market accounts held in trust that are not categorized under GASB 3 requirements.

(2) Cash and Investments (continued)

Statutes authorize the System's proprietary fund to invest in direct United States Treasury obligations; bonds, debentures, notes or other indebtedness issued or guaranteed by U.S. Government Instrumentalities which are federally sponsored or federal agencies that are backed by the full faith and credit of the United States; short-term repurchase agreements; and time certificates of deposit at financial institutions, state banks and national banks having their principal offices in Louisiana.

As of December 31, 2004 and 2003, certificates of deposit of $102,285 for both years were pledged as collateral to the Louisiana Office of Workman's Compensation. Other restricted assets consist of cash for matching of federal and state grants.

Investments

As of December 31, 2004 and 2003, assets classified as investments existed only in the Pension Trust Fund (the Trust). The assets of the Trust are invested in accordance with the investment policy of the Plan. Those assets, categorized by their custodial risk include:

	2004			2003		
	Fair Value	Category 1	Category Rating not Required	Fair Value	Category 1	Category Rating not Required
U.S. Treasury and Agency Bonds	$ 827,137	$ 827,137	$ -	$ 587,324	$ 587,324	$ -
Corporate Bonds	1,126,117	1,126,117	-	973,365	973,365	-
Corporate Stocks	2,874,577	2,874,577	-	2,299,658	2,299,658	-
Equity Mutual Fund	722,404	-	722,404	637,286	-	637,286
Total	$ 5,550,235	$ 4,827,831	$ 722,404	$ 4,497,633	$ 3,860,347	$ 637,286

Category 1 includes investments that are insured or registered or for which the securities are held by the System or its agent in the System's name.

(3) Receivables – Due From Other Governments

Receivables – due from other governments at December 31, 2004 and 2003 consist of:

	2004	2003
Federal Transit Administration	$ 385,328	$ 384,613
Hotel-Motel Tax	109,231	237,578
	$ 494,559	$ 622,191

(4) Equipment

A summary of changes in fixed assets follows:

		January 1, 2004	Additions	Deletions		December 31, 2004
Equipment, primarily transportation vehicles	$	12,095,607	8,718,957	(104,794)	$	20,709,770
Accumulated depreciation		(7,551,191)	(754,794)	104,794		(8,201,191)
	$	4,544,416	7,964,163	-	$	12,508,579

		January 1, 2003	Additions	Deletions		December 31, 2003
Equipment, primarily transportation vehicles	$	10,914,316	1,698,192	(516,901)	$	12,095,607
Accumulated depreciation		(7,049,280)	(859,871)	357,960		(7,551,191)
	$	3,865,036	838,321	(158,941)	$	4,544,416

Included in the equipment additions totals for 2004 is $7,241,022 of buses which were still in production as of December 31, 2004 and consequently are not being depreciated. Depreciation expense for the period ending December 31, 2004 and 2003 totaled $754,794 and $859,871, respectively. The City-Parish (Primary Government) owns the terminal, administrative office building and related land which are used by the System for its operations. The City-Parish provides these facilities and land to the System at no charge through an operating agreement.

(5) Working Capital

Operations of the System are subsidized by the Federal and local governments through various cash grants and appropriations. These subsidies are reported under the caption of non-operating revenue as government operating grants and as operating transfers from the primary government in the statement of revenues, expenses and changes in net assets.

(6) Pension Plan

The System, as well as covered employees, makes contributions to the Capital Area Transit System Pension Trust Fund (Plan), a defined benefit single employer pension plan. The Plan is administered by a local actuarial consulting company, under the direction of a Board of Trustees. All full time employees become eligible for participation upon the date entering covered employment. Normal retirement date is the first day of the month following a member's 65th birthday and completion of 10 years of service. Benefits vest after ten years of service. A participant is entitled to a monthly normal retirement benefit beginning on his normal retirement date in an amount 1.2% of average compensation for each year of service after February 1, 1963.

(6) Pension Plan (continued)

Average compensation is determined as the average of the five consecutive plan years of compensation that produces the highest average. Early retirement is permitted for participants who have 15 years of service (five of which is after February 1, 1973) and who have attained age 55; early retirement benefits are reduced from normal retirement benefits. Membership, pension benefit obligation, and other pension information are obtained from the Plan's Annual Actuarial Valuation Reports as of December 31, 2004 and 2003. The valuation is performed at the beginning of the plan year.

Current membership is comprised of the following at December 31:

	2004	2003
Retirees and beneficiaries currently receiving benefits	44	44
Vested terminated employees	16	17
Active employees:		
Fully vested	36	37
Not vested	126	105
	222	203

For the years ended December 31, 2004 and 2003, the System had an annual payroll of approximately $5,600,000 and $4,800,000. Total annual covered payroll for the years ended December 31, 2004 and 2003 was $4,623,606 and $4,149,773, respectively.

The employees and the System each contributed, as required, 7% and 8%, respectively, of each employee's salary. For the plan year beginning February 1, 1995, the System's pension plan was granted "qualified" status by the IRS which enables contributions to the plan to be non-taxable to the employee. The plan's long-range ability to pay benefits also depends on the future financial health of the Corporation.

Key actuarial assumptions include 7% interest compounded annually, mortality tables from the 1994 Uninsured Mortality Table for males and females, anticipated turnover and disability rates ranging from 0.11% to 5.10% based on age of employee, and salary increases of 5% annually. The actuarial cost method is the aggregate actuarial cost method with allocation based on earnings. Asset valuation method is based on the current market value as of the last day of the prior plan year.

The System's annual pension cost and net pension asset for the years ended December 31, 2004 and 2003 were as follows:

	2004	2003
Annual required contribution	$ 174,075	$ 207,283
Interest on net pension obligation	(68,843)	(58,493)
Adjustment to annual required contribution	92,832	78,875
Annual pension cost	198,064	227,665
Contributions made	(383,084)	(350,140)
Increase in net pension asset	185,020	122,475

(6) Pension Plan (continued)

Net pension asset, beginning of year as previously reported	958,078	835,603
Actuarial determined adjustment to prior year	25,386	-
Net pension asset, beginning of year as restated	983,464	835,603
Net pension asset, end of year	$1,168,484	$ 958,078

Trend information is as follows:

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Asset
December 31, 2004	$ 198,064	187%	$ 1,168,484
December 31, 2003	$ 227,665	154%	$ 983,464
December 31, 2002	$ 236,793	144%	$ 835,603

(7) Deferred Compensation Plan

The System offers its employees participation in the Louisiana Public Employees' Deferred Compensation Plan (Compensation Plan), created by Louisiana Revised Statutes and in accordance with Section 457 of the Internal Revenue Code. The Compensation Plan is available to all full-time employees and permits them to defer a portion of their salary until future years. All amounts of compensation deferred under the Compensation Plan and related activities are solely the property and the rights of the State of Louisiana, subject only to the claims of the general creditors of the State of Louisiana.

(8) Commitments and Contingencies

(a) Contingencies

The System receives financial assistance directly from federal agencies which are subject to compliance audits under OMB Circular A-133 (Single Audit) and monitoring reviews by the granting agencies. As a result, amounts might be subject to disallowance upon acceptance of the audits and monitoring reviews by the federal granting agencies. The Single Audit performed for the year 2004 revealed questioned costs of approximately $197,600 which may need to be returned to the federal agency upon final acceptance. As amounts owed, if any, are not yet determinable, no liability has been recorded in System's financial statements.

(b) Grant Commitments

Grant agreements under which the system receives federal financial assistance require the system to match 20%-17% of dollars received. As of December 31, 2004, the System has committed restricted cash to fund local matching requirements, however, additional fiscal effort will be required. Similar commitments existed as of December 31, 2003.

(9) Self-insurance and Legal Claims

The System is exposed to various risks of loss related to torts, damage to and destruction of assets, errors and omissions, injuries to employees and natural disasters. The System manages its exposure to losses through a self-insurance program. For quite some time, including the period January 1, 2003 through August 31, 2004, the System retained for the first $250,000 for general liability claims and workers' compensation claims. Excess general liability claims were commercially insured up to $750,000. Beginning September 1, 2004, the System cancelled its commercial policy and thus became self-insured for all bodily injury and property damage tort claims, in addition to workers' compensation claims. At December 31, 2004 and 2003, accrued claim liabilities of $1,214,892 and $1,127,250, respectively, are included on the Proprietary Fund's statement of net assets, as follows:

		Current Portion	Long-Term Portion		Total
2004	$	115,780	1,099,112	$	1,214,892
2003	$	731,918	395,332	$	1,127,250

The accruals, which are based upon the advice of counsel, are in the opinion of management, sufficient to provide for all probable estimable claims liabilities at December 31, 2004 and 2003. Changes in claims liability during the years ended December 31 are as follows:

		Beginning of year liability	Current year claims and changes in estimates	Claim payments		Balance at year end
2004	$	1,127,250	622,021	(534,379)	$	1,214,892
2003	$	956,646	888,589	(717,985)	$	1,127,250

(10) Significant Sales Contract

The System provides transportation services to Louisiana State University (LSU) under an agreement with LSU's Board of Supervisors. Under this agreement, the System provides LSU with 45 passenger buses, personnel and supplies to operate a mass transit system. As consideration for the service rendered, LSU paid the System approximately $1,860,000 and $2,015,000, respectively during 2004 and 2003. These amounts are included in charges for services on the statements of revenues, expenses and changes in net assets. Management expects that the contract will be renewed.

(11) Capital Lease Obligation

The System is the lessee of 28 Blue Bird transit buses and 5 Federal Coach vans under two separate lease agreements with First Security Leasing, Inc. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of the minimum lease payments as of the inception date.

(11) Capital Lease Obligation (continued)

Minimum future lease payments under these capital leases as of December 31, 2004 for each of the next five years and each subsequent five year period are:

Year ended December 31,	Amount
2005	$ 903,248
2006	903,248
2007	903,248
2008	903,248
2009	903,248
2010-2014	4,307,608
2015-2016	1,667,408
Total minimum lease payments	10,491,256
Less: Amount representing interest	(2,573,702)
Present value of minimum lease payments	$ 7,917,554

The interest rates on the capital leases were 4.87% each.

(12) Current Operating Environment

As shown in the accompanying financial statements, the System experienced a net loss before capital contributions of $1,234,314 and a bottom line net loss of $616,812 during the year ended December 31, 2004. This loss, compounded with prior year losses, has created a deficit in unrestricted net assets. In addition, current liabilities as of the year ended exceeded current assets by $1,287,351 signifying marginal ability to satisfy current obligations in the normal course of operations. The System is dependent on federal and local subsidies to cover the shortfall of passenger revenues over expenses. While these revenues have increased slightly from previous years, the increase has not been sufficient to cover increased costs of operations. Efforts to reverse the trend of operating losses include a change in the risk management policy and reductions in administrative staff. Management will continue efforts to reduce costs while maintaining current service levels, however, cuts in services may be necessary if additional funding is not obtained.

(13) Concentrations

Substantially all non-management employees are covered under a collective bargaining agreement.

CAPITAL AREA TRANSIT SYSTEM
(Formerly Capital Transportation Corporation)
Required Supplementary Information Under GASB Statement No. 25

SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL	Funded Ratio	Covered Payroll	Unfunded AAL as a percentage of payroll
January 1, 2005	$ 5,584,893	N\A	N\A	N\A	$ 4,623,606	N\A
January 1, 2004	$ 4,986,296	N\A	N\A	N\A	$ 4,149,773	N\A
January 1, 2003	$ 4,160,734	$ 4,309,796	$ 171,252	96.03%	$ 3,991,134	4.29%
January 1, 2002	$ 4,244,806	$ 4,763,742	$ 518,936	89.11%	$ 4,368,258	11.88%
January 1, 2001	$ 4,113,469	$ 4,113,469	$ -	100.00%	$ 4,099,654	0.00%
January 1, 2000	$ 3,752,507	$ 3,752,507	$ -	100.00%	$ 3,917,671	0.00%
January 31, 1999	$ 2,476,580	$ 2,814,804	$ 338,224	87.98%	$ 2,569,374	13.16%

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Year Ended	Annual Required Contribution	Actual Contribution	Percentage Contributed
December 31, 2004	$ 174,075	370,342	212.75%
December 31, 2003	$ 207,283	350,140	168.92%
December 31, 2002	$ 217,556	333,469	153.28%
December 31, 2001	$ 106,152	297,684	280.43%
December 31, 2000	$ 100,051	296,920	296.77%
December 31, 1999	$ 115,024	230,118	200.06%
January 31, 1999	$ 107,195	192,713	179.78%

NOTES TO THE SCHEDULES OF TREND INFORMATION LISTED ABOVE

The information presented above was determined as part of the actuarial valuation at the date indicated.
Additional information as of the latest actuarial valuation follows:

Valuation date	December 31, 2004
Actuarial cost method	Aggregate actuarial method. Under this method, a separate actuarial accrued liabi and unfunded liability is not identified or amortized. In years prior to January 1, 2003, the System used the frozen entry age normal method.
Amortization method	N\A
Remaining amortization period	N\A
Asset valuation method	Current market value as of the last day of the plan year adjusted to smooth realized and unrealized capital gains and losses over a three year period by deferring one-third of such gains or losses accrued in the prior fiscal year and two-thirds of such gains or losses accrued in the current fiscal year.
Actuarial assumptions:	
Investment rate of return	7.00%
Projected salary increases	5.00% (3.25% inflation/1.75% merit)

CAPITAL AREA TRANSIT SYSTEM
(Formerly Capital Transportation Corporation)

Single Audit Reports

December 31, 2004

P&N

CAPITAL AREA TRANSIT SYSTEM
(Formerly Capital Transportation Corporation)

Single Audit Reports

December 31, 2004

CAPITAL AREA TRANSIT SYSTEM
(Formerly Capital Transportation Corporation)
Baton Rouge, Louisiana

Single Audit Reports

December 31, 2004

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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 Commissioners
Capital Area Transit System:

We have audited the financial statements of Capital Area Transit System (the System) as of and for the year ended December 31, 2004, and have issued our report thereon dated May 16, 2005, which includes a paragraph emphasizing our concerns over the System's ability to continue as a going concern. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the System's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the System in a separate letter dated May 16, 2005.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the financial statements of the System are free of 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.*

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This report is intended solely for the information of the System's management, federal awarding agencies and the Louisiana Legislative Auditor's Office, and is not intended to be and should not be used by anyone other than these specified parties.

Postlethwaite & Netterville

Baton Rouge, Louisiana
May 16, 2005

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Commissioners
Capital Area Transit System:

Compliance

We have audited the compliance of Capital Area Transit System (the System) with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended December 31, 2004. The System's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the System's management. Our responsibility is to express an opinion on the System's compliance based on our audit.

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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.* Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the System'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. Our audit does not provide a legal determination on the System's compliance with those requirements.

In our opinion, the System complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2004. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2004-1, 2004-2, 2004-4, 2004-5 and 2004-6.

Internal Control Over Compliance

The management of the System is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the System's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could

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adversely affect the System's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. The reportable conditions are described in the accompanying schedule of findings and questioned costs as items 2004-1, 2004-3, 2004-4 and 2004-5.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the items described above are material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the System as of and for the year ended December 31, 2004 and have issued our report thereon dated May 16, 2005. Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

This report is intended solely for the information of the System, the System's management and federal awarding agencies and pass-through entities, such as the State of Louisiana and Legislative Auditor's Office, and is not intended to be and should not be used by anyone other than these specified parties. However, under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Postlethwaite ; Netterville

Baton Rouge, Louisiana
May 16, 2005

CAPITAL AREA TRANSIT SYSTEM
Baton Rouge, Louisiana

Schedule of Expenditures of Federal Awards

For the year ended December 31, 2004

Federal Grantor/ Program Title	CFDA Number	Project Number	Expenditures
Federal Transit Administration:			
Bus Surv, Fare Boxes, Misc Capital	20.507	LA-03-0099-02	$ 611,816
Substitution of FY-88 and FY-86 Funds	20.507	LA-90-X079-02	9,651
Capital, Operating, and Planning Assistance	20.507	LA-90-X183-00	55,615
Purchase Vans, PM, CMAQ Expansion	20.507	LA-90-X208-00	20,236
Capital, Planning	20.507	LA-90-X239-01	71,905
Capital, Planning	20.507	LA-90-X239-08	5
2003 Formula Grant	20.507	LA-90-X250-01	1,661,341
2003 Formula Grant	20.507	LA-90-X250-02	80,756
2003 Formula Grant	20.507	LA-90-X250-08	18,525
2004 Formula Grant	20.507	LA-90-X268-00	1,794,037
2004 Formula Grant	20.507	LA-90-X268-02	136,338
2004 Formula Grant	20.507	LA-90-X268-08	275,444
Total CFDA Number 20.507			$ 4,735,669

See accompanying notes to Schedule of Expenditures of Federal Awards.

CAPITAL AREA TRANSIT SYSTEM
Baton Rouge, Louisiana

Notes to Schedule of Expenditures of Federal Awards

December 31, 2004

(1) General

The accompanying Schedule of Expenditures of Federal Awards presents the activity of the federal awards of Capital Area Transit System (the System). The System's reporting entity is defined in note 1 to the financial statements for the year ended December 31, 2004. All federal awards received from federal agencies are included on the schedule.

(2) Basis of Accounting

The accompanying Schedule of Expenditures of Federal Awards is presented using the accrual basis of accounting, which is described in note 1 to the System's financial statements for the year ended December 31, 2004.

(3) Relationship to Financial Statements

Amounts reported in the Schedule of Expenditures of Federal Awards agree with the amounts reported in the related financial reports.

(4) Indirect Funding

Of the $4,735,669 of federal grant expenditures under program 20.507, $89,265 was received as indirect funding from the City of Baton Rouge-Parish of East Baton Rouge primary government.

CAPITAL AREA TRANSIT SYSTEM
Baton Rouge, Louisiana

Schedule of Findings and Questioned Costs

Year ended December 31, 2004

(1) Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Unqualified, with an emphasis of a matter regarding the System's ability to continue as a going concern.

• Material weakness(es) identified?	______ yes	__x__ no
• Reportable condition(s) identified that are not considered to be material weaknesses?	______ yes	__x__ none reported
Noncompliance material to financial statements noted?	______ yes	__x__ no

Federal Awards

Internal control over major programs:

• Material weakness(es) identified?	______ yes	__x__ no
• Reportable condition(s) identified that are not considered to be material weaknesses?	__x__ yes	______ none reported

Type of auditors' report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	__x__ yes	______ no

Identification of major programs:

CFDA Numbers	Name of Federal Program
20.507	Federal Transportation Administration

- The threshold for distinguishing types A & B programs was program expenditures exceeding $300,000.
- The System did qualify as a low-risk auditee.

CAPITAL AREA TRANSIT SYSTEM
Baton Rouge, Louisiana

Schedule of Findings and Questioned Costs

For the year ended December 31, 2004

(2) Findings Relating to the Financial Statements Reported in accordance with *Government Auditing Standards*: None

(3) Findings and Questioned Costs relating to Federal Awards:

2004-1) Compliance Area: Allowable Costs
Grant year and No. 2003 Formula Grant/LA-90-X250-01
2004 Formula Grant/LA-90-X268-00
Questioned Costs: $110,600

Criteria: According to OMB Circular A-87's general criteria, costs charged to grant programs must be allocable to the programs\activities funded by the grant, and all programs\activities of the grantee must bear their fair share of all costs. Allowable activities include vehicle maintenance, expanded route services, vehicle purchases, ADA services, planning, and administrative costs attributable to the grant activities. Grant funds are not to be used for operations.

Condition: The following positions' compensation costs were charged in-full (100%) to the federal grant and are questioned as allowable:

Operations Statistician
Operations supervisor – ADA
Marketing Director
Operations dispatcher – CMAQ
Operations supervisor-CMAQ

The positions listed above appear to be general operational activities or administrative in nature. The compensation costs associated with these positions does not appear to benefit the grant activities 100%. Furthermore, the System's process for ensuring that only allowable compensation costs are charged to the grant did not to detect these unallowable costs.

Effect: The System charged unallowable costs of $110,600

Recommendation: The System should cease charging the compensation costs of the above positions to the grant and should contact the FTA regarding the current year's questioned costs.

Management's Response: *These positions' compensation have been charged against CATS' grants for several years and this has not been challenged in the past. However, we spoke with the FTA regarding this matter and they concur with the finding. CATS will comply with the recommendation immediately.*

CAPITAL AREA TRANSIT SYSTEM
Baton Rouge, Louisiana

Schedule of Findings and Questioned Costs

For the year ended December 31, 2004

2004-2)

Compliance Area: Reporting
Grant year and No: All projects reported under Schedule of Federal Awards
Questioned costs: None

Criteria: Reports of Disadvantaged Business Enterprises Awards or Commitments and Payments (DBE reports) must be filed semi-annually.

Condition: The DBE reports were filed, however they were not filed timely.

Effect: The System is non –compliant with the regulations for reporting.

Recommendation: *The reports should be filed within the time frames stated in the* regulations.

Management's Response: *CATS' will coordinate with CRPC to ensure the DBE report is filed timely.*

2004-3)

Compliance Area: Allowable Costs
Grant year and No. All projects reported under the Schedule of Federal Awards
Questioned Costs: Undetermined

Criteria: Costs charged to federal grants, whether direct or indirect, must be allowable per the criteria set forth in OMB Circular A-87 and FTA regulations. Grantees should have a process by which costs are reviewed for allowance. Upon billing the federal granting agency for reimbursement of allowable costs under the grant, unallowable costs should be excluded.

Condition: The System's process for identifying unallowable costs could be improved by identifying unallowable costs at the invoice or purchase level. Such charges identified could be segregated into a separate general ledger account that captures unallowable costs separate from general ledger accounts for similar costs types that are allowable.

Example: Advertising – OMB Circular rules are very specific regarding what is and what is not allowable. Some advertising costs may be allowed, while others may be disallowed. Separate g\l accounts could segregate such costs.

Effect: The System could fail to detect unallowable costs and pass on those costs to the grant.

Recommendation: The System should structure its general ledger chart of accounts to capture all unallowable costs within each natural classification. Unallowable costs identifies at the purchase level should be coded to an unallowable cost account.

Management's Response: *The CFO does review all invoices to ensure that the cost is allowable. We are in the process of purchasing new accounting software, as our current software has limited capabilities. Once the new software is installed we will configure our general ledger as described above.*

2004-4) Compliance Area: Allowable Costs
Grant year and No: CMAQ Expansion/LA-90-X208-00
Questioned Costs: $ 62,000

Criteria: Per FTA grant regulations, reimbursements made for expanded service route expenses are calculated based on the actual operating expenses incurred less revenues generated from those routes.

Condition: The system did not reduce its reimbursement requests by the amount of revenues generated from the expanded service routes.

Effect: The System charged unallowable costs to the grant of approximately $62,000.

Recommendation: The System should reduce its operating costs for expanded service routes by the revenues generated from those routes to determine the amount of federal funds for reimbursement.

Management's Response: *Effective immediately, the System will begin reducing those operating costs by the revenues generated to determine the amount of federal funds requested for reimbursements.*

CAPITAL AREA TRANSIT SYSTEM
Baton Rouge, Louisiana

Schedule of Findings and Questioned Costs

For the year ended December 31, 2004

2004-5)

Compliance Area: Reporting
Grant year and No: all projects reported under the Schedule of Expenditures of Federal Awards
Questioned Costs: None

Criteria: Recipients of FTA Formula and Capital Grants must submit form 269A to the FTA on a quarterly basis. The report should contain accurate and reliable financial data for the period reported.

Condition: The reports filed for each of the quarters during 2004 contained a one-month lag; that is, the report for the first quarter 2004 contained financial data for the period December 1, 2003 through February 29, 2004. The reason for this lag-time is that the reports are being prepared on the cash basis for when grants are drawn-down, as opposed to the accrual basis reflecting the period in which the allowable costs are incurred.

Effect: The financial reports submitted to the FTA do not contain current financial data that is consistent with the basis of accounting used by the System.

Recommendation: The System should file its financial reports on the same basis (accrual) as it reports its financial statements and those reports should contain financial transactions for that same period.

Management's Response: *The Financial Status Reports have been filed on the cash basis for several years by CATS. This practice was not previously challenged by CATS' independent auditors or the FTA auditors. However, after speaking with the FTA and determining the reports have been filed incorrectly in the past. CATS will correct this during the next filing period.*

2004-6)

Allowable costs
Grant year and No. CMAQ Expansion/LA-90-X208-00
2003 Formula Grant/LA-90-X250-01
2004 Formula/Grant/LA-90-X268-00
Questioned costs: $25,000

Criteria:	Costs allocated to grant activities must be allocated fairly to all programs\activities of the grantee.
Condition:	The System charges costs for expanded service routes based upon a cost rate per hour driven. In computing the cost per hour, the System includes all allowable expenses of the system, including costs charged to the grant under other activities. In order not to "double-dip", the System then reduces charges to the other activities by a percentage of the expenses that are included in the calculation of the cost per hour rate. This methodology appears to provide an equitable allocation for the expanded service routes. However, we take exception to the rate used for reducing the expenses for the other activities. The rate used was based upon miles driven rather than hours driven. The reduction rate should be based upon hrs (the same unit used to calculate the reimbursement rate) rather than miles.
Effect:	The System may have unfairly allocated costs of the expanded service routes to the grant.
Recommendation:	The System should use the same percentage rate to reduce the costs of the other activities as it uses in the calculation of the hourly rate of for the expanded service routes.
Management's Response:	*We agree with this finding and will reduce the expenses based on hours instead of miles.*

CAPITAL AREA TRANSIT SYSTEM
Baton Rouge, Louisiana

Summary Schedule of Prior Audit Findings

2003-1 Reporting

Criteria: FTA funds may be used for a 3 year period to fund the operations of expanded routes.

Condition: CTC's grant budget approved a certain group of expanded service routes for the grant period ended September 30, 2003. Those routes were serviced by a contractor. In performing our audit procedures, we noted that a payment for October, 2003 services was made to this contractor for the expanded routes and charged to the preventative maintenance portion of the grant inappropriately.

Effect: Questioned costs of $40,348 were charged to the program.

Recommendation: When completing reimbursement requests, CTC should exercise care to charge the appropriate line item for the various programs of the grant.

Management's Response: *Action Taken: CTC was made aware of the error and immediately credited $40,348 to the appropriate grants program. At the time of the error, CTC was without a permanent CFO. Since, A CFO who is knowledgeable of the FTA regulations has been hired and will review all charges made to grant programs.*

Updated Response: *Expanded routes continue to be monitored to ensure they do not exceed the 3 year funding period.*

2003-2 Allowable Costs

Criteria: According to OMB Circular A-87, compensation costs charged to a grant for employees that work on multiple cost objectives must be charged to federal programs based upon after-the fact time distributions that are signed by the employees.

Condition: CTC's administrative personnel and certain operational personnel work on multiple cost objectives, including those that are funded under the grant program. Compensation costs for these individuals are charged to the grant programs based upon estimated percentages of the time worked for that month. The estimated percentages used for charging compensation costs to the grant did not contain the signatures of these employees as required by OMB Circular A-87.

Additionally, although knowledgeable of the FTA regulations, we noted a general lack of familiarity with OMB Circular A-87 by those individuals involved in the processes for approving costs charged to the grants by those individuals preparing the reimbursement requests.

Effect: Administrative costs of approximately $187,000 are questioned. Without a working knowledge of OMB Circular A-87, potential exists for future charges of unallowable costs.

Recommendation: The administrative and operational employees whose compensation costs are charged to the grant programs should provide signature approval of the estimated percentage allocation of their time. This approval should occur after each payroll period. Allocations should also be approved by the direct supervisor of the individual.

With regards to the familiarity with OMB Circular A-87, the CTC may want to provide some practical tools that could be utilized by individuals involved in the grant reimbursement process such as copies of the Circular, lists of allowable and unallowable types of costs, and memorandums on application of the Circular.

Management's Response: *Action Taken: Effective immediately, the individual employee along with the employee's supervisor will sign all estimates of percentage of time allocated to the grant programs.*

Updated Response: *Grant related responsibilities were reorganized so that individuals' salaries who work on grant tasks are charged at 100%.*

SUMMARY SCHEDULE OF PRIOR YEAR MANAGEMENT LETTER COMMENTS

DECEMBER 31, 2004

Reconciliation of Accounts Receivable

We noted that the account receivable account was not reconciled to the subsidiary ledgers or other source documents on a regular basis as evidenced by the fact that the accounts receivable detail did not match the general ledger at December 31, 2003. The detail should be reconciled to the general ledger on a routine basis. This practice serves as a check on the accuracy of the record-keeping process and maintains the accounts receivable on a more timely and accurate basis. We recommend that the accounts receivable be reconciled to the general ledger at the end of each month. Any differenced should be resolved ass soon as possible.

Status

The accounts receivable account is reconciled each month and is reviewed by the CFO.

Increased Reviews

Bank reconciliations which are prepared by accounting personnel, especially the payroll account, should be reviewed by the CFO. This practice would greatly enforce the checks and balances necessary for strong controls over cash. The review should focus on any unusual items, investigate and fully resolve such items, and document his or her approval by initialing the for,

Status

All bank reconciliations are reviewed and will continue to be reviewed by the CFO.

Fixed Assets

We noted that fixed assets do not currently have identification tags physically attached. It is considered best practices for a governmental agency to employ a tagging system to track fixed assets. This will lead to easier identification of assets that have been added and disposed of during the year. Additionally, a physical inventory of all fixed assets should be taken annually and the detail subsidiary records should be updated to reflect any changes noted during the physical inventory.

Status

All employees were briefed on the fixed asset tag policy. Currently, all fixed assets are properly tagged.

SUMMARY SCHEDULE OF PRIOR YEAR MANAGEMENT LETTER COMMENTS

DECEMBER 31, 2004

Cash Disbursements

As a result of our audit procedures in the cash disbursements area, we found numerous areas where established policies were not being followed and other errors were made:

1. The established policy of stamping the invoice with the posted stamp was missing on several invoices,
2. Several general ledger coding errors were noted on invoices.
3. Several purchase orders could not be located to support purchases made
4. Three invoices could not be located to support cash disbursements
5. Purchase Orders are not reconciled to the invoices or matched to the invoices prior to payment.

We recommend that more stringent efforts be made to ensure that employees follow established procedures uniformly and consistently. Additionally, we recommend that purchase orders be matched to the invoice prior to processing for payment to be sure the amount paid matches the expected and actual amount due. We also recommend that all documentation to support cash disbursements accompany the checks to be signed and that checks are only signed after the signer reviews all supporting documentation. This documentation should remain on file at CTC.

Status

The established policies were explained to all employees involved in the cash disbursement process. We continue to educate our employees in this area.

Compensation Adjustment

During our testing of payroll we noted that the interim CEO authorized the conversion of a $4,800 annual car allowance to base salary for an employee who is also an immediate family member. Additionally, he also authorized a 3% pay raise for this person, which was the same increase given to most employees of CTC. Revised Statute (R.S.) 42:1112 (b) prohibits participation by a public employee in any transaction in which a member of his immediate family has a substantial economic interest, including the granting or advising for a promotion or compensation increase, which would be of an economic benefit to a family member employee.

SUMMARY SCHEDULE OF PRIOR YEAR MANAGEMENT LETTER COMMENTS

DECEMBER 31, 2004

Management asserts that the conversion of the car allowance to salary is a result of a change in company policy and was therefore authorized by virtue of that change. Irregardless of the policy change, (R.S.) 42:1112 (b) appears to have been violated, as the personnel action form which documented the above actions was signed solely by the interim CEO. We recommend that no public employee approve personnel action regarding immediate family members.

Status

The policy has been explained to all employees and no violations of this policy have been reported.

Special Services

During our testing of revenues we noted that the Corporation provided charter services to various organizations. CFR Title 49, part 604 prohibits the use of federally funded rolling stock for charter services unless the service meets certain exceptions. However, even if those exceptions are met, such services must be incidental. In our judgment, the charter services provided, while not material, appeared to be beyond incidental due to the number of different organizations that received the services. Total fees received were $33,348 for 2003.

Status

CATS has adopted a policy prohibiting charter or special services and has not operated any charter or special services not in accordance with CFR Title 49 part 604 since the policy was implemented.

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To the Board of Commissioners
Capital Area Transit System
Baton Rouge, LA

We have audited the financial statements of Capital Area Transit System (the System) as of and for the year ended December 31, 2004 and have issued our report thereon. As part of our examination, we made a study and evaluation of internal accounting control to the extent we considered necessary to evaluate the system as required by auditing standards generally accepted in the United States of America. Under these standards, the purposes of such evaluation are to establish a basis for reliance on the system of internal accounting control in determining the nature, timing, and extent of other auditing procedures that are necessary for expressing an opinion on the financial statements and to assist the auditor in planning and performing his audit of the financial statements.

The objective of internal control is to provide reasonable, but not absolute, assurance as to the safeguarding of assets against loss from unauthorized use or disposition, and the reliability of the financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that the cost of a system of internal accounting control should not exceed the benefits derived and also recognizes that the evaluation of these factors necessarily requires estimates and judgments by management.

No matter how good a system, there are inherent limitations that should be recognized in considering the potential effectiveness of internal accounting. In the performance of most control procedures, errors can result from misunderstanding of instructions, mistakes of judgment, carelessness, or other personal factors. Control procedures whose effectiveness depends upon segregation of duties can be circumvented by collusion. Similarly, control procedures can be circumvented intentionally by management either with respect to the execution and recording of transactions or with respect to the estimates and judgments required in the preparation of financial statements. Further, projection of any evaluation of internal accounting control to future periods is subject to the risk that the degree of compliance with the procedures may deteriorate. We say this simply to suggest that any system needs to be constantly reviewed and improved where necessary.

During the course of our audit, we made the following observations which we feel should be brought to your attention. Concerning these matters, we offer the following comments and recommendations:

Bank Reconciliations

Although performed at year-end, bank reconciliations were not being prepared on an ongoing and timely basis during the year. Monthly preparation of bank reconciliations and review thereof by the CFO play an important role in ensuring the accuracy of interim financial reports and detection of unauthorized transactions. We recommend that bank accounts be reconciled and reviewed on a monthly basis. The review should focus on any unusual items. Any such items noted should be investigated and fully resolved.

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Management's Response:

All bank reconciliations are reviewed and will continue to be reviewed by the CFO.

Cash Disbursements

As a result of our audit procedures in the cash disbursements area, we found instances of noncompliance with established procedures, or situations where internal controls could be enhanced:

1) The established policy of stamping the invoice with the paid stamp was missing on several invoices.
2) Purchase orders lacked dollar values.
3) Lack of documented approval of satisfactory receipt of goods on invoice\receiving report.
4) Lack of approval for payment by department supervisor.
5) Signature stamp is in custody of an unauthorized employee.

We recommend that more stringent efforts be made to ensure that employees follow established procedures uniformly and consistently. All approvals should be clearly documented on the purchase orders\invoices and receiving reports. The use of signature stamps should be discontinued and the stamps destroyed.

Management's Response:

The established policies were explained to all employees involved in the cash disbursement process. We continue to educate our employees in this area.

Inventory

Prices used in the valuation of inventory carried on the System's balance sheet are based upon an initially established price from the vendor which is updated periodically based upon the warehouse manager's cognizance of a price change. This methodology is somewhat imprecise and judgmental. While estimates and judgments are an inherent part of the financial reporting process, precise and verifiable data should be used when available. We recommend that the valuation be based upon the most recent prices as reflected in recent invoices for the quantity on hand. Software training and education may be needed in implementation of this recommendation.

Management's Response:

Effective immediately, the inventory prices will be updated with the most recent invoices' information.

Credit Cards

During our audit, we noticed that the System has 19 Fuelman credit cards authorized and 16 in use. Such credit cards are provided to employees who drive System vehicles in the performance of their job duties. These credit cards are possessed by 16 separate employees. We have the following concerns with these cards:

- A lack of independent review of the transactions charged to the cards.
- The necessity of the number of open credit cards.

Possession of fuel credit cards can lend itself to unauthorized and personal use. We recommend that management consider reducing the number of cards, and implement a procedure whereby each cardholder's transactions are reviewed independently.

Management's Response:

We believe that this number of credit cards is necessary to sustain operations. We believe this efficiently tracks the usage by each individual. The invoices will be reviewed monthly to investigate and resolve any unusual activities.

System Vehicles

System vehicles are used by certain employees in the conduct of their job duties. These vehicles are driven home by those employees. This practice provides a personal benefit to employees that may need to be included as compensation in their W-2. We recommend that the System include an allowance for personal commuting miles in the employees' W-2's. Furthermore, the System should consult its legal counsel to ensure that this practice does not violate ethics statutes.

Management's Response:

We will obtain the City of Baton Rouge's policy on vehicles driven home by employees and we will use it as a guideline to implement our own policy. Additionally, we will consult with our legal counsel.

Information Systems Security

Certain computerized security controls of the accounting systems are not functioning to their maximum capacities, leaving CATS vulnerable to unauthorized use or access to critical financial data. Areas for security enhancements include:

- Passwords for networks should conform to ISC Standards
- Group policy should enforce timeouts after periods of inactivity
- Maintenance and review of file access logs
- Nightly backup tapes
- Disaster recovery plan

These security areas have been more thoroughly addressed in separate correspondence. We recommend that management consider implementing our recommendations regarding these security functions.

Management's Response:

Since the conclusion of our audit, CATS has merged our IT system with the City of Baton Rouge. We are now in compliance with the above recommendations.

Budget management - grants

Allowable activities are set forth in the grant agreement containing a budget for each activity. Costs are to be charged to the proper grant budget line.

We noted that certain costs were charged incorrectly to budgetary line items for planning and project administration. Reimbursement requests made for August and October 2004 incorrectly charged planning costs of $4,480 and $4,750, respectively to the project administration budgetary line item. Given matching requirements are different for these line items, the result was an over reimbursement of $3,200 and $3,500, respectively under project administration and an under reimbursement of $4,000 and $4,400, respectively under the planning line item. Improper charges made to budgetary line items ultimately affect the availability of funding under a specific line item.

We recommend that all grant reimbursement requests be independently reviewed to ensure that all costs are charged to the appropriate line item.

Management's Response:

This error was discovered and corrected promptly by the CFO. In the future the accounting supervisor will prepare the reimbursement request and it will be reviewed by the CFO.

This report is intended solely for the information of the System's management, federal awarding agencies and the Louisiana Legislative Auditor's Office, and is not intended to be and should not be used by anyone other than these specified parties. However, under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

We want to thank the staff of CATS for the courtesies extended to us during the audit. If you have any questions or need any assistance in the implementation of these recommendations, we would be pleased to offer our services.

Postlethwaite & Netterville

Baton Rouge, Louisiana
May 16, 2005

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