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CAPITAL AREA TRANSIT SYSTEM

DECEMBER 31, 2008 AND 2007

BATON ROUGE, LOUISIANA

Under provisions of state law. this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and. where appropriate, at the office of the parish clerk of court.

Release Date 8/12/09

CONTENTS

Audited Financial Statements:

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June 17, 2009

Independent Auditor's Report

To the Board of Directors
Capital Area Transit System
Baton Rouge, Louisiana

We have audited the accompanying financial statements of Capital Area Transit System (the "System"), 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 and for the years ended December 31, 2008 and 2007, 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 the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit 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 the 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 respective financial position of the System and its fiduciary fund as of December 31, 2008 and 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the years then ended in conformity with accounting principles 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 $668,127 and $2,027,562 for 2008 and 2007, respectively. Current liabilities exceed current assets by $105,887 and $1,021,773 at December 31, 2008 and 2007. Those conditions raise substantial doubt about its ability to continue as a going concern. Management's plans regarding those matters are described in Note 13. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 17, 2009 on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 considered in assessing the results of our audit.

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 accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Respectfully submitted,

Hannis T. Bourgeois, LLP

CAPITAL AREA TRANSIT SYSTEM
Management's Discussion and Analysis
For the Year ended December 31, 2008

This section of the System's annual financial report presents a discussion and analysis of the System's financial performance during the fiscal year ended December 31, 2008. Please read this section in conjunction with the System's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The System's net assets are $3,109,174 as of December 31, 2008, representing an increase of $315,002 or 11% from that of December 31, 2007. A substantial portion of the net assets are invested in capital assets.
- Net losses before capital contributions were $668,127 and $2,027,562 for 2008 and 2007, 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 10 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 is the difference between the System's assets and liabilities, is 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 11 through 12 of this report.

FINANCIAL ANALYSIS OF THE SYSTEM:

Net Assets

The System's total net assets at December 31, 2008 increased from $2,794,172 to $3,109,174. Table A-1 summarizes the System's net assets as of December 31, 2008 and 2007.

The increase in net assets is primarily due to the decrease in net loss before capital contributions. Restricted assets represent cash reserved to meet current fiduciary liabilities, primarily related to self insured vehicle and worker's compensation claims. 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 decreased from $6,790,945 to $6,315,212 as a result of current year payments for the capital lease obligations entered into during 2004 for the upgrade to the bus fleet. Future federal grants are anticipated as the funding source for these leases. Management's budget indicate that the System's operations will generate adequate cash flow for the 2009 fiscal year.

Table A-1
Capital Area Transit System's Net Assets
December 31, 2008 and 2007

	2008	(as Restated) 2007
Current Unrestricted Assets	$ 2,548,825	$ 2,454,605
Restricted Current Assets	105,718	29,941
Total Current Assets	2,654,543	2,484.546
Equipment, Net	7,659,471	8,908,465
Net Pension Assets, Long-term	1,765,084	1,668,484
	$ 12,079,098	$ 13,061,495
Liabilities and Net Assets		
Current	$ 2,654,712	$ 3,476,378
Long-term Claims Payable and Related Liabilities	902,222	779,413
Long-term Other Liabilities	5,412,990	6,011,532
	8,969,924	10,267,323
Net Assets - Invested in Capital Assets	2,009,205	2,655,344
Net Assets - Restricted	105,718	29,941
Net Assets - Unrestricted	994,251	108,887
Total Net Assets	3,109,174	2,794,172
	$ 12,079,098	$ 13,061,495

CAPITAL AREA TRANSIT SYSTEM
Management's Discussion and Analysis
For the Year ended December 31, 2008

Changes In Net Assets
The System's operating revenues increased from the prior year amount of $4,602,772 to $4,754,396 or 3.29%. This increase is primarily attributable to an increase in revenues generated from contract services as the result of a rate increase in July of 2008.

Direct operating expenses decreased by $100,514 or .62% to $15,985,004.

Net non-operating revenues in 2008 increased $1,107,297 or 11.71% as a result of increases in operating transfers from City Parish Government, the abatement of amounts due to the FTA, and an increase in federal grant money for paratransit services.

Table A-2
Capital Area Transit System's Changes is Net Assets
For the Years ended December 31, 2008 and 2007

	2008	(as Restated) 2007
Operating revenues:		
Charges for Services	$4,744,508	$ 4,593,813
Advertising Revenue	9,888	8,959
Total Operating Revenues	4,754,396	4,602,772
Direct Operating Expenses:		
Operating Expenses	14,439,557	14,390,094
Depreciation Expense	1,545,447	1,695,424
Total Direct Operating Expenses	15,985,004	16,085,518
Loss from Operations	(11,230,608)	(11,482,746)
Nonoperating Revenues, Net:		
Interest Income	6,288	6,028
Interest Expense	(316,863)	(384,135)
Other Expenses	(5,523)	-
Abated Prior Years Questioned Costs-Federal	355,012	-
Government Operating Grants	4,616,388	4,473,854
Hotel/Motel Tax	1,524,604	1,330,562
Forgiveness of Interest on FTA Debt	109,877	-
Other Revenue	78,168	291,495
Loss on Disposal of Fixed Assets	-	(9,820)
Operating Transfers from City-Parish	4,194,530	3,747,200
Total Nonoperating Revenues	10,562,481	9,455,184

Net Loss Before Capital Contributions	(668,127)	(2,027,562)
Capital Contributions	983,129	761,518
Net Income (Loss) after Capital Contributions	315,002	(1,266,044)
Net Assets, Beginning of Year, as Restated	2,794,172	4,060,216
Net Assets, End of Year	$ 3,109,174	$ 2,794,172

FINANCIAL OUTLOOK

The 2009 budget has been revised for the loss of significant revenue due to the expiration and nonrenewal of a major contract for services. Expenses, primarily in the transit operations and maintenance departments, will be reduced to counter the loss of operating revenue as the result of the expiring contact. The System anticipates federal grant revenues, taxes, and transfers from the City-Parish will remain constant. The System plans to maintain a careful watch over expenditures to help alleviate some of the expenses attributable to transit operations, such as rising fuel costs and maintenance of vehicles. 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 Metro 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

BALANCE SHEETS - PROPRIETARY FUND

DECEMBER 31, 2008 AND 2007

ASSETS

	2008	(As Restated) 2007
Current Assets:		
Cash and Cash Equivalents	$ 1,072,172	$ 322,641
Accounts Receivable	61,040	70,081
Due from Other Governments	828,772	1,493,762
Inventory	586,841	568,121
Total Current Assets	2,548,825	2,454,605
Restricted Assets:		
Cash and Cash Equivalents	105,718	29,941
Total Restricted Assets	105,718	29,941
Net Pension Asset, Long-Term	1,765,084	1,668,484
Equipment, Net	7,659,471	8,908,465
Total Assets	$ 12,079,098	$ 13,061,495

The accompanying notes are an integral part of these statements.

LIABILITIES AND NET ASSETS

	2008	(As Restated) 2007
Current Liabilities:		
Accounts Payable and Accrued Expenses	$ 855,682	$ 846,696
Due to Federal Transit Administration	375,485	1,226,027
Accrued Compensated Absences	263,728	240,843
Claims Payable and Related Liabilities	526,949	559,958
Capital Lease Payable	632,868	602,854
Total Current Liabilities	2,654,712	3,476,378
Long-Term Liabilities:		
Accrued Compensated Absences, Less Current Portion	395,592	361,265
Claims Payable and Related Liabilities, Less Current Portion	902,222	779,413
Capital Lease Payable, Less Current Portion	5,017,398	5,650,267
Total Long-Term Liabilities	6,315,212	6,790,945
Total Liabilities	8,969,924	10,267,323
Net Assets:		
Investment in Capital Assets, Net of Related Debt	2,009,205	2,655,344
Restricted	105,718	29,941
Unrestricted	994,251	108,887
Total Net Assets	3,109,174	2,794,172
Total Liabilities and Net Assets	$ 12,079,098	$ 13,061,495

CAPITAL AREA TRANSIT SYSTEM

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS - PROPRIETARY FUND

FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

	2008	(As Restated) 2007
Operating Revenues:		
Charges for Services	$ 4,744,508	$ 4,593,813
Advertising Revenue	9,888	8,959
Total Operating Revenues	4,754,396	4,602,772
Direct Operating Expenses:		
Personal Services and Fringe Benefits	7,766,803	8,251,228
Supplies, Fuel and Other Bus Related Expenses	2,636,704	2,233,400
Contractual Services & Liability Costs	4,036,050	3,905,466
Depreciation	1,545,447	1,695,424
Total Direct Operating Expenses	15,985,004	16,085,518
Loss from Operations	(11,230,608)	(11,482,746)
Nonoperating Revenues (Expenses):		
Interest Income	6,288	6,028
Interest Expense	(316,863)	(384,135)
Other Expense	(5,523)	-
Abated Prior Years Questioned Costs-Federal Grants	355,012	-
Loss on Disposal of Fixed Assets	-	(9,820)
Forgiveness of Interest on FTA Debt	109,877	-
Hotel/Motel Tax	1,524,604	1,330,562
Other Revenue	78,168	291,495
Government Operating Grants:		
Federal Operating Subsidy	4,524,247	4,332,602
Planning and Technical Study Grants	92,141	141,252
Operating Transfers from Primary Government	4,194,530	3,747,200
Total Nonoperating Revenues (Expenses)	10,562,481	9,455,184
Loss Before Capital Contributions	(668,127)	(2,027,562)
Capital Contributions	983,129	761,518
Net Income (Loss) after Capital Contributions	315,002	(1,266,044)
Net Assets, Beginning of Year, as Restated	2,794,172	4,060,216
Net Assets, End of Year	$ 3,109,174	$ 2,794,172

The accompanying notes are an integral part of these statements.

CAPITAL AREA TRANSIT SYSTEM

STATEMENTS OF CASH FLOWS - PROPRIETARY FUND

FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

	2008	(As Restated) 2007
Cash Flows From Operating Activities:		
Cash Received from Customers	$ 4,753,549	$ 4,785,854
Cash Received from Other Sources	9,888	8,959
Cash Paid to Suppliers and Others	(6,548,458)	(6,572,303)
Cash Paid to Employees for Compensation and Related Expenses	(7,844,176)	(8,350,510)
Net Cash Used in Operating Activities:	(9,629,197)	(10,128,000)
Cash Flows From Noncapital Financing Activities:		
Operating Subsidies Received from Other Governments	4,674,562	4,730,534
Hotel-Motel Tax	1,721,368	1,308,851
Other Revenue	78,168	291,495
Operating Transfers Primary Government	4,194,530	3,747,200
Net Cash Provided by Noncapital Financing Activities	10,668,628	10,078,080
Cash Flows From Capital and Related Financing Activities:		
Capital Contributions Received	983,129	761,518
Payments on Capital Leases	(602,855)	(590,678)
Proceeds From Insurance Settlement	-	38,031
Acquisition and Construction of Capital Assets	(294,440)	-
Interest Paid on Capital Debt	(306,245)	(312,691)
Net Cash Used in Capital Financing Activities	(220,411)	(103,820)
Cash Flows From Investing Activities:		
Interest Received	6,288	6,028
Net Cash Provided by Investing Activities	6,288	6,028
Net Increase (Decrease) in Cash and Cash Equivalents	825,308	(147,712)
Cash and Cash Equivalents at Beginning of Year	352,582	500,294
Cash and Cash Equivalents at End of Year	$ 1,177,890	$ 352,582
Reconciliation of Cash as Listed on the Balance Sheet:		
Unrestricted Cash	$ 1,072,172	$ 322,641
Restricted Cash	105,718	29,941
	$ 1,177,890	$ 352,582

(CONTINUED)

	2008	(As Restated) 2007
Reconciliation of Loss from Operations to Net Cash Used in Operating Activities:		
Loss from Operations	$ (11,230,608)	$ (11,482,746)
Adjustments to Reconcile Loss from Operations to Net Cash Used in Operating Activities		
Depreciation	1,545,447	1,695,424
Loss on Disposal of Capital Assets	-	9,820
(Increase) Decrease in Accounts Receivable	9,041	(120,739)
(Increase) Decrease in Prepaid Assets	-	17,471
(Increase) Decrease in Net Pension Asset	(96,600)	(149,253)
(Increase) Decrease in Inventory	(18,720)	(132,955)
Increase (Decrease) in Accounts Payable, Accrued Expenses, and Deferred Revenues	72,443	(96,449)
Increase (Decrease) in the Provision for Claims Liability	89,800	131,427
Net Cash Used in Operating Activities	$ (9,629,197)	$ (10,128,000)

The accompanying notes are an integral part of these statements.

CAPITAL AREA TRANSIT SYSTEM

STATEMENTS OF PLAN NET ASSETS - PENSION TRUST FUND

DECEMBER 31, 2008 AND 2007

	2008	2007
Assets:		
Cash and Cash Equivalents	$ 536,101	$ 609,897
Receivables	11,715	10,297
Investments	4,963,127	6,992,801
Plan Net Assets Held in Trust for Pension Benefits	$ 5,510,943	$ 7,612,995

The accompanying notes are an integral part of these financial statements.

CAPITAL AREA TRANSIT SYSTEM

STATEMENTS OF CHANGES IN PLAN NET ASSETS - PENSION TRUST FUND

FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

	2008	2007
Additions:		
Contributions:		
Employer Contributions	$ 404,011	$ 438,443
Employee Contributions	354,086	383,616
Total Contributions	758,097	822,059
Investment Income:		
Investment and Dividend Income	297,089	298,337
Net Appreciation (Depreciation) in Fair Value	(2,591,256)	(61,991)
	(2,294,167)	236,346
Less Investment Expense	(75,091)	(95,020)
Net Investment Income (Loss)	(2,369,258)	141,326
Total Additions (Deductions)	(1,611,161)	963,385
Deductions:		
Benefits	336,753	303,231
Employee Refunds	91,849	265,654
Administrative Expenses	62,289	70,474
Total Deductions	490,891	639,359
Change in Plan Net Assets	(2,102,052)	324,026
Plan Net Assets at Beginning of Year	7,612,995	7,288,969
Plan Net Assets at End of Year	$ 5,510,943	$ 7,612,995

The accompanying notes are an integral part of these financial statements.

CAPITAL AREA TRANSIT SYSTEM

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2008 AND 2007

Note 1 - Summary of Significant Accounting Policies -

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 Report (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.

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 System.

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.

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.

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.

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.

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.

Investments

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

Inventories

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

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 used in computing depreciation range from 12 years for rolling stock to 3 years for certain office equipment.

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.

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 for the union employees. For the non-union employees unused vacation can be carried forward to the next year. 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.

Claims and Judgments

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.

Cash Flows

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

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.

Equity Classifications

Equity is classified as net assets and displayed in three components:

- Invested in capital assets, net of related debt - This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of invested capital assets, net of related debt. Rather, that portion of the debt is included in the same net assets component as the unspent proceeds.

- Restricted - This component of net assets consists of constraints placed on net asset use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

- Unrestricted net assets - This component of net asset consist of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

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.

Receivables

Receivables consist of all revenues earned at year end and not yet received. Uncollectable accounts receivable are charged off directly against earnings when they are determined to be uncollectable. Use of this method does not result in a material difference from the valuation method required by general accepted accounting principles.

Reclassifications

Certain amounts presented in the 2007 columns have been reclassified from prior year's presentation to conform to the current year classifications. Such reclassifications had no effect on the prior year determination of restricted and unrestricted net assets.

Note 2 - Cash and Investments -

Cash and Cash Equivalents

The System's cash and cash equivalents consisted of the following as of December 31, 2008 and 2007:

	2008		
	Proprietary Enterprise Fund	Fiduciary Pension Trust Fund	Totals
Cash on Hand and in Banks	$ 1,077,099	$ -	$ 1,077,099
Certificates of Deposit	100,791	-	100,791
Money Market Accounts	-	536,101	536,101
Total Cash and Cash Equivalents	$ 1,177,890	$ 536,101	$ 1,713,991

	2007		
	Proprietary Enterprise Fund	Fiduciary Pension Trust Fund	Totals
Cash on Hand and in Banks	$ 237,558	$ -	$ 237,558
Certificates of Deposit	115,024	-	115,024
Money Market Accounts	-	609,897	609,897
Total Cash and Cash Equivalents	$ 352,582	$ 609,897	$ 962,479

Proprietary Fund cash and cash equivalents of $1,177,890 and $352,582 include $1,072,172 and $322,641 of unrestricted assets and $105,718 and $29,941 of restricted assets as of December 31, 2008 and 2007, respectively.

Custodial credit risk - deposits. In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. Neither the System nor the Pension Trust Fund, a blended presented component unit, has a deposit policy for custodial credit risk. As of December 31, 2008, none of the government's bank balance of $1,510,045 was exposed to custodial credit risk because it was fully covered by FDIC insurance. As of the same date the Pensions Trust Fund held no deposits with exposure to custodial credit risk because it only held money market accounts held in trust that are not categorized under GASB 3 requirements.

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, 2008 and 2007, certificates of deposit of $100,791 and $115,024 were pledged as collateral to the Louisiana Office of Workman's Compensation.

Investments

As of December 31, 2008 and 2007, 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 are as follows:

	Fair Values	
	2008	2007
U.S. Treasury and Agency Bonds	$ 999,351	$ 860,942
Corporate Bonds	231,269	201,863
Corporate Stocks	3,507,668	5,507,692
Equity Mutual Fund	224,839	422,304
Total	$ 4,963,127	$ 6,992,801

As of December 31, 2008, the debt maturities of the Pension Trust Fund's investments were as follows:

		Investment Maturities (in Years)			
Investment Type	Fair Value	Less Than 1	1 - 5	6 - 10	More Than 10
US Treasury and Agency Funds	$ 999,351	$ -	$ 130,029	$ 117,017	$ 752,305
Corporate Bonds	231,269	-	147,482	83,787	-
	$ 1,230,620	$ -	$ 277,511	$ 200,804	$ 752,305

Interest rate risk. In accordance with its investment policy, the Pension Trust Fund manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to less than ten years with a maximum maturity for any single security of 30 years.

Credit risk. The investment policy of the Pension Trust Fund limits investments in commercial paper and corporate bonds to ratings of A-1 and BBB or higher as rated by the nationally recognized statistical rating organizations (NRSROs). As of December 31, 2008, the Pension Trust Fund held no commercial paper investments. The Pension Trust Fund's investments in domestic corporate bonds as of December 31, 2008 varied between ratings of A and AAA consistent with the investment policy. The Pension Trust Fund's investments in U.S. Agencies all carry the explicit guarantee of the U.S. government.

Concentration of credit risk. The Pension Trust Fund's investment policy does not allow for an investment in any one issuer that is in excess of fifteen percent of the fund's total investments and no more than 30% of the total investment in any one industry.

Custodial credit risk - investments. For an investment this is the risk that, in the event of the failure of the counterparty, the Pension Trust Fund will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Investments are exposed to custodial credit risk if the securities are uninsured and unregistered and are either held by the counterparty, or by the counterparty's trust department or agent, but not in the Pension Trust Fund's name. At December 31, 2008, all of the Pension Trust Fund's investments were held by an agent in the name of the Pension Trust Fund.

Note 3 - Receivables - Due From Other Governments -

Receivables due from other governments at December 31, 2008 and 2007 are as follows:

	2008	(as Restated) 2007
Federal Transit Administration	$ 362,571	$ 838,620
Hotel - Motel Tax	422,212	225,448
Department of Revenue	43,989	429,694
	$ 828,772	$ 1,493,762

Note 4 - Equipment -

A summary of changes in fixed assets follows:

	January 1, 2008	Additions	Deletions	December 31, 2008
Equipment, Primarily Transportation Vehicles	$ 17,950,697	$ 294,440	$ (8,151)	$ 18,236,986
Accumulated Depreciation	(9,042,232)	(1,545,447)	10,164	(10,577,515)
Total	$ 8,908,465	$ (1,251,007)	$ 2,013	$ 7,659,471

	January 1, 2007	Additions	Deletions	December 31, 2007
Equipment, Primarily Transportation Vehicles	$18,061,676	$ -	$ (110,979)	$ 17,950,697
Accumulated Depreciation	(7,409,563)	(1,695,424)	62,755	(9,042,232)
Total	$ 10,652,113	$ (1,695,424)	$ (48,224)	$ 8,908,465

Depreciation expense for the year ended December 31, 2008 and 2007 totaled $1,545,447 and $1,695,424, 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.

Note 5 - Accounts, Salaries and Other Payables -

The payables at December 31, 2008 and 2007 are as follows:

	2008	2007
Accounts Payable	$ 631,296	$ 578,080
Accrued Salaries	166,456	174,255
Employee Insurance and Other Witholdings	-	30,186
Accrued Interest	57,930	64,175
	$ 855,682	$ 846,696

Note 6 - 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.

Note 7 - Pension Plan -

Plan Description - 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. Prior to August 2006, the normal retirement date is the first day of the month following a member's 65^{th} birthday and completion of 10 years of service. In August 2006, the plan was amended and the age was reduced to 62 years. Benefits vest after ten years of service. A participant was entitled to a monthly normal retirement benefit beginning on his normal retirement date in an amount of 1.2% of average compensation for each year of service after February 1, 1963. Effective August 2006, the Plan was amended and the percentage was changed to 1.4% for all plan years beginning January 1, 1991.

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, 2008 and 2007. The valuation is performed at the beginning of the plan year.

Current membership is comprised of the following at December 31:

	2008	2007
Retirees and Beneficiaries Currently Receiving Benefits	53	54
Vested Terminated Employees	17	16
Active Employees:		
Fully Vested	37	38
Not Vested	114	115
	221	223

Funding Policy - The employees and the System each contributed, as required, 7% and 8%, 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.

Annual Pension Cost and Net Pension Asset - The System's annual pension cost and net pension asset for the years ended December 31, 2008 and 2007 were as follows:

	2008	2007
Annual Required Contribution	$ 291,917	$ 268,775
Interest on Net Pension Obligation	(116,794)	(106,346)
Adjustment to Annual Required Contribution	146,189	141,847
Annual Pension Cost	321,312	304,276
Contributions Made Including Interest	(417,912)	(453,529)
Increase in Net Pension Asset	96,600	149,253
Net Pension Asset, Beginning of Year	1,668,484	1,519,231
Net Pension Asset, End of Year	$ 1,765,084	$ 1,668,484

Trend information is as follows:

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Asset
December 31, 2008	$ 321,312	130%	$ 1,765,084
December 31, 2007	$ 304,276	149%	$ 1,668,484
December 31, 2006	$ 205,790	198%	$ 1,519,231

Funded Status and Funding Progress - As of December 31, 2008, the most recent actuarial valuation date, the plan was 69.28 percent funded. The actuarial accrued liability for benefits was $7,954,134, and the actuarial value of assets was $5,510,943, resulting in an unfunded actuarial accrued liability (UAAL) of $2,443,191. The covered payroll (annual payroll of active employees covered by the plan) was $4,969,489, and the ratio of the UAAL to the covered payroll was 49.16 percent.

The schedule of funding progress, presented as RSI following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Methods and Assumption - 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 5.75% 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.

Note 8 - 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. The assets of the Plan are held in trust for the exclusive benefit of the participants and their beneficiaries. The custodian thereof, for the exclusive benefit of the participants, holds the custodial account for the beneficiaries of this plan, and the assets may not be diverted to any other use. The administrators are agents of the employer for purposes of providing direction to the custodian of the custodial account from time to time for the investment of the funds held in the account, transfer of assets to or from the account, and all other matters.

Note 9 - Commitments and Contingencies -

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 years 2004, 2005, 2006, and 2007 revealed cumulative questioned costs and estimated accrued interest payable of $911,239 and $141,625, respectively. During 2008, the System repaid $431,377 to the FTA. In addition, principal and interest of $355,012 and $109,877, respectively, were abated by the FTA. The remaining unpaid questioned costs of $124,850 for these years plus the estimated accrued interest payable of $31,748 has been accrued in these financial statements and is included in the Due to Federal Transit Administration amount at December 31, 2008. This entire amount of $156,598 was subsequently repaid to the FTA on April 22, 2009.

The Single Audit performed for the 2008 year revealed questioned costs of $202,024. This amount represents duplicate reimbursements received from the FTA for the payment of a capital lease on the System's passenger vans. The liability for these questioned costs plus the estimated accrued interest payable of $16,863 has been accrued in these financial statements and is included in the Due to Federal Transit Administration amount at December 31, 2008. The questioned costs of $202,024 were subsequently repaid to the FTA on June 3, 2009. The repayment of the interest is pending FTA's review of the amount due. Details concerning these findings are included in a separate single audit report dated June 17, 2009.

Grant Commitments

Grant agreements under which the system receives federal financial assistance require the system to match 17%-20% of dollars received. As of December 31, 2008, the System has committed cash to fund local matching requirements, however, additional fiscal effort will be required. Similar commitments existed as of December 31, 2007.

Note 10 - 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, 2004 through August 31, 2004, the System retained liability 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, 2008 and 2007, accrued claim liabilities of $1,429,171 and $1,339,371, are included on the Proprietary Fund's statement of net assets, as follows:

	Current Portion	Long-Term Portion	Total
2008	$ 526,949	$ 902,222	$1,429,171
2007	$ 559,958	$ 779,413	$1,339,371

The accruals, which are based upon the advice of counsel, are in the opinion of management, sufficient to provide for all probable estimatable claims liabilities at December 31, 2008 and 2007. In addition, the claims will not be paid until appropriated by the System. 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
2008	$ 1,339,371	$ 656,526	$ (566,726)	$ 1,429,171
2007	$ 1,207,944	$ 937,234	$ (805,807)	$ 1,339,371

Note 11 - 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 passenger buses, personnel, and supplies to operate a mass transit system. As consideration for the service rendered, LSU paid the System approximately $2,397,000 and $2,243,000 during 2008 and 2007. These amounts are included in charges for services on the statements of revenues, expenses and changes in net assets. This contract will not be renewed beyond its current contractual term, including a one month extension, which expires on July 31, 2009.

Note 12 - 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.

Changes in the capital lease liability during the years ended December 31, 2008 and 2007 are as follows:

	Beginning of Year Liability	Additions	Principal Payments	End of Year Liability	Due Within One Year
2008	$ 6,253,121	$ -	$ (602,855)	$ 5,650,266	$ 632,868
2007	$ 6,843,799	$ -	$ (590,678)	$ 6,253,121	$ 602,854

Minimum future lease payments under these capital leases as of December 31, 2008 for each of the next five years and each subsequent five year period are:

Year ended December 31,	Amount
2009	$ 903,248
2010	903,248
2011	903,248
2012	833,704
2013	833,704
2014 - 2016	2,501,112
Total minimum lease payments	6,878,264
Less: Amount representing interest	(1,227,998)
Present value of minimum lease payments	$ 5,650,266

The interest rates on the capital leases range from 4.87% to 4.92%.

Note 13 - Current Operating Environment -

As shown on the accompanying financial statements, the System experienced net losses before capital contributions of $668,127 and $2,027,562 in 2008 and 2007, respectively. In addition, current liabilities exceeded current assets in each of the years ended December 31, 2008 and 2007 by $105,887 and $1,021,773, respectively. Although much improved during 2008, the System continues to anticipate marginal ability to satisfy current obligations in the normal course of business.

The System's 2009 budget reflects the loss of significant revenue due to the expiration and nonrenewal of a major contract for services with LSU. Expenses, primarily in the transit operations and maintenance departments, will be reduced by reductions in workforce and service cuts to counter the loss of operating revenue as the result of the expiring contract. The System anticipates federal grant revenues, taxes, and transfers from the City-parish, all of which the System relies on to fund operations, will remain constant in 2009.

The System plans to maintain a careful watch over expenditures to help alleviate some of the expenses attributable to transit operations, such as rising fuel costs and maintenance of vehicles. Overall, the System is budgeted to operate at a near break-even position.

Note 14 - Concentrations -

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

Note 15 - Prior Period Adjustments -

A prior period adjustment was made to restate the net assets of the Proprietary Fund as of December 31, 2006 for a correction of an error related to excise taxes paid on fuel purchases after the System elected to become a political subdivision of the State of Louisiana.

Prior period adjustments were also made to restate the net assets of the Proprietary Fund as of December 31, 2007 for the correction of errors related to excise taxes paid on fuel purchases, duplicate reimbursements received from the FTA, and 2007 ADA expenses reimbursed from the FTA in 2008. The prior period adjustments related to 2007 have been reflected in the 2007 columns of these financial statements and are as follows:

	Proprietary Fund
Net Assets at December 31, 2006 as Originally Reported	$ 3,767,391
To Record Receivable for Excise Taxes Paid on Fuel Purchases in 2006	292,825
Net Assets at December 31, 2006, as Restated	4,060,216
2007 Net Loss After Capital Contributions, as Originally Reported	(1,661,127)
To Record Receivable for Excise Taxes Paid on Fuel Purchases in 2007	136,869

(CONTINUED)

	Proprietary Fund
To Record Receivable for 2007 ADA Expenses Reimbursed in 2008	431,378
To Record Liability for Duplicate Reimbursements Received from FTA	(173,164)
Net Assets at December 31, 2007, as Restated	$ 2,794,172

The 2007 general ledger accounts restated are as follows:

	Balance at December 31, 2007, As Originally Reported	Net Adjustments	Balance at December 31, 2007 As Restated
Balance Sheets:			
Due From Other Governments	$ 632,690	$ 861,072	$ 1,493,762
Due to FTA	$ 1,052,863	$ 173,164	$ 1,226,027
Unrestricted Net Assets	$ (579,021)	$ 687,908	$ 108,887
Statements of Revenues, Expenses and Changes in Net Assets:			
Supplies, Fuel and Other Bus Related Expenses	$ 2,370,269	$ (136,869)	$ 2,233,400
Federal Operating Subsidy	$ 4,074,388	$ 258,214	$ 4,332,602
Net Assets - Beginning of Year	$ 3,767,391	$ 292,825	$ 4,060,216
Net Assets - End of Year	$ 2,106,264	$ 687,908	$ 2,794,172

Schedule 1

CAPITAL AREA TRANSIT SYSTEM
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, 2009	$ 5,510,943	$ 7,954,134	$2,443,191	69.28%	$ 4,969,489	49.16%
January 1, 2008	$ 7,612,995	$ 7,749,081	$ 136,086	98.24%	$ 5,276,945	2.58%
January 1, 2007	$ 6,936,692	$ 7,223,985	$ 287,293	96.02%	$ 4,820,357	5.96%
January 1, 2006	$ 6,305,722	$ 5,768,124	$ N/A	109.32%	$ 4,784,924	N/A
January 1, 2005	$ 5,584,893	$ 5,428,930	$ N/A	102.87%	$ 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	$ 149,062	96.54%	$ 3,991,134	3.73%
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	$ N/A	100.00%	$ 4,099,654	0.00%
January 1, 2000	$ 3,752,507	$ 3,752,507	$ N/A	100.00%	$ 3,917,671	0.00%

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Year Ended	Annual Required Contribution	Actual Contribution	Percentage Contributed
December 31, 2008	$ 291,917	$ 404,011	138.40%
December 31, 2007	$ 268,774	$ 438,443	163.13%
December 31, 2006	$ 175,115	$ 394,119	225.06%
December 31, 2005	$ 190,796	$ 355,099	186.11%
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%

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, 2008
Actuarial Cost Method	Aggregate actuarial method. Under this method, a separate actuarial accrued liability 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%
Projected Salary Increases	5.75%

CAPITAL AREA TRANSIT SYSTEM

SINGLE AUDIT REPORTS

DECEMBER 31, 2008

BATON ROUGE, LOUISIANA

CONTENTS

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

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June 17, 2009

To the Board of Directors
Capital Area Transit System
Baton Rouge, Louisiana

We have audited the financial statements of Capital Area Transit System (the System) as of and for the year ended December 31, 2008, and have issued our report thereon dated June 17, 2009. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the System's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the System's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such, that there is more than a remote likelihood that a misstatement of the System's financial statements that is more than inconsequential will not be prevented or detected by the System's internal control. We considered the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting. These deficiencies are listed as findings 2008-01 through 2008-03.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the System's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclosed all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider items 2008-01 to 2008-03 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the System's financial statements 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 is required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the System in a separate letter dated June 17, 2009.

This report is intended solely for the information of management and the Louisiana Legislative Auditor and is not intended to be and should not be used by anyone other than these specified parties. Under Louisiana Revised Statue 24:513, this report is distributed by the Legislative Auditor as a public document.

Respectfully submitted,

Hannis T. Bourgeois, LLP

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

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June 17, 2009

To the Board of Directors
Capital Area Transit System
Baton Rouge, Louisiana

Compliance

We have audited the compliance of the 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, 2008. The System's major federal program is identified in the summary of auditor's 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 of the System's compliance with those requirements.

As described in items 2008-04 through 2008-06 in the accompanying schedule of findings and questioned costs, the System did not comply with requirements regarding allowable costs and reporting that are applicable to its major federal program. Compliance with such requirements is necessary, in our opinion for the System to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, 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, 2008.

Internal Control Over Compliance

The management of the System is responsible for establishing and maintaining effective internal control over compliance with 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the System's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the System's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies and others that we consider to be material weaknesses.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the System's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the System's internal control. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2008-05 through 2008-06 to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs, we consider item 2008-06 to be a material weakness.

The System's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the System's response and, accordingly, we express no opinion on it.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the System as of and for the year ended December 31, 2008 and have issued our report thereon dated June 17, 2009. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise the System's financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133, 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 management, the Office of the Legislative Auditor, State of Louisiana, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specific parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Respectfully submitted,

Hannis T. Bourgeois, LLP

CAPITAL AREA TRANSIT SYSTEM

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED DECEMBER 31, 2008

Federal Grantor/ Program Title	CFDA Number	Project Number	Expenditures
Federal Transportation Administration:			
2006 Earmark, Capital	20.500	LA-04-0007-00	$ 582,770
Capital, Operating and Planning Assoc.	20.507	LA-90-X239-00	25,921
2003 Formula Grant	20.507	LA-90-X250-00	637,939
2004 Formula Grant	20.507	LA-90-X268-00	78,303
2004 Formula Grant	20.507	LA-90-X268-02	1
2005 Formula Grant	20.507	LA-90-X281-00	70,147
2005 Formula Grant	20.507	LA-90-X281-04	58,795
2006 Formula Grant	20.507	LA-90-X289-02	14,724
2006 Formula Grant	20.507	LA-90-X289-04	12,000
2007 Formula Grant	20.507	LA-90-X308-00	965,855
2007 Formula Grant	20.507	LA-90-X308-02	51,510
2007 Formula Grant	20.507	LA-90-X308-04	248,137
2008 Formula Grant	20.507	LA-90-X332-00	1,903,739
2008 Formula Grant	20.507	LA-90-X332-02	25,906
2008 Formula Grant	20.507	LA-90-X332-08	549,398
			5,225,145
Passed Through the Louisiana Department of Transportation and Development:			
Capital Assistance Program	20.513	LA-16-X002	66,817
Total Federal Transportation Administration			5,291,962
U.S. Department of Defense:			
Katrina Related Capital and Operating	20.507	LA-48-X005-00	220,591
Katrina Related Capital and Operating	20.507	LA-48-X005-04	441,976
Total U.S. Department of Defense			662,567
Total Federal Award Expenditures			$ 5,954,529

See accompanying notes to the Schedule of Expenditures of Federal Awards.

CAPITAL AREA TRANSIT SYSTEM

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

DECEMBER 31, 2008

Note 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, 2008. All federal awards received from federal agencies are included on the schedule.

Note 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, 2008.

Note 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.

CAPITAL AREA TRANSIT SYSTEM

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED DECEMBER 31, 2008

(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? ___x___ Yes _______ no
- Significant deficiency(s) identified that are not considered to be material weaknesses? ___x___ Yes _______ none reported

Noncompliance material to financial statements noted? ___x___ Yes _______ no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? ___x___ Yes _______ no
- Significant deficiency(s) identified that are not considered to be material weaknesses? ___x___ Yes _______ none reported

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

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 program:

CFDA Number	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 not qualify as a low-risk auditee.

(2) Findings Relating to the Financial Statements Reported in accordance with *Government Auditing Standards*:

Significant Deficiencies were noted as follows:

2008-01 - Excise Tax

Finding:

During the current year, we noted the System was not properly recording the receivable due for the excise taxes paid on fuel purchases after the System elected to become a political subdivision of the State of Louisiana. The failure to properly record the receivables for the fiscal years 2006, 2007 and 2008 resulted in adjustments totaling $504,436.

Recommendation:

We recommend procedures be established and implemented to properly record receivables for excise taxes. We further recommend that the System prepare the returns to properly request the refund for these taxes.

2008-02 - Expense Recognition

Finding:

During the current year, we noted the System did not properly accrue certain expenditures. Adjustments totaling $110,126 were required to the fiscal year ended December 31, 2008 financial statements for unrecorded liabilities noted during the audit.

Recommendation:

In an effort to present accurate financial statements throughout the year, management should ensure that all expenses are recognized when incurred instead of when cash is paid. Accordingly, payables for service should be recorded as the services are performed, and payables for assets should be recorded when the risk for ownership has passed to the System.

2008-03 - Grant Billing/Request

Finding:

The ECHO requests prepared by the System throughout 2008 were not based on finalized monthly reports. During the current year, adjustments were posted to the general ledger for months in which ECHO Requests were previously submitted. These adjustments were not included in the following month's request.

In addition, the System requested ADA reimbursement during 2008 using 2007 expenses. This reimbursement request was not properly recorded as a receivable at December 31, 2007. This resulted in a $431,378 prior period adjustment recorded during fiscal year ended December 31, 2008 to properly reflect these monies.

Recommendation:

We recommend that the System prepare ECHO requests based on finalized monthly reports. However, if subsequent adjustments are made which effect the financial monthly reports used to calculate the previous month's ECHO request, we recommend these adjustments be included on the next ECHO request. This would ensure the accuracy of funds drawn down throughout the year. In addition, we recommend that the System record receivables according to the accrual method and in the proper reporting period.

(3) Findings Relating to Compliance and Other Matters:

None

(4) Findings and Questioned Cost Related to Federal Awards:

2008-04

Compliance Area: Earmarking

Grant Year and Number: 2008 Formula Grant/LA-90-X332-00

Total Questioned Cost: $10,988

Criteria:

One percent of the Formula Grant fund apportioned must be made available for transit enhancement activities.

Condition:

The System did not earmark an amount equal to one percent of the 2008 Formula Grant for transit enhancements.

Effect:

The System did not comply with FTA earmarking requirements as the amounts were not set aside in the grant budget (scope).

Recommendation:

We recommend that the System amend the scope of the grant to include a total of one percent allocation for transit enhancements.

2008-05

Compliance Area: Quarterly Reporting and Reconciliation of Reports

Grant Year and Number: All projects reported under Schedule of Federal Awards

Questioned Cost: N/A

Criteria:

Quarterly Financial Status Reports (FSRs) and Quarterly Narrative Reports (QNRs) are required to be filed with the FTA within 30 days after the end of each quarter. These reports should contain accurate and reliable financial data for the period reported.

Condition:

The System did not prepare quarterly reports based on ECHO draws submitted during that particular quarter.

Effect:

The quarterly reporting did not accurately reflect the federal expenditures which were requested on the ECHO draws during the second, third and fourth calendar quarters of 2008.

Recommendation:

We recommend that the System prepare a schedule detailing the ECHO requests for each calendar quarter. This schedule should be used to prepare the quarterly financial reports and narratives.

2008-06

Compliance Area: Allowable Cost

	Questioned Cost	Estimated Accrued Interest Payable
Grant Year and Number: 2008 Formula Grant/LA-90-X332-00	$ 230,885	$ 16,863

Total Questioned Cost: $57,721 for 2008 and $173,164 for 2007, and $16,863 in accrued interest payable.

Criteria:

Eligible expenses should be requested in accordance with FTA guidelines.

Condition:

The System drew down funds for the capital lease of ADA Vans leased during 2005 in the amount available for the entire lease period. During fiscal years ended December 31, 2007 and 2008, the System also drew down funds for the payments made under the capital lease for the same ADA Vans.

Effect:

The System duplicated draw downs of funds for the capital lease payments of the ADA Vans. This resulted in funding for the same expenses being received twice.

Recommendation:

We recommend a schedule of all capital lease payments and drawdowns be maintained indicating the date of lease payment and ECHO Request Number drawn down on.

CAPITAL AREA TRANSIT SYSTEM

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

(1) Financial Statement Audit:

Significant deficiencies in the prior years were noted as follows:

2007-1 - Bus and Workers Compensation Liability

Finding:

During the prior year, it was noted that the System had failed to adjust the contingent liability related to the various bus and workers compensation claims. Upon our request, the accounting department contacted their attorneys and third party administrator to request the information needed to adjust the liability at December 31, 2007. With our assistance, the necessary adjustments were made to adjust the liability to actual at December 31, 2007. The adjustments recorded to the financial statements for the bus and workers compensation liability were $253,006 and $110,146, respectively.

Recommendation:

It is imperative for the System to reconcile these liabilities during the year as the amounts are material to the financial statements. We recommended the System work closely with their attorneys and third party administrator to reconcile these general ledger accounts to the estimated future liability at least on a quarterly basis.

Corrective Action Taken:

During the current year, we noted that the System began to receive reports from their attorneys and third party administrators on a monthly basis. We further noted that the year end adjustments were made and no material audit adjustments were required. However, we continue to recommend that the System reconcile these general ledger accounts to the estimated future liability at least on a quarterly basis.

2007-2 - Accrued Salaries

Finding:

During the prior year, it was noted the System's accrued salaries at December 31, 2007 were calculated incorrectly. The System's calculation included two days of accrued salaries; however, there should have been nine days of accrued salaries at December 31, 2007. This error resulted in an adjusting journal entry of approximately $130,000 which was recorded to the financial statements.

Recommendation:

We recommended the System review the payroll period for which salary is being accrued to ensure the number of days included in the calculation is correct. This will ensure management that the financial information presented to the board is accurate.

Corrective Action Taken:

During the current year, the System reviewed the payroll periods for the time frame which was being accrued to accurately record the accrued payroll amounts at December 31, 2008.

2007-3 - Fixed Assets

Finding:

During the prior year, the System performed a physical inventory of fixed assets. As a result of this inventory, it was noted that numerous assets were no longer in service but were still recorded on the fixed asset listing and the general ledger. The assets were either sent to the City Parish as surplus property or had been damaged and no longer in service. Also during the prior year, a vehicle was totaled and the System received insurance proceeds to cover the damages. These deletions were made to the System's fixed asset listing, but were not posted to the general ledger. We proposed entries totaling approximately $111,000 to delete these assets and balance the general ledger to the fixed asset listing at December 31, 2007. Many of these assets were fully depreciated. Although there were no fixed asset additions during the prior year, the accounting department was not reconciling the fixed asset listing to the general ledger during the year.

Recommendation:

It is crucial for the System's accounting department to reconcile the fixed assets listing to the general ledger throughout the year, as fixed assets comprise the majority of the System's assets at December 31, 2007. We recommended that system personnel continue to perform an annual physical inventory of the fixed assets to ensure the fixed asset listing is complete.

Corrective Action Taken:

The System reconciled the fixed asset listing to the general ledger and made any necessary adjustments at December 31, 2008. The System has developed a strategy to alternate the physical inventory of the different categories of fixed assets. In 2008, the System took an inventory of the radio equipment and made any necessary adjustments based on this count.

2006-3 - Financial Reporting to Management and the Board of Directors

Finding:

Due to the numerous findings reported in the prior year, it was noted that management and the Board of Directors are not receiving a complete set of accurate and timely monthly financial statements. These financial statements should at a minimum include a complete balance sheet, income statement, and statement of cash flows. Also, a statement of budget to actual comparisons should be presented.

During the prior year, we were informed by management that the Board did not receive accurate and timely monthly financial information at every Board meeting during the year.

Recommendation:

It is imperative that all recommendations cited in our report be implemented so that as an end result accurate, timely financial statements can be generated and presented to management and the Board of Directors. This information can then be used to effectively monitor the financial condition of the System and effectively monitor actual amounts compared to budgeted amounts.

Additional Recommendation:

During the current year, we noted that the System began to address the reporting process to Management and the Board of Directors. However, we continue to recommend that all recommendations cited in our report be implemented so that as an end result accurate, timely financial statements can be generated and presented to management and the Board of Directors.

2006-5 - Lack of Written Accounting Procedures

Finding:

We noted that there is a lack of written accounting policies and procedures documenting the various cycles comprising the System's accounting/finance function. Written policies and procedures are essential to a strong internal control system and accounting department. They are especially critical when employee turnover is experienced.

The process to develop written accounting procedures began during fiscal year ended December 31, 2007 and has continued during the current year. However, the procedures have not been finalized as of the date of our report.

Recommendation:

We recommended and continue to recommend the System finalize the task of evaluating the various accounting cycles and developing written policies and procedures for each key cycle identified.

2006-7 - Compensated Absences

Finding:

There were various deficiencies and inaccuracies noted by us during the December 31, 2005, 2006, and 2007 audits.

We noted that there were various deficiencies and inaccuracies regarding accrued compensated absences related to the following items:

- The time taken per the payroll leave records did not agree to the time taken per the accrued leave schedule. For such a small sample size, the number of discrepancies noted was considered excessive.

- Numerous employees had negative accrued sick leave balances and negative accrued vacation balances.

Recommendation:

Although the effects of these inaccuracies appeared to be immaterial to the financial statements, we recommended a monthly review of all accrued leave time be performed by department supervisors; as well as the implementation of a policy that strictly prohibits advances of any kind regarding sick or vacation time. We also recommended a more stringent effort be made to ensure that actual time used per the payroll records reconciles to the time used per the accrued leave schedule.

Corrective Action:

The compensated absence balances were reconciled in accordance with the System's policies and procedures. During the current year, we were not aware of any advances on unearned compensated balances and negative balances did not exist as of December 31, 2008.

2006-11 - Federal Grant Receivable

Finding:

It was noted that various planning expenses were submitted to FTA for reimbursement for the months of May 2006 - November 2006. These amounts were being requested under an incorrect grant number. As a result FTA did not pay these amounts to the System. These amounts totaled $61,612 and appeared to be still due to the System at December 31, 2006, and have been recorded as an accounts receivable in these financial statements.

In 2007, the System received $7,818 of the above mentioned receivable and reversed the remaining $53,794 in error. The appropriate journal entries have been proposed at December 31, 2007 to correct the accounts receivable balance. The System failed to request reimbursement under the correct grant during 2007, therefore, the remaining funds in the amount of $53,794 were not received.

Recommendation:

Management failed to realize that these requested expenses had not been received by the System since there was a lack of reconciliation procedures in place whereby all requested funds are reconciled to the actual cash receipts and the financial information reported in the FTA's TEAM reporting System. We recommended and continue to recommend formal reconciliation procedures be implemented to reconcile all cash receipts to reimbursement requests and the TEAM reporting system.

Corrective Action Taken:

The receivables from the FTA for the planning expense requested under the incorrect grant number were requested under the proper grant and have been received during fiscal year ended December 31, 2008. Procedures were implemented to track all ECHO requests in a receivable account which is reconciled with each draw requested and received.

2006-12 - Lack of Pledged Collateral

Finding:

As indicated in Note 2 to the December 31, 2006 financial statements, the System failed to maintain adequate FDIC insurance or obtain a sufficient amount of pledged collateral for their cash and cash equivalents. At December 31, 2006, the System was underinsured by $494,019. This finding relates to one of the System's custodial banks failing to pledge adequate securities on the deposits. This bank indicated that they were not requested by the System's management to have the securities pledged.

In 2007, it was noted that the System did require their bank to pledge collateral for their cash and cash equivalents but at December 31, 2007 the System was uninsured and uncollaterized by $9,324.

Recommendation:

We recommended the System more closely monitor the pledged collateral on all deposits and make sure the System's fiscal agents have pledged adequate collateral to insure all deposits.

Corrective Action Taken:

Pledged collateral reports are received on a monthly basis from each bank. These reports are reviewed on a monthly basis to determine the adequacy of coverage.

(2) Findings and Questioned Costs Relating to Federal Awards:

Finding 2007- 4

Compliance Area: Expired CMAQ Routes

		Questioned Costs	Estimated Accrued Interest Payable
Grant Year and Number:	2003 Formula Grant/LA-90-X250-00	$ 179,948	$ 11,134

Total Questioned Cost: $191,082

Criteria:

CMAQ routes are only eligible for funding by the FTA for a three year period starting from their inception dates.

Condition:

The System requested and received inappropriate amounts from the FTA for three CMAQ routes that expired during the 4th Quarter of 2006, since expiration dates were not being monitored. These over reimbursements were in the amount of $179,948. These amounts are in addition to the amounts reported in the 2006 Single Audit Report.

Effect:

As noted above, the System was over reimbursed $179,948 during 2007 for the expired routes.

Recommendation:

We recommended a schedule of all CMAQ routes be maintained indicating their inception dates and expiration dates. These schedules should be monitored for upcoming expirations. This information should be communicated to the accounting department so no additional funds are requested upon expiration of routes.

Corrective Action Taken:

During the current year, no additional funding was requested in relation to these routes. CATS will maintain a schedule indicating inception and expiration dates of any future CMAQ Routes and will monitor this schedule on a monthly basis. During 2008, the federal government abated and/or waived all amounts owed including interest.

Finding 2007-5

Compliance Area: Quarterly Reporting and Reconciliation of Reports.

Grant Year and Number: All projects reported under Schedule of Federal Awards
Questioned Cost: N/A

Criteria:

Quarterly Financial Status Reports (FSRs) are required to be filed with the FTA within 30 days after the end of each quarter. These reports are based on information obtained from the monthly ECHO reports and are required to be transmitted electronically through the FTA's TEAM reporting system.

Condition:

The System did not submit the quarterly FSR for the first quarter of 2007. In addition, the quarterly FSR for the second calendar quarter of 2007 was not submitted for LA-90-X289-01. For the quarterly reports that were submitted during the third and fourth calendar quarter of 2007, we attempted to reconcile these reports to the monthly ECHO request but were unable to do so.

Effect:

The System did not comply with FTA quarterly reporting requirements as the required reports were not filed or amounts reported did not reconcile to the monthly ECHO information.

Recommendation:

We recommended management amend all incorrectly submitted quarterly reports with the FTA and implement new procedures to ensure that all information per the quarterly reports are reconciled to the monthly reports prior to submission to the FTA. Also, a file should be maintained that contains a hard copy of the quarterly forms along with all supporting documentation. It is imperative that these quarterly reports be amended immediately. These reports serve as the primary tracking system of federal grant expenses and draw downs.

Additional Recommendation:

The quarterly reporting process was not improved during the fiscal year 2008 due to employee turnover and lack of training. We continue to recommend management amend all incorrectly submitted quarterly reports with the FTA and implement new procedures to ensure that all information per the quarterly reports are reconciled to the monthly reports prior to submission to the FTA. See finding 2008-07 for current finding related to same compliance area.

Finding 2007-6

Compliance Area:	Quarterly Reporting and Reconciliation of Reports
Grant Year and Number:	All projects reported under Schedule of Federal Awards
Questioned Cost:	N/A

Criteria:

Quarterly Financial Status Reports (FSRs) and Quarterly Narrative Reports (QNRs) are required to be filed with the FTA within 30 days after the end of each quarter. These reports should contain accurate and reliable financial data for the period reported.

Condition:

The System did not prepare the ECHO request for the May 2007 expenditures in a timely manner. Therefore, the quarterly reporting did not accurately depict the federal expenditures during the second calendar quarter of 2007.

Effect:

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

Recommendation:

We recommended that the System file all of 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.

Additional Recommendation:

The quarterly reporting process was not improved during the fiscal year 2008 due to employee turnover and lack of training. We continue to recommend management amend all incorrectly submitted quarterly reports with the FTA and implement new procedures to ensure that all information per the quarterly reports are reconciled to the monthly reports prior to submission to the FTA. See finding 2008-07 for current finding related to same compliance area.

Finding 2007-7

Compliance Area: Earmarking

Grant Year and Number: 2007 Formula Grant/LA-90-X308-00 $ 43,138

Criteria:

One percent of the Formula Grant fund apportioned must be made available for transit enhancement activities.

Condition:

The System did not earmark one percentage of the 2007 Formula Grant for transit enhancements.

Effect:

The System did not comply with FTA earmarking requirements as the amounts were not set aside in the grant budget (scope).

Recommendation:

We recommended that the System amend the scope of the grant to include a one percent transit enhancement category.

Corrective Action Taken:

The scope of the grant was amended during 2008 to include the 1% earmarking requirement for the apportionment for transit enhancements. However, a similar issue occurred during 2008. See the current year finding 2008-06.

Finding 2006-15

Compliance Area: Passenger Counts

Grant Year and Number: N/A

Questioned Cost: N/A

Criteria:

FTA Formula Grants are based partly upon passenger counts.

Condition:

Based on our discussion with management, it was noted that bus drivers were not keeping accurate records of passenger counts for the University bus routes. Based on management's investigation into this matter it appears passenger counts for those routes were greatly understated.

Effect:

Management expects this under reporting of passengers to affect the amounts of funds made available to the System for the FTA Formula Grant since it is partly based upon passenger counts. Management anticipates the 2007 Formula Grant may be reduced by up to $300,000 due to this under reporting of passenger counts.

Recommendation:

We recommended that management have training sessions with the bus drivers to emphasize how critically important it is to maintain accurate passenger counts and to put in place a monitoring system.

Additional Recommendation:

We recommend the System implement a procedure to document attendance of employees who attend the various trainings offered.

Corrective Action Taken:

Training for the drivers on how to operate the electronic validating fare box is included in all new drivers training and the employee does sign a paper saying he/she has received training on the fare box.

The System signed on with the City-Parish to avail its employees to a variety of training courses at no cost to the System or its employees. Most courses are voluntary but some will be mandatory. The mandatory courses include customer service and sensitivity training. These will be documented in the operations files or the personnel file of each employee.

MANAGEMENT'S RESPONSE

Capital Area Transit System

June 16, 2009

Hannis T. Bourgeois, LLP
Certified Public Accountants
2322 Tremont Drive
Baton Rouge, Louisiana 70809

RE: Responses to the Single Audit Findings from the year ended December 31, 2008 and follow up on the findings outstanding from the year ended December 13, 2007.

Follow up to the Single Audit Findings from the year ended December 31, 2008

2008-01 – Excise Tax

The System became a political subdivision of the state by Act of legislation on January 1, 2006. The Act exempted the System from "all taxes and assessments whatsoever, including sales, use, franchise, property, and income taxes." Since the Act did not specifically mention excise taxes, the System did not file for refund of excise taxes until 2008 when it obtained an opinion from the Attorney General that excise taxes were exempt. At that point the Department of Revenue allowed us to file for refunds of excise taxes paid.

The System must pay the taxes to the fuel suppliers and then file for a refund from the state. This has been done on a quarterly basis since the initial refund for prior years.

2008-02 – Expense Recognition

During 2008 the System was batch processing all invoices received for an entire month and processing them at one time. In some cases the decisions as to what month an invoice was recorded in was not being made by the accounting department but by the operations department that was batching the invoices. This resulted in 2 invoices not being recorded as liabilities at December 31, 2008. The System changed its procedures in February 2009 to process invoices daily with the period being kept open ten days after the month end to capture all liabilities in the proper accounting period.

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Also, certain legal fee bills which were believed to have been included in the accruals of claims were missed in error. Processing of legal fees has been revised to ensure that this does not happen in the future.

2008-03 – Grant Billing/Request

To account for the possibility of prior month corrections and/or adjustments affecting future ECHO draws, the System changed to a method in November of 2008 whereby each ECHO draw is based on year to date expenditures less cumulative expenditures from the prior ECHO draws. Therefore, the year to date activity is reconciled with each ECHO draw.

The failure to draw funds on the 2007 ADA expenditures until 2008 was an error due to personnel turnover and lack of training. This has been rectified and procedures are in place to make sure all available funds are accrued to the proper period.

2008-04 – Earmarking

The oversight has been corrected and procedures have been put into place to ensure that at least one percent of each grant is earmarked for transit enhancements.

2008-05 – Quarterly Reporting and Reconciliation of Reports

We agree with the recommendation and procedures were put into place with the filing of the reports for March 31, 2009. Cumulative corrections were made on the March 31 reports indicating that prior period adjustments were made.

2008-06 – Allowable Costs

The questioned costs were the result of an error in 2007 on the part of a financial consultant who erroneously drew down funds as lease payments were being made on vans previously purchased under a federal grant. This resulted in duplicating the amounts previously draw down. The System, due to employee turnover and lack of knowledge of the history of the vans, perpetuated the error into 2008.

The questioned costs amounts totaling $230,885 were repaid to the FTA on June 3, 2009. Interest will be paid once final amounts are determined and billed by the FTA.

We agree with and have implemented the recommendation.

Follow up to the Single Audit Findings from the year ended December 31, 2007

2006-3 – Financial Reporting to Management and the Board of Commissioners

During 2008 the System continued to suffer from lack of adequate personnel and turnover in the accounting department. Accuracy of the financial statements presented to the Board on a monthly basis was improved in December 2008 with the hiring of a new CFO and in 2009 with the replacement of personnel in the accounting department by more experienced individuals.

In addition, the System has already or will be implementing all recommendations cited in the Single Audit Report.

2006-5 – Lack of Written Accounting Procedures

Some progress was made in 2008 toward developing written policies and procedures for the accounting department. Many already exist but they are not bound nor are they kept in one place. The accounting procedures will be part of an overall Policy and Procedure Manual that will be in hard copy form as well as electronically.

If you have any questions or comments please contact Gary Owens, Chief Financial Officer, at (225) 389-8920 ext. 308 or the undersigned at (225) 389-7705.

Sincerely,

Carol Cranshaw

Carol Cranshaw
General Manager & Acting C.E.O.
Capital Area Transit System

cc: Honorable Mayor-President Melvin "Kip" Holden
Mr. Christopher Tyson, President, Board of Commissioners (CATS)
Audit Committee of the Board of Commissioners (CATS)

CAPITAL AREA TRANSIT SYSTEM

MANAGEMENT LETTER

DECEMBER 31, 2008

HTB Hannis T. Bourgeois, LLP
Certified Public Accountants

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178 Del Orleans Avenue, Suite C • Denham Springs, LA 70726
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June 17, 2009

To the Board of Directors
Capital Area Transit System
Baton Rouge, Louisiana

In planning and performing our audit of the financial statements of the Capital Area Transit System (the System) for the year ended December 31, 2008, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on internal control.

However, during our audit we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The following summarizes our comments and suggestions regarding those matters. This letter does not affect our report dated June 17, 2009, on the basic financial statements of the Capital Area Transit System.

Accounts Receivable

Finding:

At December 31, 2007, several accounts with over 90 day past due balances of approximately $10,000 were noted on the accounts receivable aging report. There had been no recent activity on these balances. There had been no review of these over 90 day balances from the aging report performed by the accounting manager.

Recommendation:

We recommended that the accounting manager review the aging report on a monthly basis and follow up on any balances that have not been collected. Any balances that are deemed uncollectible should be written off only after all collection efforts have been exhausted. The approval to write off bad debts should be approved by the Board of Directors and documented in the Board minutes.

Corrective Action Taken:

As of December 31, 2008, the System set up an allowance for doubtful accounts in the amount of $5,000. This allowance takes the amount receivable over 90 days into account. The System determined that no write offs are deemed to be appropriate as of December 31, 2008. Write offs will be approved by the Board of Directors once the final determination has been made that an account is deemed uncollectible.

Compensated Absences

Finding:

During the prior year, it was noted that the accumulated vacation hours for some union employees were included in the vacation accrual calculation as of December 31, 2007. The union employees are not allowed to carryover any unused time to the next year. The time is forfeited if not used; therefore, these hours should not be included in the calculation.

Recommendation:

We recommended management review this calculation in the future to ensure the accumulated hours for all union employees is excluded from the calculation.

Corrective Action Taken:

The System has setup procedures to insure that unused compensated time for union employees is written off as forfeited as of December 31 each year.

Payroll

Finding:

In the prior year, for three of the employees selected for testing out of a sample size of 40, it was noted that their personnel file did not include all of the necessary information relevant to employment.

Additional Finding:

In the current year, twelve of the employees selected for testing out of a sample size of 40, it was noted that their personnel file did not include all of the necessary information relevant to employment.

Recommendation:

We continue to recommend that the System review all personnel files to ensure the appropriate documentation is included.

Finding:

During the prior year, for three of the employees selected for testing out of a sample size of 40, it was noted that the employees were salaried. However, they still received holiday and overtime pay in addition to their salary. We were informed that the System is currently reviewing their policy regarding this issue as all salaried employees are being compensated in this manner.

Recommendation:

We recommended the System continue to review this issue and implement a policy regarding the benefits received by salaried employees.

Corrective Action Taken:

The System evaluated their payroll policy regarding benefits received by salaried employees. The policy stated that its operation street supervisors are hourly employees that are guaranteed a minimum of 40 hours per week. If the supervisors work over 8 hours per day, these employees are paid overtime. If the supervisors actually work forty hours and are off on a holiday, these employees get paid 40 hours plus the holiday pay. If the supervisors work less than 40 hours in a week, the System uses accumulated compensated absence time to make up the difference.

Finding:

In the prior years, we noted that IRS Schedule 941's (Employer's Quarterly Federal Tax Return) were not regularly being reconciled to the general ledger balances. In the prior year, it was noted that the 941's were filled out incorrectly by the System's third party payroll agency. This could have been prevented if the 941's were reviewed by the accounting department on a quarterly basis.

Additional Finding:

In the current year, we noted that the System's accounting department is not reconciling or reviewing the quarterly 941 returns to the general ledger.

Recommendation:

We recommended and continue to recommend the Accounting Manager perform a quarterly reconciliation of all quarterly 941's to general ledger payroll account balances. This reconciliation should be reviewed and approved by the CFO. Amended 941's should be filed as necessary for any incorrect payroll tax reports.

Finding:

During the year ended December 31, 2005, for one of the employees selected for testing, it was noted the incorrect pay rate was being used. The employee was being paid $13.74 per hour when the correct rate was $13.36 per hour resulting in an over payment of wages for the 2005 year of approximately $430.

In 2006, for two employees selected for testing, it was noted that incorrect pay rates were being used. These employees were both paid $9.67 per hour when the correct rate was $9.39 per hour.

In the 2007, for one employee selected for testing, it was noted that the incorrect pay rate was being used. The employee was paid $14.35 per hour when the correct rate was $14.78 per hour.

Additional Finding:

In the current year audit, we noted one of the forty employees selected for testing was paid at lower than stated in the union agreement for his/her position. This employee was paid a rate of $11.14 per hour when the correct rate was $14.01 per hour.

Recommendation:

Although estimated amounts of overpayments are not material to the financial statements, we again recommend a more stringent review of payments to employees be performed to ensure correct pay rates are being used.

Fixed Assets

Finding:

In the prior years, we noted the following deficiencies and inaccuracies regarding fixed assets:

1. Certain items to be capitalized were incorrectly expensed during the year.
2. A formal capitalization policy has not been adopted and approved by the Board.
3. A vendor designed fixed asset software program is not being used. Currently, all fixed asset schedules are being maintained in excel which results in a cumbersome method of calculating and recording fixed asset additions, disposals and depreciation expense.
4. The accounting department had not been reviewing the repairs and maintenance accounts to determine if any reclassifications were necessary.

Recommendation:

We recommended a monthly review of all repairs and maintenance expense accounts be performed and documented to determine that all items are being properly capitalized with any necessary reclassification entries made at that time. In addition, we recommended the board adopt a formal capitalization policy consistent with FTA and City-Parish guidelines. Lastly, based on the large dollar amount of fixed assets maintained by the System; we recommended the client purchase fixed asset software rather than using the current excel spreadsheet method.

While the accounting software utilized by the System has a fixed asset module, it was noted by management that the software does not work properly.

Corrective Action Taken:

The System reviewed all maintenance and expense accounts during 2008 to ensure that all items to be capitalized were properly recorded. The asset schedules were reconciled to the general ledger. The System reviewed all asset additions and major repair expenses to ensure consistency with the City-Parish and FTA guidelines. Management will document and request the Board adopt a formal capitalization policy as this was not completed during fiscal year ended December 31, 2008.

Fixed Assets are a large dollar item for the System; however, the number of additions and disposals are minimal. Although the System's management feels the current Excel spreadsheet accurately accounts for the assets of the organization, the System will actively pursue the purchase of a fixed asset module in fiscal year 2009.

Information Systems Security

Finding:

It was noted in prior years that 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. The areas for security enhancement include:

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

Recommendation

We recommended in the prior year and continue to recommend that CATS have a follow up IS audit to address the areas of concern listed in the previous report. Also, management should continue the process of implementing all recommendations of the IT specialist.

Corrective Action Taken:

The System recognized the importance of information systems security and in 2008 hired an IT Manager on staff. The System has also been working closely with the City's IT Department and has implemented safeguards to keep the system secure. The System's management has reviewed and accepted the IT Plan, which includes short-term as well as long-term projects. The System will explore options regarding an IS audit, which may be eligible under the City's review. The System is confident at this point that all recommended controls have been put in place.

<u>Additional Recommendation:</u>

We continue to recommend as in the prior year that CATS have a follow up IS audit to address the areas of concern listed in the previous report. Also, management should continue the process of implementing all recommendations of the IT specialist.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with management and staff, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

This report is intended for the use of management and the office of the Legislative Auditor, State of Louisiana, and should not be used for any other purpose. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Respectfully submitted,

Hannis T. Bourgeois, LLP

Capital Area Transit System

June 29, 2009

Hannis T. Bourgeois, LLP
Certified Public Accountants
2322 Tremont Drive
Baton Rouge, Louisiana 70809

RE: Responses to the Management Letter from the year ended December 31, 2008 dated June 17, 2009.

Capital Area Transit System, (CATS) would like to make a statement before responding to the audit findings for 2008.

In a good faith effort to reconcile prior year findings and develop proper written processes and procedures, CATS contracted with a Business to Business CFO/CIO to act as CATS CFO. It was with the understanding that the contracted CFO would review current processes and recommend any changes, implement new policies when approved, record the processes and procedures to follow, and train Accounting staff, in order to comply with prior audit findings. It was also the responsibility of the contracted CFO to provide monthly financial statements to the Board of Directors. After several months, it was evident that the contractor could not comply with the terms of the contract and the contractual relationship was severed.

In 2008 CATS again suffered from the lack of qualified accounting personnel and turnover. The situation has begun to improve with the hiring of a CPA as CFO in December 2008 and the replacement, through attrition, of accounting staff with more experienced personnel.

CATS does understand that the responsibility for the accuracy of its financial reporting rests solely on its management. To that end, management feels it has taken significant steps in the right direction toward improving its accountability, policies and procedures.

Payroll

Much progress was made in 2008 toward reviewing personnel files for completeness. With the April 2009 hiring of a new payroll accountant the personnel files will once again be reviewed for completeness.

Management agrees with the recommendations and has already implemented changes in our human resources and personnel areas to comply.

Information Systems Security

Management agree with all recommendations and will consider performing an IS audit in conjunction with the City-Parish of East Baton Rouge.

If you have any questions or comments please contact Gary Owens, Chief Financial Officer, at (225) 389-8920 ext. 308 or the undersigned at (225) 389-7705.

Sincerely,

Carol Cranshaw

Carol Cranshaw
General Manager & Acting C.E.O.
Capital Area Transit System

cc: Mr. Christopher Tyson, President, Board of Commissioners (CATS)
Audit Committee of the Board of Commissioners (CATS)