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CAPITAL TRANSPORTATION CORPORATION

Financial Statements and Schedules

December 31, 2003

With Independent Auditors' Report Thereon

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CAPITAL TRANSPORTATION CORPORATION

Table of Contents

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Postlethwaite & Netterville

A Professional Accounting Corporation
Associated Offices in Principal Cities of the United States
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Independent Auditors' Report

Board of Directors
Capital Transportation Corporation:

We have audited the accompanying statements of net assets of Capital Transportation Corporation (CTC), a component unit of the City of Baton Rouge - Parish of East Baton Rouge as of December 31, 2003 and 2002, and the related statements of revenues, expenses and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of CTC's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of CTC as of December 31, 2003 and 2002, and the results of its operations and its cash flows for the years then ended in conformity with auditing standards generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 3 through 5 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board (GASB). We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated June 16, 2004 on our consideration of CTC's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

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Our audits were made for the purpose of forming an opinion on the 2003 and 2002 financial statements taken as a whole. Schedule 1 of the Required Supplementary Information, as listed in the Table of Contents, is not a required part of the financial statements of CTC but is supplementary information required by the GASB. 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.

Postlethwaite & Netterville

Baton Rouge, Louisiana
June 16, 2004

Capital Transportation Corporations
Management's Discussion and Analysis
Year ended December 31, 2003

This section of CTC's annual financial report presents a discussion and analysis of CTC's financial performance during the fiscal year that ended December 31, 2003. Please read this section in conjunction with CTC's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

CTC's net assets are $4,421,480 as of December 31, 2003, representing an increase of $194,600 or 4.6% from that of December 31, 2002.

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 CTC'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. CTC maintains two different funds: a proprietary fund and a fiduciary fund.

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

Proprietary Fund. CTC has one type of proprietary fund, an enterprise fund, which is used to report the same functions presented as business-type activities; for CTC, the fund accounts for all transit activity. The basic proprietary fund statements can be found on pages 6 through 8 of this report.

CTC'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 CTC are included in the Statement of Net Assets.

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

Fiduciary Fund. CTC 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 9 through 10 of this report.

FINANCIAL ANALYSIS OF CTC

Net Assets

CTC's total net assets at December 31, 2003 increased from $4,226,880 to $4,421,480. Table A-1 summarizes CTC's net assets as of December 31, 2003.

Current assets have decreased, reflecting an ongoing "tight" cash position. Restricted assets represent resources contractually restricted, primarily related to matching funds to be used solely for and/or receivables from federal grants. Equipment, net of accumulated depreciation, has increased primarily as a result of rolling stock purchases. In accordance with the terms of an operating agreement with the City-Parish, CTC does not own land and buildings; rather, the City-Parish provides CTC with the use of its administrative building and terminal facility.

CTC's positive working capital reflects significant efforts by management. Management believes that CTC's operations will generate adequate cash flow for the 2004 fiscal year. However, as noted by long-term liabilities of $1,114,017, and negative unrestricted net assets of $1,146,840, fiscal year 2004 is a concern to management as a significant portion of these longer-term payables could become current payables. Additionally, uncertainty exists as to the amount of nonfederal revenues that will be received in order to pay the claims, insurance and general operations costs.

Table A-1

Capital Transportion Corporation's Net Assets

December 31, 2003

	2003	2002
Current unrestricted assets	$ 679,166	$ 997,730
Restricted current assets	1,365,009	1,269,117
Total current assets	2,044,175	2,266,847
Equipment, net	4,544,416	3,865,036
Net pension asset, long-term	958,078	835,603
	$ 7,546,669	$ 6,967,486
Liabilities and Net Assets		
Current unrestricted liabilities	$ 1,670,067	$ 1,679,754
Restricted current liabilities	341,105	258,274
Total current liabilities	2,011,172	1,938,028
Long term claims payable and related liabilities	395,332	177,500
Long term other liabilities	718,685	625,078
	3,125,189	2,740,606
Net Assets-Invested in Capital Assets	4,544,416	3,865,036
Net Assets-Restricted	1,023,904	1,269,117
Net Assets-Unrestricted	(1,146,840)	(907,273)
Total net assets	4,421,480	4,226,880

Changes in Net Assets

CTC's operating revenues increased slightly from the prior year amount of $3,727,656 to $3,833,900 or 3%. This increase is primarily attributable to an increase in the LSU contract (in fees and number of trips) of approximately $150,000, offset by route reductions initiated to increase efficiency of operations.

Operating expenses increased by a modest $361,134 or 3% to $12,201,659. Personal services, supplies, fuel and claims expenses were all areas of increased costs.

Net non-operating revenues in 2003 remained relatively constant with decreases in federal operating subsidy revenue being offset by a slight increase in hotel/motel tax revenue.

Capital contributions increased significantly from 2002 to 2003, with an increase in grant funding used to purchase four new busses, five new trolley carts and other capital items.

Table A-2

Capital Transportion Corporation's Changes in Net Assets

Years ended December 31, 2003 and 2002

	2003	2002
Operating revenues:		
Charges for services	$ 3,769,738	$ 3,691,936
Other	64,162	35,720
Total operating revenues	3,833,900	3,727,656
Direct operating expenses:		
Operating expenses	11,341,788	10,962,408
Depreciation expense	859,871	878,117
Total direct operating expenses	12,201,659	11,840,525
Loss from operations	(8,367,759)	(8,112,869)
Nonoperating revenues, net:		
Government operating grants	4,137,413	4,319,918
Hotel/motel tax	862,228	807,561
Other revenue	55,671	9,721
Operating transfers from City-Parish Government	1,989,629	2,062,630
Total nonoperating revenues	7,044,941	7,199,830
Net loss before capital contributions	(1,322,818)	(913,039)
Capital contributions - Federal subsidy	1,517,418	52,534
Net income (loss) after capital contributions	194,600	(860,505)
Net assets, beginning of year, restated	4,226,880	5,087,385
Net assets, end of year	$ 4,421,480	$ 4,226,880

FINANCIAL OUTLOOK

The 2004 budget anticipates a modest increase in passenger fares and contract revenue, while federal grant revenues, taxes and transfers from the City-Parish will remain constant. Administrative costs are projected to decrease by 6%, while operations and maintenance costs increasing 7% and 2%, respectively. Overall, CTC is budgeted to operate at a break-even position.

CONTACTING CTC'S FINANCIAL MANAGEMENT

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

CAPITAL TRANSPORTATION CORPORATION

Balance Sheet - Proprietary Fund

December 31, 2003 and 2002

	2003	2002
Assets		
Current assets:		
Cash and cash equivalents	$ 316,250	$ 549,541
Accounts receivable	46,948	110,127
Inventories	236,738	229,183
Prepaid expenses and other assets	79,230	108,879
	679,166	997,730
Restricted assets, cash and investments:		
Cash and cash equivalents	742,818	617,882
Due from other governments	622,191	651,235
Total restricted assets	1,365,009	1,269,117
Total current assets	2,044,175	2,266,847
Net pension asset, long-term	958,078	835,603
Equipment, net	4,544,416	3,865,036
	7,546,669	6,967,486
Liabilities and Net Assets		
Liabilities:		
Current liabilities (payable from current assets):		
Accounts and contracts payable	325,667	334,046
Accrued salaries payable	234,333	200,661
Other accrued liabilities and deferred revenue	172,967	168,298
Claims payable and related liabilities	731,918	779,146
Accrued compensated absences	205,182	197,603
	1,670,067	1,679,754
Current liabilities (payable from restricted assets):		
Deferred revenue	341,105	258,274
Total current liabilities, payable from restricted assets	341,105	258,274
Total current liabilities	2,011,172	1,938,028
Long-term liabilities:		
Accrued compensated absences, less current portion	307,402	366,805
Deferred revenue	411,283	258,273
Claims payable and related liabilities, less current portion	395,332	177,500
Total long-term liabilities	1,114,017	802,578
Total liabilities	3,125,189	2,740,606
Net assets:		
Invested in capital assets	4,544,416	3,865,036
Restricted	1,023,904	1,269,117
Unrestricted	(1,146,840)	(907,273)
Net assets	4,421,480	4,226,880
	$ 7,546,669	$ 6,967,486

See accompanying notes to financial statements.

CAPITAL TRANSPORTATION CORPORATION

Statements of Revenues, Expenses and Changes in Net Assets - Proprietary Fund

For the years ended December 31, 2003 and 2002

	2003	2002
Operating revenues:		
Charges for services	$ 3,769,738	$ 3,691,936
Advertising revenue	64,162	35,720
Total operating revenues	3,833,900	3,727,656
Direct operating expenses:		
Personal services and fringe benefits	5,910,203	5,700,684
Supplies, fuel and other bus related expenses	1,260,150	1,052,471
Contractual services and liability costs	4,171,435	4,209,253
Depreciation expense	859,871	878,117
Total direct operating expenses	12,201,659	11,840,525
Loss from operations	(8,367,759)	(8,112,869)
Nonoperating revenues (expenses):		
Interest and financial charges	2,182	2,857
Government operating grants:		
Federal operating subsidy	4,172,447	4,319,918
Planning and technical study grants	221,492	207,890
Planning and technical study expenses	(256,526)	(207,890)
Hotel/motel tax	862,228	807,561
Other revenue	53,489	6,864
Operating transfers from Primary Government	1,989,629	2,062,630
Total nonoperating revenues	7,044,941	7,199,830
Loss before capital contributions	(1,322,818)	(913,039)
Capital contributions - Federal and State subsidies	1,517,418	52,534
Net income (loss) after capital contributions	194,600	(860,505)
Net assets:		
Balance, beginning of year	4,226,880	5,087,385
Balance, end of year	$ 4,421,480	$ 4,226,880

See accompanying notes to financial statements.

CAPITAL TRANSPORTATION CORPORATION

Statements of Cash Flows - Proprietary Fund

For the years ended December 31, 2003 and 2002

	2003	2002
Cash flows from operating activities:		
Cash received from customers	$ 3,769,738	$ 3,824,558
Cash received from other sources	127,341	35,720
Cash paid to employees for compensation and related expenses	(5,238,887)	(5,779,392)
Cash paid to suppliers and others	(6,010,816)	(5,491,572)
Net cash used in operating activities	(7,352,624)	(7,410,686)
Cash flows from noncapital financing activities:		
Operating subsidies received from other governments	4,404,017	4,859,850
Non-operating grant expenses	(256,526)	(196,050)
Sales tax	837,470	815,827
Other revenue	53,489	6,864
Operating transfers City-Parish	2,539,629	2,029,992
Net cash provided by noncapital financing activities	7,578,079	7,516,483
Cash flows from capital and related financing activities:		
Capital contributions received	1,203,259	-
Acquisition and construction of capital assets	(1,539,251)	(36,820)
Net cash used in capital financing activities	(335,992)	(36,820)
Cash flows from investing activities - interest payments received	2,182	2,857
Net (decrease) increase in cash and cash equivalents	(108,355)	71,834
Cash and cash equivalents at beginning of year	1,167,423	1,095,589
Cash and cash equivalents at end of year	1,059,068	1,167,423
Reconciliation of cash as listed on the balance sheets:		
Unrestricted cash	316,250	549,541
Restricted cash	742,818	617,882
	1,059,068	1,167,423
Reconciliation of loss from operations to net cash used in operating activities:		
Loss from operations	(8,367,759)	(8,112,869)
Adjustments to reconcile loss from operations to net cash used in operating activities:		
Write-off of property	-	112,925
Depreciation	859,871	878,117
(Increase) decrease in accounts receivable	63,179	(32,251)
(Increase) decrease in prepaid assets	29,649	78,978
Increase in net pension asset	(122,475)	(103,153)
(Increase) decrease in inventory	(7,555)	18,629
(Increase) decrease in accounts payable and accrued expenses	21,862	(241,938)
Increase (decrease) in the provision for claims liability	170,604	(9,124)
Net cash used in operating activities	$ (7,352,624)	$ (7,410,686)

See accompanying notes to financial statements.

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CAPITAL TRANSPORTATION CORPORATION

Statements of Plan Net Assets - Pension Trust Fund

December 31, 2003 and 2002

		2003		2002
Assets:				
Cash and equivalents	$	672,960	$	432,717
Receivables		42,212		42,284
Investments		4,497,633		3,685,733
Plan Net Assets	$	5,212,805	$	4,160,734

CAPITAL TRANSPORTATION CORPORATION

Statements of Changes in Plan Net Assets - Pension Trust Fund

Years ended December 31, 2003 and 2002

	2003	2002
Additions:		
Contributions:		
Employer contributions	$ 338,493	$ 333,469
Employee contributions	296,621	298,633
Total contributions	635,114	632,102
Investment income:		
Investment and dividend income	142,912	119,148
Net appreciation (depreciation) in fair value	670,054	(485,405)
	812,966	(366,257)
Less investment expense	(62,699)	(49,928)
Net investment income	750,267	(416,185)
Total additions	1,385,381	215,917
Deductions:		
Benefits	174,484	157,212
Employee refunds	124,815	112,424
Administrative expenses	34,011	30,353
Total deductions	333,310	299,989
Net change in plan assets	1,052,071	(84,072)
Plan assets at beginning of year	4,160,734	4,244,806
Plan assets at end of year	$ 5,212,805	$ 4,160,734

See accompanying notes to financial statements.

(1) Summary of Significant Accounting Policies

(a) Report Issued Under Separate Coverage

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

(b) Financial Reporting Entity

Capital Transportation Corporation is a corporation created by East Baton Rouge Parish to provide bus transportation services. The Metropolitan Council exercises oversight over CTC 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 CTC 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 CTC (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, CTC is considered a component unit of the City of Baton Rouge, Parish of East Baton Rouge. In addition, based on the previous criteria, CTC's management has included the Capital Transportation Corporation's Employees' Pension Trust Fund as a Blended Component Unit within the financial statements of the Corporation.

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

(1) Summary of Significant Accounting Policies (continued)

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

(c) Measurement Focus, Basis of Accounting and Presentation

The accounting policies of CTC conform to accounting principles generally accepted in the United States of America as applicable to governments. The government-wide and proprietary fund financial statements are reported using the economic resource measurement focus and the accrual basis of accounting. CTC 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. CTC has no governmental funds; the proprietary fund financial statements are the government–wide financial statements. Government resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The funds are classified as 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, CTC 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.

CTC 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

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

(1) Summary of Significant Accounting Policies (continued)

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

(d) Restricted Assets and Liabilities

Certain assets, consisting of cash and cash equivalents, are segregated and classified as restricted assets which may not be used except in accordance with contractual terms, under certain conditions. These assets consist of assets (1) restricted for insurance which are held by the State of Louisiana and (2) cash and receivables related to federal grants and related matching. Corresponding restricted liabilities reflect assets held for matching purposes and payables related to these restricted assets.

(e) Investments

Investments, consisting of mutual funds, are stated at fair value based on quoted prices.

(f) Inventories

Inventories, principally repair parts and supplies, are stated at cost, which approximates market. Cost is determined by the average cost method except for gasoline, diesel fuel and oil for which cost is determined by the first-in, first-out method.

(g) Equipment

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

(h) Federal Grants and Dedicated Taxes

Federal grants are made available to CTC 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 grant is recognized at the time when the expense is incurred.

In addition to Federal grants, CTC is the recipient of 50% of the 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). CTC's share of these funds shall not be used to displace, replace or supplant funds previously appropriated or otherwise used for urban mass

(1) Summary of Significant Accounting Policies (continued)

transit purposes. The monies in the Improvement Fund are appropriated annually by the State legislature. In addition, CTC also receives monies from the East Baton Rouge Enhancement Fund (Enhancement Fund), which has similar restrictions and is created by the State legislature as the Improvement Fund proceeds.

(i) Compensated Absences

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

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

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

(j) Deferred Revenue

CTC receives matching funds for its federal grants from budgeted transfers from the City-Parish. The City-Parish transfers the matching funds to restricted accounts at the time of the grant award. The deferred revenue reflects those funds not yet spent by CTC that are restricted to be used for matching purposes.

(k) Claims and Judgements

CTC 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. Incurred but not reported claims have been considered in determining the accrued liability.

(l) Cash Flows

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

(m) 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.

(1) Summary of Significant Accounting Policies (continued)

(n) Operating vs. Non-Operating Revenue

CTC 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.

(2) Cash and Investments

Cash and Cash Equivalents

CTC's cash and cash equivalents consisted of the following as of December 31, 2003 and 2002:

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

	2002		
	Proprietary Enterprise Fund	**Fiduciary Pension Trust Fund**	**Totals**
Cash on hand and in banks	$ 1,066,573	$ -	$ 1,066,573
Certificates of deposit	100,850	-	100,850
Money Market Accounts	-	432,717	432,717
Total cash and cash equivalents	$ 1,167,423	$ 432,717	$ 1,600,140

Proprietary fund cash and cash equivalents of $1,059,068 includes $316,250 of unrestricted assets and $742,818 of restricted assets as of December 31, 2003. Proprietary fund cash and cash equivalents of $1,167,423 includes $549,541 of unrestricted assets and $617,882 of restricted assets as of December 31, 2002.

Proprietary Fund cash and cash equivalents includes $533,078 and $516,548 as of December 31, 2003 and 2002, respectively of amounts that are included in the City-Parish's consolidated cash and investment pool, which consist of primarily deposits with financial institutions. These deposits

(2) Cash and Investments (continued)

are collateralized by the financial institutions pledging government securities which are held in safekeeping with the financial institution's agent in the City-Parish's name.

Proprietary Fund cash and cash equivalents also include cash in bank accounts and certificates of deposit having aggregate bank balances of $575,965 and $611,679 as of December 31, 2003 and 2002, respectively. These deposits insured through by federal depository insurance or by collateral held by CTC's agent, in CTC's name. The Fiduciary Pension Trust Fund contains money market accounts that are not categorized under GASB 3 requirements.

Statutes authorize CTC'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, 2003 and 2002, certificates of deposit of $102,285 and $100,850, respectively, were pledged as collateral to the Louisiana Office of Workman's Compensation. Other restricted assets consist of funds held by the City-Parish for matching of federal and state grants.

Investments

As of December 31, 2003 and 2002, 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 Trust. Those assets, categorized by their custodial risk include:

	2003			2002		
	Fair Value	Category 1	Category Rating not Required	Fair Value	Category 1	Category Rating not Required
U.S. Treasury and Agency Bonds	$ 587,324	$ 587,324	$ -	$ 599,026	$ 599,026	$ -
Corporate Bonds	973,365	973,365	-	1,851,506	1,851,506	-
Corporate Stocks	2,299,658	2,299,658	-	769,437	769,437	-
Equity Mutual Fund	637,286	-	637,286	465,764	-	465,764
Total	$ 4,497,633	$ 3,860,347	$ 637,286	$ 3,685,733	$ 3,219,969	$ 465,764

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

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(3) Receivables – Due From Other Governments

Receivables – due from other governments at December 31, 2003 and 2002 consist of:

	2003	2002
Federal Trust Administration	$ 384,613	$ 394,691
Louisiana Department of Transportation	-	21,630
Hotel-Motel Tax	237,578	234,914
	$ 622,191	$ 651,630

(4) Equipment

A summary of changes in fixed assets follows:

	January 1, 2003	Additions	Deletions	December 31, 2003
Equipment, primarily transportation vehicles	$ 10,914,316	1,698,192	516,901	$ 12,095,607
Accumulated depreciation	(7,049,280)	(1,007,928)	(506,017)	(7,551,191)
	$ 3,865,036	690,264	10,884	$ 4,544,416

	January 1, 2002	Additions	Deletions	December 31, 2002
Equipment, primarily transportation vehicles	$ 11,500,575	36,820	623,079	$ 10,914,316
Accumulated depreciation	(6,681,317)	(883,694)	(515,731)	(7,049,280)
	$ 4,819,258	(846,874)	107,348	$ 3,865,036

The City-Parish owns the terminal, administrative office building and related land which are used by CTC for its operations. The City-Parish provides these facilities and land to CTC at no charge.

(5) Working Capital

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

(6) Pension Plan

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

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 January 1, 2003 and 2002. The valuation is performed at the beginning of the plan year.

Current membership is comprised of the following at January 1:

	2003	2002
Retirees and beneficiaries currently receiving benefits	44	39
Vested terminated employees	17	16
Active employees:		
Fully vested	37	39
Not vested	105	100
	203	194

For the years ended December 31, 2003 and 2002, the Corporation had an annual payroll of approximately $4,800,000 and $4,700,000. Total annual covered payroll for the years ended December 31, 2003 and 2002 was $4,149,773 and $3,991,134, respectively.

The employees and the Corporation each contributed, as required, 7% and 8%, respectively, of each employee's salary. For the plan year beginning February 1, 1995, CTC'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.

(6) Pension Plan (continued)

Key actuarial assumptions include 7% interest compounded annually, mortality tables from the 1983 Group Annuity Mortality Table for males and females, anticipated turnover and disability rates ranging from .99% to 8.48% based on age of employee, and salary increases of 5% annually. The actuarial cost method is the frozen entry age actuarial cost method. Asset valuation method is based on the current market value as of the last day of the prior plan year.

The Corporation's annual pension cost and net pension obligation for the years ended December 31, 2003 and 2002 were as follows:

	2003	2002
Annual required contribution	$ 207,283	$ 217,556
Interest on net pension obligation	(58,493)	(49,768)
Adjustment to annual required contribution	78,875	69,005
Annual pension cost	227,665	236,793
Contributions made	350,140	339,946
Increase in net pension asset	122,475	103,153
Net pension asset, beginning of year	835,603	732,450
Net pension asset, end of year	$ 958,078	$ 835,603

Trend information is as follows:

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Asset
December 31, 2003	$ 227,665	154%	$ 958,078
December 31, 2002	$ 236,793	144%	$ 835,603
December 31, 2001	$ 118,237	252%	$ 732,450

(7) Deferred Compensation Plan

CTC offers its employees participation in the Louisiana Public Employees' Deferred Compensation Plan (Compensation Plan), created by Louisiana Revised Statutes and in accordance with Section 457 of the Internal Revenue Code. The Compensation Plan is available to all full-time employees and permits them to defer a portion of their salary until future years. All amounts of compensation deferred under the Compensation Plan and related activities are solely the property and the rights of the State of Louisiana, subject only to the claims of the general creditors of the State of Louisiana. Compensation deferred under this plan for the years ended December 31, 2003 and 2002 was $25,826 and $26,652, respectively.

(8) Commitments and Contingencies

(a) Contingencies

CTC receives financial assistance directly from Federal agencies which are subject to audit and final acceptance by these agencies. In the opinion of management, amounts that might be subject to disallowance upon final audit, if any, would not have a material effect on CTC's financial position.

(8) Commitments and Contingencies (continued)

(b) Grant Commitments

As of December 31, 2003, CTC has committed current restricted cash to fund local matching requirements under grants for which a contractual obligation existed at the end of each year. CTC does not currently foresee any concerns in meeting its matching requirements. Similar commitments existed as of December 31, 2002.

(9) Self-insurance and Legal Claims

CTC 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. CTC is self-insured for the first $250,000 for general liability claims and workers' compensation claims. Excess general liability claims are commercially insured up to $750,000, with CTC self-injury claims in excess of $1,000,000. Excess workers' compensation claims above this limit are covered by commercial insurance. At December 31, 2003 and 2002, accrued claim liabilities of $874,920 and $956,646, respectively, are included on the Proprietary Fund's statement of net assets, as follows:

	Current Portion	Long-Term Portion	Total
2003	$ 731,918	395,332	1,127,250
2002	$ 779,146	177,500	956,646

The accruals, which are based upon the advice of counsel and estimates of CTC's third-party administrators, are, in the opinion of management, sufficient to provide for all probable estimable claims liabilities at December 31, 2003 and 2002. Changes in claims liability during the years ended December 31 are as follow:

	Beginning of year liability	Current year claims and changes in estimates	Claim payments	Balance at year end
2003	$ 956,646	888,589	(717,985)	$ 1,127,250
2002	$ 965,770	492,238	(501,362)	$ 956,646

(10) Significant Sales Contract

An agreement between the Board of Supervisors of Louisiana State University and CTC was renewed in 2003 for a one year period expiring in June, 2004. Under this, CTC provides Louisiana State University (LSU) with 45 passenger buses, personnel and supplies to operate a mass transit system. As consideration for the service rendered, LSU paid to CTC during 2003 and 2002 approximately $2,015,000 and $1,850,000, respectively. This amount is included in charges for services on the statements of revenues, expenses and changes in net assets. Management expects that the contract will be renewed.

CAPITAL TRANSPORTATION CORPORATION

Required Supplementary Information Under GASB Statement No. 25

SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL	Funded Ratio	Covered Payroll	Unfunded AAL as a percentage of payroll
January 1, 2004	$ 4,986,296	$ 4,986,296	$ -	100.00%	$ 4,149,773	N\A
January 1, 2003	$ 4,160,734	$ 4,309,796	$ 171,252	96.03%	$ 3,991,134	4.29%
January 1, 2002	$ 4,244,806	$ 4,763,742	$ 518,936	89.11%	$ 4,368,258	11.88%
January 1, 2001	$ 4,113,469	$ 4,113,469	$ -	100.00%	$ 4,099,654	not applicable
January 1, 2000	$ 3,752,507	$ 3,752,507	$ -	100.00%	$ 3,917,671	not applicable
January 31, 1999	$ 2,476,580	$ 2,814,804	$ 338,224	87.98%	$ 2,569,374	13.16%
January 31, 1998	$ 2,048,573	$ 1,374,337	$ 121,418	91.17%	$ 2,519,162	4.82%

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Year Ended	Annual Required Contribution	Actual Contribution	Percentage Contributed
December 31, 2003	$ 207,283	350,140	168.92%
December 31, 2002	$ 217,556	333,469	153.28%
December 31, 2001	$ 106,152	297,684	280.43%
December 31, 2000	$ 100,051	296,920	296.77%
December 31, 1999	$ 115,024	230,118	200.06%
January 31, 1999	$ 107,195	192,713	179.78%
January 31, 1998	$ 92,368	140,449	152.05%

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	January 1, 2004
Actuarial cost method	Aggregate actuarial method. This method is a change from the prior year in which the frozen entry age normal method was used. Under the aggregate actuarial cost method, a separate unfunded liability is not identified or amortized
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.
Actuarial assumptions:	
Investment rate of return	7.00%
Projected salary increases	5.00%

See accompanying independent auditors' report.

CAPITAL TRANSPORTATION CORPORATION

Single Audit Reports

December 31, 2003

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CAPITAL TRANSPORTATION CORPORATION

Single Audit Reports

December 31, 2003

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CAPITAL TRANSPORTATION CORPORATION
Baton Rouge, Louisiana

Single Audit Reports

December 31, 2003

Table of Contents

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

To the Board of Commissioners
Capital Transportation Corporation:

We have audited the financial statements of Capital Transportation Corporation (CTC) as of and for the year ended December 31, 2003, and have issued our report thereon dated June 16, 2004. 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.

Compliance

As part of obtaining reasonable assurance about whether CTC's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under *Government Auditing Standards.* However, the results of our tests revealed immaterial instances of noncompliance, which we have reported to management of CTC in a separate letter dated June 16, 2004.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered CTC's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting, which we have reported to management of CTC in a separate letter dated June 16, 2004.

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This report is intended solely for the information of CTC, CTC's management and federal awarding agencies and pass-through entities, such as the State of Louisiana and Legislative Auditor's Office, and is not intended to be and should not be used by anyone other than these specified parties.

Postlethwaite & Netterville

Baton Rouge, Louisiana
June 16, 2004

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO THE MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 AND THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

To the Board of Commissioners
Capital Transportation Corporation:

Compliance

We have audited the compliance of Capital Transportation Corporation (CTC) 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, 2003. CTC's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of CTC's management. Our responsibility is to express an opinion on CTC'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 CTC's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on CTC's compliance with those requirements.

In our opinion, CTC 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, 2003. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2003-1 and 2003-2.

Internal Control Over Compliance

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

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We noted a certain matter involving the internal control over compliance and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect CTC's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. The reportable condition is described in the accompanying schedule of findings and questioned costs as item 2003-2.

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

Schedule of Expenditures of Federal Awards

We have audited the financial statements of CTC as of and for the year ended December 31, 2003 and have issued our report thereon dated June 16, 2004. Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

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

Postlethwaite & Netterville

Baton Rouge, Louisiana
June 16, 2004

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CAPITAL TRANSPORTATION CORPORATION
Baton Rouge, Louisiana

Schedule of Expenditures of Federal Awards

For the year ended December 31, 2003

Federal Grantor/Program Title	CFDA Number	Expenditures
Federal Transit Administration:		
Formula Grants	20.507	$ 5,260,902
Donation of federally owned portion of vehicles from Dallas Area Regional Transit	20.507	327,789
Total		$ 5,588,691

See accompanying notes to Schedule of Expenditures of Federal Awards.

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CAPITAL TRANSPORTATION CORPORATION
Baton Rouge, Louisiana

Notes to Schedule of Expenditures of Federal Awards

December 31, 2003

(1) General

The accompanying Schedule of Expenditures of Federal Awards presents the activity of the federal awards of Capital Transportation Corporation (CTC). CTC's reporting entity is defined in note 1 to the financial statements for the year ended December 31, 2003. All federal awards received from federal agencies are included on the schedule.

(2) Basis of Accounting

The accompanying Schedule of Expenditures of Federal Awards is presented using the accrual basis of accounting, which is described in note 1 to CTC's financial statements for the year ended December 31, 2003.

(3) Relationship to Financial Statements

Federal awards are included in statement of revenues, expenses and changes in net assets as follows:

Nonoperating revenues:	
Government operating grants	
Federal Operating Subsidy	$ 4,172,447
Planning and study grants	221,492
Capital Contributions	1,517,418
Less: Non-Federal Portion of Capital Contributions	(322,666)
	$ 5,588,691

4) Indirect Funding

Of the $5,588,691 of federal grant expenditures under program 20.507, $1,248,504 was received as indirect funding from the City of Baton Rouge-Parish of East Baton Rouge primary government, and $327,789 was received by way of a donation of the federally owned portion of vehicles previously operated by the Dallas Area Regional Transit Authority.

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CAPITAL TRANSPORTATION CORPORATION
Baton Rouge, Louisiana

Schedule of Findings and Questioned Costs

Year ended December 31, 2003

(1) Summary of Auditors' Results

(a) The type of report issued on the financial statements: unqualified opinion

(b) Reportable conditions in internal control were disclosed by the audit of the financial statements: none reported; Material weaknesses: no

(c) Noncompliance which is material to the financial statements: no

(d) Reportable conditions in internal control over major programs: yes; Material weaknesses: no

(e) The type of report issued on compliance for major programs: unqualified opinion

(f) Any audit findings which are required to be reported under Section 510(a) of OMB Circular A-133: no

(g) Major program:

Federal Transit Administration – Formula Grants (CFDA number 20.507)

(h) Dollar threshold used to distinguish between Type A and Type B programs: $300,000

(i) Auditee qualified as a low-risk auditee under Section 530 of OMB Circular A-133: yes

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

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

2003-1 Reporting:

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

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

2003-1 (continued)

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

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

<u>Management's Response</u>

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

2003-2 <u>Allowable Costs</u>

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

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

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

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

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

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

Management's Response

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

CAPITAL TRANSPORTATION CORPORATION
Baton Rouge, Louisiana

Summary Schedule of Prior Audit Findings

- **None**

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To the Board of Commissioners
Capital Transportation Corporation
Baton Rouge, LA

We have audited the financial statements of Capital Transportation Corporation. for the year ended December 31, 2003 and have issued our report thereon. As part of our examination, we made a study and evaluation of internal accounting control to the extent we considered necessary to evaluate the system as required by auditing standards generally accepted in the United States of America. Under these standards, the purposes of such evaluation are to establish a basis for reliance on the system of internal accounting control in determining the nature, timing, and extent of other auditing procedures that are necessary for expressing an opinion on the financial statements and to assist the auditor in planning and performing his audit of the financial statements.

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

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

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

Reconciliation of Accounts Receivable

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

Management's Response

The accounts receivable account will be reconciled to the subsidiary ledger and other source documents on a monthly basis by the accountant and will be reviewed by the CFO.

Increased Reviews by Supervisory Personnel

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

Management's Response

Effective immediately, all bank reconciliations will be reviewed and signed by the CFO.

Fixed Assets

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

Management's Response

A fixed asset tagging system is currently in-place at CTC, however, due to significant

turnover, some employees were unaware of its existence. We will brief all employees on the established policy of attaching identification tags to fixed assets.

Cash Disbursements

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

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

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

Management's Response

We will discuss with all employees responsible for cash disbursements the importance of following the established policies. Additionally, since there has been considerable turnover of employees responsible for cash disbursements, we will clearly explain the established policy to all employees involved in the process.

Compensation Adjustment

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

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

Management's Response

Effective immediately, no CTC employee will approve of any personnel action regarding an immediate family member.

Special Services

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

Management's Response

CTC has discontinued all special services not in accordance with CFR Title 49 part 604.

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

Postlethwaite & Netterville

Baton Rouge, Louisiana
June 16, 2004