

CAPITAL AREA TRANSIT SYSTEM

Annual Financial Statements

December 31, 2013 and 2012

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Independent Auditor's Report

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

Report on Financial Statements

We have audited the accompanying financial statements of the business-type activities and the major fund 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 Employees' Pension Trust Fund (a fiduciary fund of the System), as of and for the years ended December 31, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the System's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

NEW ORLEANS HOUSTON BATON ROUGE COVINGTON

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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities, the major fund of the System and the Capital Area Transit System Employees' Pension Trust Fund as of December 31, 2013 and 2012, and the respective changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, beginning on page 5 and the required supplementary information under GASB Statement No. 25 beginning on page 33 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board (GASB) who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the System's and the Capital Area Transit System Employees' Pension Trust Fund's basic financial statements. The schedule of expenditures of federal awards as required by Office of Management and Budget (OMB) Circular A-133, *Audits of State, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The schedule of expenditures of federal awards has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 24, 2014, on our consideration of Capital Area Transit System's and the Capital Area Transit System Employees' Pension Trust Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "LaForte".

A Professional Accounting Corporation

Covington, LA
May 24, 2014

REQUIRED SUPPLEMENTARY INFORMATION

CAPITAL AREA TRANSIT SYSTEM BATON ROUGE, LOUISIANA

Management's Discussion and Analysis

The Management's Discussion and Analysis of Capital Area Transit System's (the System) financial performance presents a narrative overview and analysis of the System's financial activities for the year ended December 31, 2013. This document focuses on the current year's activities, resulting changes, and currently known facts in comparison with the prior year's information. Please read this document in conjunction with the additional information contained in the financial statements.

Financial Highlights

The System's net position was \$24,192,510 as of December 31, 2013, representing an increase of \$6,305,570, or 35%, from that of December 31, 2012. A substantial portion of the net position is invested in capital assets.

Net income before capital contributions were \$3,475,259 and \$10,996,101, for 2013 and 2012, 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 required 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.

Although the System is a component unit of the City of Baton Rouge - Parish of East Baton Rouge (City-Parish), it is independently governed by a Board of Commissioners authorized by state statute.

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 11 through 15 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 Position. All assets and liabilities associated with the operation of the System are included in the Statement of Net Position.

**CAPITAL AREA TRANSIT SYSTEM
BATON ROUGE, LOUISIANA**

Management's Discussion and Analysis

The Statement of Net Position reports the System's net position. Net position, 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 position is classified into three categories: net investment 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 16 and 17 of this report.

Basic Financial Statements

The basic financial statements present information for the System as a whole, in a format designed to make the statements easier for the reader to understand. The statements in this section include the Statements of Net Position; the Statements of Revenues, Expenses and Changes in Net Position; and the Statements of Cash Flows.

The Statements of Net Position present the current and long-term portions of assets and liabilities separately. The difference between total assets and total liabilities is net position and may provide a useful indicator of whether the financial position of the System is improving or deteriorating.

The Statements of Revenues, Expenses and Changes in Net Position present information showing how the System's net position changed as a result of current year operations. Regardless of when cash is affected, all changes in net position are reported when the underlying transactions occur. As a result, there are transactions included that will not affect cash until future fiscal periods.

The Statements of Cash Flows present information showing how the System's cash changed as a result of current year operations. The statements of cash flows are prepared using the direct method and include the reconciliation of operating income (loss) to net cash provided by (used in) operating activities (indirect method) as required by GASB 34.

Financial Analysis of the System

Net Position

The System's total net position increased from \$17,886,940 at December 31, 2012 to \$24,192,510 at December 31, 2013.

The increase in net position is primarily due to the 10.6 mill ad valorem tax passed on April 21, 2012. Restricted assets represent cash reserved to meet current fiduciary liabilities, primarily related to self insured vehicle and workers' 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.

**CAPITAL AREA TRANSIT SYSTEM
BATON ROUGE, LOUISIANA**

Management's Discussion and Analysis

Long-term liabilities decreased from \$3,557,525 to \$3,445,703, mainly 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.

The table below summarizes the System's net position as of December 31, 2013 and 2012:

	2013	2012
Unrestricted Assets	\$ 19,987,360	\$ 18,305,261
Restricted Assets	122,905	171,514
Total Current Assets	20,110,265	18,476,775
Equipment, Net	8,624,555	8,635,137
Net Pension Asset, Long-Term	1,590,755	1,609,183
Total Assets	\$ 30,325,575	\$ 28,721,095
Current Liabilities	\$ 2,687,362	\$ 7,276,630
Long-Term Claims Payable and Related Liabilities	1,195,347	971,421
Long-Term Other Liabilities	2,250,356	2,586,104
Total Liabilities	6,133,065	10,834,155
Net Position		
Net Investment in Capital Assets	6,325,526	5,641,345
Restricted	122,905	171,514
Unrestricted	17,744,079	12,074,081
Total Net Position	24,192,510	17,886,940
Total Liabilities and Net Position	\$ 30,325,575	\$ 28,721,095

Changes in Net Position

The System's operating revenues increased from the prior year amount of \$2,131,745 to \$2,186,502, or 2.5%. This consistency is primarily attributable to the sustainability of transportation contracts and overall customer ridership.

Direct operating expenses increased by \$3,544,994, or 23%, from \$15,591,250 to \$19,136,244. This increase is attributable to the implementation of the System's expansion of routes and services.

**CAPITAL AREA TRANSIT SYSTEM
BATON ROUGE, LOUISIANA**

Management's Discussion and Analysis

Net non-operating revenues in 2013 decreased by \$4,030,605, or 16.5%, from \$24,455,606 to \$20,425,001. This decrease was primarily attributable to the primary government decreasing its contribution to the System.

The table below summarizes the changes in net position as of December 31, 2013 and 2012:

	2013	2012
Operating Revenue		
Charges for Services	\$ 2,105,640	\$ 2,024,138
Advertising Revenue	80,862	107,607
Total Operating Revenue	2,186,502	2,131,745
Direct Operating Expenses		
Operating Expenses	16,912,224	14,237,941
Depreciation Expense	2,224,020	1,353,309
Total Direct Operating Expenses	19,136,244	15,591,250
Loss from Operations	(16,949,742)	(13,459,505)
Non-Operating Revenues (Expenses)		
Interest Income	4,234	352
Interest Expense	(138,592)	(184,280)
Other Expenses	(52,193)	(267)
Bad Debt Expense	(99,657)	-
Loss on Disposal of Fixed Assets	12,103	-
Government Operating Grants	4,138,821	4,233,458
Hotel/Motel Tax	1,336,169	1,381,386
Property Tax Revenue	14,612,939	14,801,385
Other Revenue	61,177	29,042
Operating Transfers from Primary Government	550,000	4,194,530
Total Non-Operating Revenues	20,425,001	24,455,606
Income before Capital Contributions	3,475,259	10,996,101
Capital Contributions	2,830,311	2,436,666
Net Income after Capital Contributions	6,305,570	13,432,767
Net Position, Beginning of Year	17,886,940	4,454,173
Net Position, End of Year	\$ 24,192,510	\$ 17,886,940

**CAPITAL AREA TRANSIT SYSTEM
BATON ROUGE, LOUISIANA**

Management's Discussion and Analysis

Capital Assets

During the year ended December 31, 2013, capital assets, net of depreciation, decreased by \$10,582, which was due to depreciation of \$2,224,020 exceeding capital additions of \$2,213,438. Major acquisitions during the year were one bus and ten vans, which were funded by the Federal Transportation Administration.

Financial Outlook

On April 21, 2012, the voters of the municipalities of Baton Rouge and Baker approved a 10.6 mill ad valorem tax. This tax is to be levied for a period of ten years beginning in 2012. Estimated net taxes to be collected for 2013 are \$15 million (\$14.6 million from the City of Baton Rouge and \$0.4 million from the City of Baker). This new, dedicated revenue source will provide budgetary stability the System has needed since inception.

During 2013, the System is using the tax proceeds to increase peak time service and to acquire the capital and human resources needed to fully implement, beginning in 2014, the level and quality of service promised to the taxpayers.

Contacting the System's Management

This financial report is designed to provide the community, the Metropolitan 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.

BASIC FINANCIAL STATEMENTS

CAPITAL AREA TRANSIT SYSTEM
Statements of Net Position - Proprietary Fund
December 31, 2013 and 2012

	2013	2012
Assets		
Current Assets		
Cash and Cash Equivalents	\$ 3,308,825	\$ 365,412
Accounts Receivable	67,508	335,237
Property Tax Receivable	14,988,751	14,801,385
Due from Other Governments	743,924	2,234,720
Prepaid Expenses	250,657	59,593
Inventory	627,695	508,914
Total Current Assets	19,987,360	18,305,261
Restricted Assets		
Cash and Cash Equivalents	122,905	171,514
Total Restricted Assets	122,905	171,514
Capital Assets		
Equipment, Net	8,624,555	8,635,137
Total Capital Assets	8,624,555	8,635,137
Other Assets		
Net Pension Asset, Long-Term	1,590,755	1,609,183
Total Other Assets	1,590,755	1,609,183
Total Assets	\$ 30,325,575	\$ 28,721,095

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

CAPITAL AREA TRANSIT SYSTEM
Statements of Net Position - Proprietary Fund (Continued)
December 31, 2013 and 2012

	2013	2012
Liabilities		
Current Liabilities		
Accounts Payable and Accrued Expenses	\$ 1,114,623	\$ 2,365,423
Accrued Compensated Absences	253,810	191,384
Claims Payable and Related Liabilities	489,541	475,059
Capital Lease Payable	729,388	694,764
Note Payable, Current	100,000	3,500,000
Deferred Grant Revenue	-	50,000
Total Current Liabilities	2,687,362	7,276,630
Long-Term Liabilities		
Accrued Compensated Absences, Less Current Portion	380,715	287,076
Notes Payable, Less Current Portion	300,000	-
Claims Payable and Related Liabilities, Less Current Portion	1,195,347	971,421
Capital Lease Payable, Less Current Portion	1,569,641	2,299,028
Total Long-Term Liabilities	3,445,703	3,557,525
Total Liabilities	6,133,065	10,834,155
Net Position		
Net Investment in Capital Assets	6,325,526	5,641,345
Restricted	122,905	171,514
Unrestricted	17,744,079	12,074,081
Total Net Position	24,192,510	17,886,940
Total Liabilities and Net Position	\$ 30,325,575	\$ 28,721,095

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

CAPITAL AREA TRANSIT SYSTEM
Statements of Revenues, Expenses and Changes in Net Position -
Proprietary Fund
For the Years Ended December 31, 2013 and 2012

	2013	2012
Operating Revenue		
Charges for Services	\$ 2,105,640	\$ 2,024,138
Advertising Revenue	80,862	107,607
Total Operating Revenue	2,186,502	2,131,745
Direct Operating Expenses		
Personal Services and Fringe Benefits	9,091,226	7,851,900
Supplies, Fuel and Other Bus Related Expenses	2,679,951	2,339,779
Contractual Services and Liability Costs	5,141,047	4,046,262
Depreciation	2,224,020	1,353,309
Total Direct Operating Expenses	19,136,244	15,591,250
Loss from Operations	(16,949,742)	(13,459,505)
Non-Operating Revenues (Expenses)		
Interest Income	4,234	352
Interest Expense	(138,592)	(184,280)
Other Expense	-	(267)
Bad Debt Expense	(99,657)	-
Loss on Undeposited Bus Fares	(52,193)	-
Gain on Disposal of Capital Assets	12,103	-
Hotel/Motel Tax	1,336,169	1,381,386
Ad Valorem Tax Revenue	14,612,939	14,801,385
Other Revenue	61,177	29,042
Government Operating Grants		
Federal Operating Subsidy	4,013,621	4,082,909
Planning and Technical Study Grants	125,200	150,549
Operating Transfers from Primary Government	550,000	4,194,530
Total Non-Operating Revenues	20,425,001	24,455,606
Income before Capital Contributions	3,475,259	10,996,101
Capital Contributions	2,830,311	2,436,666
Net Income after Capital Contributions	6,305,570	13,432,767
Net Position, Beginning of Year	17,886,940	4,454,173
Net Position, End of Year	\$ 24,192,510	\$ 17,886,940

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

CAPITAL AREA TRANSIT SYSTEM
Statements of Cash Flows - Proprietary Fund
For the Years Ended December 31, 2013 and 2012

	2013	2012
Cash Flows from Operating Activities		
Receipts from Customers	\$ 2,273,712	\$ 1,836,299
Receipts from Other Sources	80,862	107,607
Payments to Suppliers and Others	(9,234,325)	(5,318,352)
Payments to Employees and Payroll Taxing Agencies	(8,802,545)	(7,744,083)
Net Cash Used in Operating Activities	(15,682,296)	(11,118,529)
Cash Flows from Non-Capital Financing Activities		
Operating Subsidies Received from Other Governments	5,587,851	2,639,921
Ad Valorem Taxes	14,425,573	-
(Payments) Proceeds from Short-Term Borrowing	(3,100,000)	3,000,000
Hotel/Motel Tax	1,336,764	1,312,396
Loss on Undeposited Bus Fares	(52,193)	-
Other Expense	-	(267)
Other Revenue	61,177	29,042
Operating Transfers from Primary Government	550,000	4,194,530
Net Cash Provided by Non-Capital Financing Activities	18,809,172	11,175,622
Cash Flows from Capital and Related Financing Activities		
Capital Contributions Received	2,821,482	2,436,666
Proceeds from Sale of Capital Assets	12,103	-
Payments on Capital Leases	(694,763)	(661,783)
Acquisition of Capital Assets	(2,213,438)	(1,766,295)
Interest Paid on Capital Debt	(161,690)	(175,095)
Net Cash Used in Capital and Related Financing Activities	(236,306)	(166,507)
Cash Flows from Investing Activities		
Interest Received	4,234	352
Net Cash Provided by Investing Activities	4,234	352
Net Increase (Decrease) in Cash and Cash Equivalents	2,894,804	(109,062)
Cash and Cash Equivalents, Beginning of Year	536,926	645,988
Cash and Cash Equivalents, End of Year	\$ 3,431,730	\$ 536,926

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

CAPITAL AREA TRANSIT SYSTEM
Statements of Cash Flows - Proprietary Fund (Continued)
For the Years Ended December 31, 2013 and 2012

	2013	2012
Reconciliation of Cash as Listed on the Balance Sheet		
Unrestricted Cash	\$ 3,308,825	\$ 365,412
Restricted Cash	<u>122,905</u>	<u>171,514</u>
Total Cash and Cash Equivalents	<u>\$ 3,431,730</u>	<u>\$ 536,926</u>
Reconciliation of Net Operating Loss to Net Cash Used in Operating Activities		
Net Operating Loss	\$ (16,949,742)	\$ (13,459,505)
Adjustments to Reconcile Net Operating Loss to Net Cash Used in Operating Activities		
Depreciation	2,224,020	1,353,309
Decrease (Increase) in Accounts Receivable	168,072	(187,839)
Increase in Prepaid Assets	(191,064)	(37,864)
Decrease in Net Pension Asset	18,428	95,937
(Increase) Decrease in Inventory	(118,781)	94,582
(Decrease) Increase in Accounts Payable and Accrued Expenses	(1,071,637)	1,129,267
Increase (Decrease) in the Provision for Claims Liability	<u>238,408</u>	<u>(106,416)</u>
Net Cash Used in Operating Activities	<u>\$ (15,682,296)</u>	<u>\$ (11,118,529)</u>

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

CAPITAL AREA TRANSIT SYSTEM
Statements of Plan Net Position - Pension Trust Fund
December 31, 2013 and 2012

	2013	2012
Assets		
Cash and Cash Equivalents	\$ 543,600	\$ 878,442
Contribution Receivable	-	1,057
Accrued Interest	-	8,394
Investments, at Fair Value	<u>8,541,638</u>	<u>7,436,847</u>
Plan Net Position Held in Trust for Pension Benefits	<u>\$ 9,085,238</u>	<u>\$ 8,324,740</u>

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

CAPITAL AREA TRANSIT SYSTEM
Statements of Changes in Plan Net Position - Pension Trust Fund
For the Years Ended December 31, 2013 and 2012

	2013	2012
Additions		
Contributions		
Employer Contributions	\$ 377,786	\$ 319,994
Employee Contributions	330,522	279,767
Total Contributions	708,308	599,761
Investment Income		
Investment and Dividend Income	229,900	249,792
Net Change in Fair Value	718,441	635,587
	948,341	885,379
Less: Investment Expense	(96,303)	(73,959)
Net Investment Income	852,038	811,420
Total Additions	1,560,346	1,411,181
Deductions		
Benefits	530,603	541,955
Employee Refunds	168,999	142,527
Administrative Expenses	100,246	97,126
Total Deductions	799,848	781,608
Change in Plan Net Position	760,498	629,573
Plan Net Position at Beginning of Year	8,324,740	7,695,167
Plan Net Position at End of Year	\$ 9,085,238	\$ 8,324,740

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

CAPITAL AREA TRANSIT SYSTEM

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies

The accounting and reporting policies of Capital Area Transit System (the System) conform to accounting principles generally accepted in the United States of America applicable to governments. Such accounting and reporting procedures also conform to the requirements of Louisiana Revised Statutes (LRS) and to the guidance set forth in the *Louisiana Governmental Audit Guide*, and to the industry audit guide, *Audits of State and Local Governmental Units*. The following is a summary of significant accounting policies.

Report Issued Under Separate Coverage

The Capital Area Transit System's 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. Governmental 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 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.

CAPITAL AREA TRANSIT SYSTEM

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

Financial Reporting Entity (Continued)

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 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 Plan) exists for the benefit of current and former System employees who are members of the Plan. The Plan is governed by an equal number of Employer Trustees and Union Trustees.

Currently, the Plan is governed by a four member board composed of two members representing the Employer Trustees and two members elected as Union Trustees. The Plan is funded by the investment of the contributions from the System and member employees who are obligated to make contributions to the Plan. The Plan does not issue a separate 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 position, 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 and amortization) 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 position 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.

CAPITAL AREA TRANSIT SYSTEM

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Presentation (Continued)

Fiduciary Fund

The 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.

Impact of Recently Issued and Adopted Accounting Pronouncements

In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. GASB 65 clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. The provisions of the statement are effective for periods beginning after December 15, 2012. The implementation of GASB Statement No. 65 did not have any impact on the System's financial statements.

Recently Issued Accounting Pronouncements

In June, 2012, the GASB issued Statement No. 67, *Financial Reporting for Pension Plans - An Amendment of GASB Statement No. 25*. GASB 67 provides for financial reporting for pension plans that are administered through trust or equivalent arrangements. The provisions of the Statement are effective for periods beginning after June 15, 2013. Management anticipates that the adoption of this statement will have a significant impact on its reporting of the pension trust fund.

In June, 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions - An Amendment of GASB Statement No. 27*. This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures. For defined benefit pensions, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. The provisions of the Statement are effective for periods beginning after June 15, 2014. Management anticipates that the adoption of this Statement will have a significant impact on the financial statements of the System.

CAPITAL AREA TRANSIT SYSTEM

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

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 bank account restricted for insurance and held by the State of Louisiana, and cash related to federal grants and related matching requirements.

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 asset are charged to expense as incurred. Useful lives for equipment used in computing depreciation range from 3 years for certain office equipment to 12 years for rolling stock.

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 expense 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 LRS 47:302.29(B) and LRS 47:322.1, which set aside the Louisiana state sales tax on hotel occupancy. These monies are provided to 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 Louisiana state legislature. In addition, the System also receives monies from the East Baton Rouge Enhancement Fund (Enhancement Fund), which has similar restrictions and was created by the Louisiana state legislature.

CAPITAL AREA TRANSIT SYSTEM

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

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 per Month
1	7 Days per Year	1 Day per Month
2	13 Days per Year	1 Day per Month
6	17 Days per Year	1 Day per Month
15	24 Days per Year	1 Day per Month

Vacation must be taken by December 31st, 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

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as amended by GASB No. 63, net position is classified into three components: net investment in capital assets, restricted, and unrestricted.

CAPITAL AREA TRANSIT SYSTEM

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

Equity Classifications (Continued)

These classifications are defined as follows:

- *Net Investment in Capital Assets* - This component of net position consists of the historical cost of capital assets, including any 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 improvement of those assets, plus deferred outflows of resources, less deferred inflows of resources related to those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.
- *Restricted* - This component of net position consists of assets that have constraints that are externally 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* - This component of net position consists of net position that does not meet the definition of "restricted" or "net investment in capital assets."

Operating vs. Non-Operating Revenue

The System recognizes rider fares, contracted fare services, and advertising revenue as operating. All other revenues, including tax revenues, 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 accounting principles generally accepted in the United States of America.

Ad valorem tax receivable is recorded net of estimated uncollectible amounts and collection fees. The allowance for uncollectible accounts at December 31, 2013 is \$417,722 and the allowance for collection fees is \$747,576. The allowance for uncollectible accounts at December 31, 2012 was \$342,867 and the collection fee was \$732,645. The collection fee charged by the East Baton Rouge Parish Sheriff is 4.5% for the years ended December 31, 2012 and 2013.

CAPITAL AREA TRANSIT SYSTEM

Notes to Financial Statements

Note 2. Ad Valorem Taxes

On April 16, 2012, a 10.6 mill ad valorem tax which expires in 2021 was passed by the citizens of the City of Baton Rouge and the City of Baker. Ad Valorem taxes are levied each November 1st on the assessed value listed as of the prior January 1st for all real estate, merchandise, and moveable property located in the Parish. Assessed values are established by the East Baton Rouge Parish Assessor's Office and the State Tax Commission at percentages of actual value as specified by Louisiana law. A reevaluation of all property is required to be completed no less than every four years and was last completed in 2012.

Note 3. Cash and Investments

Cash and Cash Equivalents

The System's cash and cash equivalents consisted of the following as of December 31, 2013 and 2012:

	2013		
	Proprietary Enterprise Fund	Fiduciary Pension Trust Fund	Total
Cash on Hand and in Banks	\$ 3,431,730	\$ -	\$ 3,431,730
Money Market Accounts	-	543,600	543,600
Total Cash and Cash Equivalents	\$ 3,431,730	\$ 543,600	\$ 3,975,330

	2012		
	Proprietary Enterprise Fund	Fiduciary Pension Trust Fund	Total
Cash on Hand and in Banks	\$ 436,896	\$ -	\$ 436,896
Certificates of Deposit	100,030	-	100,030
Money Market Accounts	-	878,442	878,442
Total Cash and Cash Equivalents	\$ 536,926	\$ 878,442	\$ 1,415,368

Proprietary fund cash and cash equivalents of \$3,431,730 and \$536,926 included \$3,308,825 and \$365,412 of unrestricted assets and \$122,905 and \$171,514 of restricted assets as of December 31, 2013 and 2012, respectively.

Custodial Credit Risk - Deposits. In the case of deposits, this is the risk that in the event of a bank failure, the System's deposits may not be returned to it. Neither the System nor the Pension Trust Fund, a blended component unit, has a deposit policy for custodial credit risk. Throughout the course of the year, the System's deposits may be exposed to custodial credit risk. Deposits were secured by federal deposit insurance coverage (FDIC) up to \$250,000. The remaining deposits, which were exposed to custodial credit risk, were secured by the pledge of securities owned by the fiscal agent bank.

CAPITAL AREA TRANSIT SYSTEM

Notes to Financial Statements

Note 3. Cash and Investments (Continued)

Cash and Cash Equivalents (Continued)

State 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.

Investments

As of December 31, 2013 and 2012, 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	
	2013	2012
U.S. Treasury and Agency Bonds	\$ 249,495	\$ 766,802
Corporate Bonds	738,204	464,949
Corporate Stocks	5,494,598	4,174,833
Preferred Stocks	823,338	896,261
Equity Mutual Fund	356,918	271,932
Annuities	879,085	862,070
Total	\$ 8,541,638	\$ 7,436,847

As of December 31, 2013, the debt maturities of the Pension Trust Fund's investments were as follows:

	Fair Value	Investment Maturities (in Years)			
		Less Than 1	1 - 5	6 - 10	More Than 10
U.S. Treasury and Agency Funds	\$ 249,495	\$ -	\$ 177,084	\$ 72,411	\$ -
Corporate Bonds	738,204	55,181	421,533	261,490	-
Total	\$ 987,699	\$ 55,181	\$ 598,617	\$ 333,901	\$ -

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

CAPITAL AREA TRANSIT SYSTEM

Notes to Financial Statements

Note 3. Cash and Investments (Continued)

Investments (Continued)

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, 2013 and 2012, the Pension Trust Fund held no commercial paper investments. The Pension Trust Fund's investments in domestic corporate bonds as of December 31, 2013 and 2012, 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 15% 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, 2013 and 2012, all of the Pension Trust Fund's investments were held by an agent in the name of the Pension Trust Fund.

Note 4. Receivables - Due from Other Governments

Receivables due from other governments at December 31, 2013 and 2012, were as follows:

	2013	2012
Federal Transit Administration	\$ 392,895	\$ 1,883,096
Hotel/Motel Tax	351,029	351,624
Total	\$ 743,924	\$ 2,234,720

CAPITAL AREA TRANSIT SYSTEM

Notes to Financial Statements

Note 5. Capital Assets

A summary of changes in capital assets follows:

	January 1, 2013	Additions	Deletions	December 31, 2013
Equipment, Primarily				
Transportation Vehicles	\$ 23,075,523	\$ 2,213,438	\$ (1,335,400)	\$ 23,953,561
Accumulated Depreciation	(14,440,386)	(2,224,020)	1,335,400	(15,329,006)
Total	\$ 8,635,137	\$ (10,582)	\$ -	\$ 8,624,555

	January 1, 2012	Additions	Deletions	December 31, 2012
Equipment, Primarily				
Transportation Vehicles	\$ 21,309,228	\$ 1,766,295	\$ -	\$ 23,075,523
Accumulated Depreciation	(13,087,077)	(1,353,309)	-	(14,440,386)
Total	\$ 8,222,151	\$ 412,986	\$ -	\$ 8,635,137

Depreciation expense for the years ended December 31, 2013 and 2012, totaled \$2,224,020 and \$1,353,309, 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 6. Accounts, Salaries, and Other Payables

The payables at December 31, 2013 and 2012, were as follows:

	2013	2012
Accounts Payable	\$ 670,035	\$ 2,002,582
Accrued Salaries	317,688	178,085
Accrued Expenses	103,320	138,078
Accrued Interest	23,580	46,678
Total	\$ 1,114,623	\$ 2,365,423

Note 7. 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 statements of revenues, expenses and changes in net position.

CAPITAL AREA TRANSIT SYSTEM

Notes to Financial Statements

Note 8. Pension Plan

Plan Description

The System, as well as covered employees, make contributions to the Capital Area Transit System Pension Trust Fund (the 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 was the first day of the month following a member's 65th birthday and completion of ten 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 are 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 were obtained from the Plan's Annual Actuarial Valuation Reports as of December 31, 2013 and 2012. The valuation is performed at the beginning of the Plan year.

Current membership was comprised of the following at December 31st:

	2013	2012
Retirees and Beneficiaries Currently		
Receiving Benefits	68	67
Vested Terminated Employees	53	48
Active Employees		
Fully Vested	35	33
Not Vested	107	83
Total	263	231

Funding Policy

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

CAPITAL AREA TRANSIT SYSTEM

Notes to Financial Statements

Note 8. Pension Plan (Continued)

Annual Pension Cost and Net Pension Asset

The System's annual pension cost and net pension asset for the years ended December 31, 2013 and 2012, were as follows:

	2013	2012
Annual Required Contribution	\$ 340,835	\$ 362,798
Interest on Net Pension Obligation	(104,597)	(110,833)
Adjustment to Annual Required Contribution	172,061	174,201
Annual Pension Cost	408,299	426,166
Contributions Made Including Interest	(389,871)	(330,229)
Decrease in Net Pension Asset	(18,428)	(95,937)
Net Pension Asset, Beginning of Year	1,609,183	1,705,120
Net Pension Asset, End of Year	\$ 1,590,755	\$ 1,609,183

Trend information is as follows:

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Asset
December 31, 2013	\$ 408,299	95%	\$ 1,590,755
December 31, 2012	\$ 426,166	77%	\$ 1,609,183
December 31, 2011	\$ 315,871	111%	\$ 1,705,120

Funded Status and Funding Progress

As of December 31, 2013, the most recent actuarial valuation date, the Plan was 93.6% funded. The actuarial accrued liability for benefits was \$9,705,733, and the actuarial value of assets was \$9,085,238. The covered payroll (annual payroll of active employees covered by the Plan) was \$4,086,296. The Plan was properly funded at December 31, 2013.

The schedule of funding progress, presented as Required Supplementary Information (RSI) following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of Plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

CAPITAL AREA TRANSIT SYSTEM

Notes to Financial Statements

Note 8. Pension Plan (Continued)

Actuarial Methods and Assumptions

Key actuarial assumptions include 6.5% 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 5.50% 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 9. 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 Compensation 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 10. Commitments and Contingencies

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, 2013, the System has committed cash to fund local matching requirements; however, additional fiscal effort will be required. Similar commitments existed as of December 31, 2012.

Note 11. 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.

CAPITAL AREA TRANSIT SYSTEM

Notes to Financial Statements

Note 11. Self Insurance and Legal Claims (Continued)

At December 31, 2013 and 2012, accrued claim liabilities of \$1,684,888 and \$1,446,480, respectively, are included in the proprietary fund's statements of net position, as follows:

	2013	2012
Current Portion	\$ 489,541	\$ 475,059
Long-Term Portion	1,195,347	971,421
Total	\$ 1,684,888	\$ 1,446,480

The accruals, which are based upon the advice of counsel, are, in the opinion of management, sufficient to provide for all probable claims liabilities that are able to be estimated at December 31, 2013 and 2012. In addition, the claims will not be paid until appropriated by the System. Changes in claims liability during the years ended December 31, 2013 and 2012, were as follows:

	2013	2012
Beginning of Year Liability	\$ 1,446,480	\$ 1,552,896
Current Year Claims and Changes in Estimates	1,034,053	713,546
Claim Payments	(795,645)	(819,962)
End of Year Liability	\$ 1,684,888	\$ 1,446,480

Note 12. Capital Lease Obligations

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, 2013 and 2012, were as follows:

	2013	2012
Beginning of Year Liability	\$ 2,993,792	\$ 3,655,575
Principal Payments	(694,763)	(661,783)
End of Year Liability	\$ 2,299,029	\$ 2,993,792
Due Within One Year	\$ 729,388	\$ 694,764
Net Book Value of Leased Capital Assets	\$ 1,794,752	\$ 2,404,520

CAPITAL AREA TRANSIT SYSTEM

Notes to Financial Statements

Note 12. Capital Lease Obligations (Continued)

Minimum future lease payments under these capital leases as of December 31, 2013, are:

Year Ended December 31,	Amount
2014	\$ 833,704
2015	833,704
2016	833,704
Total Minimum Lease Payments	2,501,112
Less: Amount Representing Interest	<u>(202,083)</u>
Present Value of Minimum Lease Payments	<u><u>\$ 2,299,029</u></u>

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

Note 13. Notes Payable - Current

During the year ended December 31, 2011, the East Baton Rouge Mortgage Finance Authority awarded a grant of \$500,000 which contained a provision that, should the System obtain a permanent method of financing, the grant would convert to a note payable. The ad valorem tax passed on April 16, 2012, meets this provision. During the year ended December 31, 2013, the System paid \$100,000 and agreed to pay \$100,000 per year for the next four years.

Note 14. Concentrations

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

Note 15. Designation of Net Position

During the year ended December 31, 2013, the System's board approved a resolution designated \$3,000,000 of net position to be held for a contingency. That amount is held in a separate bank account.

Note 16. Subsequent Events

The System entered into a letter of credit with a local bank in favor of a software vendor in the amount of \$150,000. On May 1, 2014, the System canceled the letter of credit.

CAPITAL AREA TRANSIT SYSTEM
Required Supplementary Information Under
GASB Statement No. 25
Schedule of Funding Progress
December 31, 2013

Schedule I

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, 2014	\$ 9,085,238	\$ 9,705,733	\$ 620,495	93.61%	\$ 5,053,253	12.28%
January 1, 2013	\$ 8,324,740	\$ 9,619,024	\$ 1,294,284	86.54%	\$ 4,086,296	31.67%
January 1, 2012	\$ 7,695,167	\$ 9,621,089	\$ 1,925,922	79.98%	\$ 3,951,032	48.74%
January 1, 2011	\$ 7,789,693	\$ 8,509,196	\$ 719,503	91.54%	\$ 3,866,390	18.61%
January 1, 2010	\$ 7,023,062	\$ 8,399,788	\$ 1,376,726	83.61%	\$ 4,650,670	29.60%
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

CAPITAL AREA TRANSIT SYSTEM
Required Supplementary Information Under
GASB Statement No. 25
Schedule of Employer Contributions
December 31, 2013

Schedule II

Year Ended	Annual Required Contribution	Actual Contribution	Percentage Contributed
December 31, 2013	\$ 340,835	\$ 377,786	110.84%
December 31, 2012	\$ 362,798	\$ 319,994	88.20%
December 31, 2011	\$ 264,644	\$ 318,365	120.30%
December 31, 2010	\$ 348,543	\$ 339,927	97.53%
December 31, 2009	\$ 404,577	\$ 410,499	101.46%
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%

CAPITAL AREA TRANSIT SYSTEM

Notes to Required Supplementary Information Under GASB Statement No. 25

The supplementary information presented in Schedules I and II 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, 2013
Actuarial Cost Method	Aggregate actuarial method. Under this method, a separate actuarial accrued liability and unfunded liability are 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 was 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	6.50%
Projected Salary Increases	5.50%

**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**

Independent Auditor's Report

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

We have audited, 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, the accompanying financial statements of the business-type activities and the major fund 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 Employees' Pension Trust Fund (a fiduciary fund of the System), as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the System's basic financial statements and have issued our report thereon dated May 24, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the System's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, we do not express an opinion on the effectiveness of 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 was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2013 - 2, 2013 - 5 and 2013 - 6 to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and questioned costs as items 2013 - 1 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the System's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings and questioned costs as items 2013 - 1, 2013 - 2, 2013 - 4, and 2013 - 7.

Response to Findings

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the System's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

A handwritten signature in cursive script that reads "LaForte".

A Professional Accounting Corporation

Covington, LA
May 24, 2014



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**REPORT ON COMPLIANCE FOR EACH
MAJOR PROGRAM AND REPORT ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

Independent Auditor's Report

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

Report on Compliance for Each Major Federal Program

We have audited Capital Area Transit System's (the System) compliance with the types of compliance requirements described in the OMB Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of the System's major federal programs for the year ended December 31, 2013. The System's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the System's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the System's compliance with those requirements.

NEW ORLEANS HOUSTON BATON ROUGE COVINGTON

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Basis for Qualified Opinion on Federal Transit Formula Grants (CFDA 20.507)

As described in 2013 - 10 of the accompanying schedule of findings and questioned costs, the System did not comply with requirements applicable to federal financial reports for the Federal Transit Formula (CFDA 20.507) Compliance with such requirements is necessary, in our opinion, for the System to comply with the requirements applicable to that program.

Qualified Opinion on Federal Transit Formula Grants (CFDA 20.507)

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the System complied in all material respects with the types of compliance requirements referred to above that could have a direct and material effect on the Federal Transit Formula Grants for the year ended December 31, 2013.

Other Matters

The results of our auditing procedures disclosed other instances of noncompliance, which 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 2013 - 3, 2013 - 8, 2013 - 9, and 2013 - 11.

Report on Internal Control Over Compliance

Management of the System is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the System's internal control over compliance with types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2013 - 3, 2013 - 8, and 2013 - 11 to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2013 - 9 to be a significant deficiency.

The System's responses to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The System's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in cursive script that reads "LaForte".

A Professional Accounting Corporation

Covington, LA
May 24, 2014

CAPITAL AREA TRANSIT SYSTEM
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2013

Federal Grantor/ Program Title	CFDA Number	Project Number	Expenditures (Repayments)
<u>Federal Transportation Administration</u>			
SU Intermodal Facility	20.507	LA-04-X040-00	\$ 475,000
State of Good Repair	20.507	LA-04-X079-00	1,061,144
2006 New Freedom	20.507	LA-57-X006-04	42,714
2007 - 2009 New Freedom	20.507	LA-57-X012-04	147,153
2007 Job Access and Reverse Commute	20.507	LA-37-X029-06	108,029
2008 Job Access and Reverse Commute	20.507	LA-37-X033-00	36,643
2010 Job Access and Reverse Commute	20.507	LA-37-X041-04	173,952
2010 New Freedom	20.507	LA-57-X041-04	(25,439)
2010 Congestion Mitigation and Air Quality	20.507	LA-95-X001-00	116,702
2007 Formula Grant	20.507	LA-90-X308-01	43,138
2008 Formula Grant	20.507	LA-90-X332-00	70,605
2009 Formula Grant	20.507	LA-90-X340-00	25,920
2010 Formula Grant	20.507	LA-90-X354-00	5,600
2010 A.R.R.A. Grant	20.507	LA-96-X008-01	898,038
2011 Formula Grant	20.507	LA-90-X372-02	19,764
2012 Formula Grant	20.507	LA-90-X389-00	2,784,363
2012 Formula Grant	20.507	LA-90-X389-02	105,436
2013 Formula Grant	20.507	LA-90-X404-00	<u>880,370</u>
Total Federal Award Expenditures			<u>\$ 6,969,132</u>

See accompanying notes to the schedule of expenditures of federal awards.

CAPITAL AREA TRANSIT SYSTEM

Notes to Schedule of Expenditures of Federal Awards For the Year Ended December 31, 2013

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, 2013. 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.

Note 3. Reconciliation of Federal Awards to the Statement of Revenues, Expenses and Changes in Net Position

The following is a reconciliation of federal awards to revenues as reported on the statement of revenues, expenses and changes in net position:

Federal Operating Subsidy	\$ 4,013,621
Planning and Technical Study Grants	125,200
Capital Contributions	<u>2,830,311</u>
Total Expenditures of Federal Awards	<u><u>\$ 6,969,132</u></u>

Note 4. Sub Recipients

Of the federal expenditures presented on the schedule, the System provided federal awards to sub recipients as follows:

<u>Program Name</u>	<u>Federal CFDA Number</u>	<u>Amount Provided to Sub Recipients</u>
Federal Operating Subsidy	20.507	<u><u>\$ 619,671</u></u>

CAPITAL AREA TRANSIT SYSTEM

Schedule of Findings and Questioned Costs For the Year Ended December 31, 2013

Part 1 - Summary of Audit Results

Financial Statements

- | | | |
|----|---|------------|
| 1. | Type of auditors' report issued: | Unmodified |
| 2. | Internal control over financial reporting: | |
| | a. Material weaknesses identified? | Yes |
| | b. Significant deficiencies identified? | Yes |
| 3. | Noncompliance material to the financial statements noted? | Yes |

Federal Awards

- | | | |
|----|--|-----------|
| 1. | Internal control over major programs: | |
| | a. Material weaknesses identified? | Yes |
| | b. Significant deficiencies identified? | Yes |
| 2. | Noncompliance material to the financial statements noted? | Yes |
| 3. | Type of auditor's report issued on compliance for major programs: | Qualified |
| 4. | Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133: | Yes |
| 5. | Identification of major programs: | |

CFDA Number
20.507

Name of Federal Program or Cluster
Transit Formula Grants

- | | | |
|----|--|-----------|
| 6. | Dollar threshold used to distinguish between type A and type B programs: | \$300,000 |
| 7. | Auditee qualified as low-risk auditee? | No |

CAPITAL AREA TRANSIT SYSTEM

Schedule of Findings and Questioned Costs (Continued) For the Year Ended December 31, 2013

Part II - Financial Statements Findings

2013 - 1 Misappropriation of Assets

Criteria: Article 7 Section 14 of the Louisiana Constitution prohibits personal use of public funds.

Condition: In July 2013, management discovered that one of the System's board members had used the bank routing number of the System's bank account to pay personal bills totaling \$1,454.

Cause: The board member in question obtained access to the bank statement.

Effect: Misappropriation of System funds and violation of Article 7 Section 14.

Recommendation: Management should restrict access to system bank statements.

Management's

Response: Management of the System notified the Louisiana Legislative Auditor and local law enforcement agencies. The Louisiana Inspector General performed an investigation and the board member in question was prosecuted.

2013 - 2 Legislative Auditor Audit

Criteria: Article 7 Section 14 of the Louisiana Constitution prohibits personal use of public funds.

Condition: The Louisiana Legislative Auditors performed an audit of certain transactions of the system and released their report on February 19, 2014. Their report can be found at www.la.gov. The report identified the following:

1. The System's records indicate that from January 1, 2012 to June 30, 2013, bus fares totaling \$79,946 were not deposited in the bank. Although it appears the System's management was aware of the cash fare shortages during the period, they failed to take substantive actions to prevent repeated shortages and to safeguard public funds. In addition, the System lacked written policies and procedures for bus fare box processing, used broken and out of date equipment, and failed to properly train employees. By continually neglecting to safeguard public funds, the System's management and employees may have violated state law.

CAPITAL AREA TRANSIT SYSTEM

Schedule of Findings and Questioned Costs (Continued) For the Year Ended December 31, 2013

2. The System's records indicate that for the same period, bus passes valued at \$78,648 were used with no corresponding revenue being either collected or deposited in the bank. Inadequate policies and procedures over passes, cash collections and cash deposits allowed passes and revenues to go missing without being detected. By failing to account for all passes and to collect and/or deposit all fare revenue the System's management and employees may have violated state law.
3. On April 26, 2013 and August 30, 2013, the System improperly paid employees \$35,549 for hours not worked and leave not earned. In addition, the System's overall payroll practices are not consistent with written policy and payroll disbursements are not substantiated by appropriate records. By making inappropriate payments to employees, the System may have violated state law.

Cause: Inadequate procedures and internal controls over the bus fare process, bus passes process, and payroll process.

Effect: Possible misappropriation of public funds and violations of state law as well as inadequate internal controls over those processes.

Recommendation: The Legislative Auditor made the following recommendations:

1. The System's management should develop and institute policies that:
 - a. all funds collected are adequately documented, adequately recorded, and deposited daily in compliance with state law; daily deposits are reconciled to the total receipts on a regular basis and difference are immediately investigated;
 - b. All bus fare box devices and mechanisms are properly maintained and regularly verified to be operational; and
 - c. Employees are trained on cash handling policies and procedures.
2. The System' management should develop and implement policies and procedures to ensure that all passes are accounted for and all funds collected are deposited daily. These policies should require that:
 - a. all funds collected are adequately documented, accurately recorded, and deposited on a daily basis as required by state law;
 - b. a comprehensive electronic point of sale system is used to record all sales transactions and keep automated pass inventory records;
 - c. daily total deposits are reconciled to total receipts in the electronic system records on a regular basis and differences are immediately investigated; and
 - d. an up-to-date inventory record is maintained for all passes on hand.

CAPITAL AREA TRANSIT SYSTEM

Schedule of Findings and Questioned Costs (Continued) For the Year Ended December 31, 2013

3. The System's management should develop and implement policies and procedures to ensure that amounts paid to employees are appropriately earned. These policies should require that:
 - a. all payments are supported by approved time and leave records and are in accordance with Board approved policies and procedures;
 - b. leave records are maintained for all employees by the electronic payroll service used by the System;
 - c. leave is accrued, taken, and paid in accordance with written policies and procedures;
 - d. employees (especially payroll and human resources personnel) are trained on written policies and procedures; and
 - e. the System should re-calculate all active employees' leave balances in accordance with written policies and adjust those balances accordingly.

*Management's
Response:*

Management responded as follows:

1. When the current leadership of the System became aware of reconciliation issues with fares collected, the Louisiana Legislative Auditor was requested to investigate and make recommendations to address weaknesses in internal controls of the System. The System agrees with the findings that fares collected from January 1, 2012 to July 11, 2013 did not match the cash received by the bank. The System began its own audit on July 12, 2013, prior to the Legislative Auditor's arrival. We determined that funds from July 12, 2013 going forward did reconcile with the funds deposited in the bank within the stated manufacturer's variance. To achieve these results, the System implemented the following steps:
 - a. Policies were developed and implemented that identified each employees' responsibilities, established a daily reconciliation process, identified the level of variance required to trigger an audit of the process. Fares are removed from fare boxes at the end of each business day, including Saturdays, Sundays and holidays. All receipts are verified and deposited the next business day.
 - b. All vault equipment was repaired by the manufacturer and spare vault equipment has been procured to insure the vault can be repaired or replaced without putting revenue at risk. Three employees have attended manufacturer training in the upkeep and repair of vault and fare box equipment. A daily report of probed fare boxes and boxes processed in the vault is reviewed to insure all revenue has been removed from the buses and placed in the vault.
 - c. The System has purchased and installed \$5 bill validators for all current fare boxes in use by the System.

CAPITAL AREA TRANSIT SYSTEM

Schedule of Findings and Questioned Costs (Continued) For the Year Ended December 31, 2013

2. The System has taken the necessary steps to strengthen its internal controls to better safeguard bus passes. The following procedures have been put in place:
 - a. All passes are logged in at the System and placed in a safe. Each pass has a unique identifier, which is used to track the pass from receipt to customer. A log is kept by the Customer Service Manager for the disposition of passes. The Customer Service Manager is responsible for the reconciliation of passes and funds collected by the customer service representatives. A policy is being developed to address the authorization and tracking of complementary passes used by the System
 - b. The System is developing a policy to address the reconciliation and cash management to insure all funds are verified and deposited in the bank account on a daily basis.+
 - c. The System has begun the research and evaluation of electronic point of sale systems to address weaknesses in its handling of bus passes.
3. While the System does concur that the its practices may not be consistent, it does believe that the Legislative Auditor was not able to review all pertinent policies and, therefore, having used outdated policies, came to erroneous conclusions.

The Legislative Auditor utilized the 2005 Employee Handbook as its basis for compensatory time, vacation time, and sick time. The System adopted a new vacation schedule in 2008 and reconfirmed it in 2012. The current policy is identified in the report as the practice, not the authorized policy. Additionally management employees are able to earn compensatory time for hours worked over 40 hours a week. The current policy states that any earned compensatory time is to be paid at 1.5 hours for every hour of compensatory time earned. Finally, the policy adopted in 2008 and reconfirmed in 2012 states that employees earned vacation each calendar year and would be credited with that earned vacation on January 1st of the following calendar year.

As to finding regarding termination payments to the previous chief executive officer (CEO), both the System and he felt that due to the environment at the time, it was not conducive to building a sustainable system that he continue to serve as CEO of the System. As referenced in the findings, the System stated in the transmittal letter that accompanied by the check to the previous CEO that payment was "in consideration of the waiver of the notice requirement of the employment contract." Therefore, the System paid the CEO what he was owed under the employment contract.

CAPITAL AREA TRANSIT SYSTEM

Schedule of Findings and Questioned Costs (Continued) For the Year Ended December 31, 2013

The System believes that the previous chief finance officer (CFO) was overpaid 3.5 hours as a result of rounding his compensatory time payment. Otherwise, all other payments to the previous CFO covering salary and benefits were allowable under current policies.

To avoid any questions concerning the System's policies going forward, the following steps have been taken:

- a. All policies pertaining to payroll and benefits have been updated and will be incorporated in a 2014 Employee Handbook. All employees will be asked to sign an acknowledgement of the System's policies.
- b. The System has instituted a policy requiring all employees to submit timesheets to their immediate supervisor.
- c. The System has changed its vacation policy to require the earning of vacation based on the accrual rate for each employee, except for the CEO.
- d. The System will recommend to the Board that future contracts for the CEO mirror the accrual policy for all employees
- e. The System is evaluating its current electronic payroll system for required functionality to meet all policy needs.

2013 - 3 Paratransit Contract Overbilling

Criteria: Effective internal controls require that contracts be monitored to determine that services rendered are reconciled to amounts billed.

Condition: The System contracts with a local company to provide transportation to customers with disabilities. The System's new chief financial officer reviewed billings under the contract during the year ended December 31, 2013 and compared billings to service reports provided by the company. The review indicated that the System had been overbilled by \$169,000. The System's management met with the management of the Company and agreed to withhold the overbillings from future contract payments.

Cause: Ineffective monitoring of the paratransit contract by previous members of management.

Effect: The System was overbilled during 2013.

Recommendation: None.

Management's Response: Management will continue to monitor services rendered and billings under the contract on an ongoing basis. The System and the company reached an agreement that the overpayment will be refunded by December, 2014.

CAPITAL AREA TRANSIT SYSTEM

Schedule of Findings and Questioned Costs (Continued) For the Year Ended December 31, 2013

2013 - 4 Advance Payment

<i>Criteria:</i>	Article 7 Section 14 of the Louisiana Constitution prohibits loans of public funds.
<i>Condition:</i>	On April 16, 2013, the System made an advance payment to a local company for paratransit service for the month of April, 2013.
<i>Cause:</i>	Unknown.
<i>Effect:</i>	Noncompliance with Article 7, Section 14.
<i>Recommendation:</i>	Management should refrain from making future payments in advance of the services being rendered.
<i>Management's Response:</i>	Management of the System will enact a policy that all future disbursements will be made in accordance with Article 7, Section 14.

2013 - 5 Segregation of Duties

<i>Criteria:</i>	To promote proper internal controls, incompatible duties within a process should be segregated.
<i>Condition:</i>	During the year ended December 31, 2013, the accounting manager performed the incompatible duties of processing payroll, reconciling the payroll bank account and making edits to the employee information in the payroll system.
<i>Cause:</i>	In prior years, the staffing of the finance department was limited due to financial constraints.
<i>Effect:</i>	Inadequate segregation of duties over the payroll process.
<i>Recommendation:</i>	Management should hire additional staff to allow for adequate segregation of duties.
<i>Management's Response:</i>	The System has hired additional staff in the finance department and will institute procedures to ensure proper segregation of duties.

CAPITAL AREA TRANSIT SYSTEM

Schedule of Findings and Questioned Costs (Continued) For the Year Ended December 31, 2013

2013 - 6 Controls over Cash Disbursements

Criteria: To promote proper internal controls, cash disbursements should be adequately documented, approved and the information on the invoice should be matched to the purchase order.

Condition: During the year ended December 31, 2013, we performed a procedural test of 60 disbursements and noted the following:

1. The accounts payable packet for 14 out of 60 disbursements did not include a purchase order. These disbursements were for maintenance department expenses which are required to be supported by a purchase order. Since the purchase order was not included in the packet, this did not allow for matching of unit and price information from the purchase order to the invoice.
2. 53 out of 60 disbursements were not supported by a check requisition.
3. 14 out of 60 disbursements did not contain evidence of approval on invoice. The System stamps each invoice with a box which includes blanks which are initialed to approve the payment. On these invoices, initials approving invoices were missing.

Cause: During the year ended December 31, 2013, the System experienced turnover in the key positions of chief executive officer, chief financial officer, and general manager. In addition, existing policies and procedures may not have been sufficient to provide proper internal control over disbursements.

Effect: There were instances where disbursements were made without approval, check requisition, or matching of purchase order to invoice.

Recommendation: Management should institute procedures to ensure that cash disbursements are properly controlled, supported and approved.

Management's Response: Management has instituted policies and procedures to ensure that all disbursements are properly supported, approved, and the invoices match to the supporting documentation prior to payment.

CAPITAL AREA TRANSIT SYSTEM

Schedule of Findings and Questioned Costs (Continued) For the Year Ended December 31, 2013

2013 - 7 Disposal of Surplus Property

- Criteria:* The Revised Statutes provide for four ways to dispose of surplus movable property by a government: by public auction open to private persons (R.S. 49:125), at private sale with an appraised value of \$5,000 or less (R.S. 33:4712(F)), by internet sale (R.S. 33:4711.1), or by sale to another public entity (R.S. 33:1321).
- Condition:* During our testing of capital assets, we noted that 5 vans were sold to a salvage yard, but the Board did not declare the vans as surplus property.
- Cause:* The cause of this condition appears to be a management oversight of the laws regarding the public bid process and disposal of surplus property.
- Effect:* Non-compliance with laws regarding disposal of surplus property.
- Recommendation:* We recommend the management of the System review applicable state laws and ensure that future dispositions are transacted in compliance with said law.
- Management's Response:* Future transactions will be conducted in accordance with applicable state laws.

CAPITAL AREA TRANSIT SYSTEM

Schedule of Findings and Questioned Costs (Continued) For the Year Ended December 31, 2013

Part III – Findings and Questioned Costs for Federal Awards

2013 - 8 Financial Management Oversight Review (CFDA 20.507)

Criteria: Various Codes of Federal Regulations pertaining to the United States Federal Transit Administration (FTA).

Condition: The FTA contracted with private firms to conduct a financial management oversight review of the System's compliance with FTA financial management system requirements. Their report was dated January 10, 2014 and included the following material weaknesses:

1. The System does not maintain accounting policies and procedure manuals for Budget, Accounts Payable, Cash, Fixed Assets and Grants that have been tailored to the organization's processes.
2. The following was noted when testing ECHO drawdowns earlier in the review period:
 - a. No written ECHO policies and procedures
 - b. Draw sheets are signed off after the actual draw as opposed to prior to the actual draw.
 - c. The individual approving the drawdown was also the individual that processed the actual draw.
3. The following was noted while testing Cash counting procedures:
 - a. Countroom employees are not bonded
 - b. Deposit slip initially goes with the revenues report reconciler as opposed to directly to accounting.
4. Inadequate segregation of duties and personnel turnover have compromised the control environment.
5. Month-end reconciliations of payroll entries and adjustments to the general ledger are not performed.
6. There is no documentation of the required Biennial Inventory of fixed assets.
7. Preventative maintenance work is not being performed within the stated intervals in the maintenance plan.
8. The System could not support three of five numbers selected for testing from the 2012 National Transit Database report.

CAPITAL AREA TRANSIT SYSTEM

Schedule of Findings and Questioned Costs (Continued) For the Year Ended December 31, 2013

9. The System does not have an efficient method of tracing grant expenditures.

10. Inadequate controls over Federal Financial Reports.

Cause: The System has experienced turnover in key positions in early 2013. Prior to 2013, staffing was limited due to financial constraints.

Effect: Ineffective internal controls over the administration of FTA grants.

Recommendation: The following recommendations by item number were included in the financial management oversight review report dated January 10, 2014:

1. Management should prepare and review their accounting policies and procedures manual and create an electronic version that can be updated on an as-needed basis and be accessible to relevant personnel when needed. The System should ensure that the updated document address all relevant accounting policies and procedures.
2. The System should ensure that adequate segregation of duties exists over the preparation, review and approval, submission, and recording of ECHO drawdowns to reduce the risk of error or unauthorized drawdowns.
3. The System should supplement cash counting procedures to provide that countroom employees are bonded and that deposits are controlled properly.
4. The System should reassign responsibilities to ensure that individuals processing specific transactions do not have access to other aspects of that transaction cycle and that account reconciliations are performed by someone independent of that cycle. The System should establish stability and continuity in key positions with individuals knowledgeable of and responsible for compliance with FTA accounting and reporting requirements as well as administrative guidelines.
5. The System should ensure that month-end reconciliations of payroll entries and adjustments to the general ledger are performed.
6. The System should ensure that there is proper documentation of required biennial fixed asset inventory.
7. The System should enhance scheduling procedures to ensure that preventative maintenance intervals are not missed.

CAPITAL AREA TRANSIT SYSTEM

Schedule of Findings and Questioned Costs (Continued) For the Year Ended December 31, 2013

8. The System should develop and implement a comprehensive procedure covering preparation, review, and filing the National Transit Database report.
9. The System should develop a process of assigning grant coding to expenditures during the procurement process. The grantee should establish a process that permits the timely association of expenditures to the specific grant.
10. The System should establish and implement adequate controls over Federal Financial Reports.

*Management's
Response:*

1. **No Policies and Procedure Manual for Key Processes**
 - CATS has initiated a comprehensive accounting policy and procedure manual, which will address all relevant accounting procedures in accordance with national, FTA, state and local laws. This manual will be in hard copy and electronic form.
 - This recommendation will be completed by August 15, 2014.
2. **Inadequate Control Over the ECHO Drawdown Process**
 - Written procedures have been completed and forwarded to the FTA for review. We have requested further recommendations from the FTA and the FMO auditors.
 - Segregation of duties has been established and adhered to, and these procedures have been presented to the FTA.
 - The first ECHO drawn after the FMO audit was forwarded to the FTA Fort Worth Office prior to the actual money draw to ensure that our ECHO process was performed properly.
 - Four persons are now involved in the ECHO process for accurate preparation, review, submission, recording and reconciliation, including signed, dated and timed cover sheets.
 - This recommendation will be completed by June 19, 2014.
3. **Inadequate Cash Counting Procedures**
 - CATS is in the process of having each count room employee bonded and will be in compliance within the requested deadline.
 - Procedures for handling deposits are now being recorded and reconciled by the accounting department.
 - As noted in the auditors' report, several security measures have been taken in the count room, on the fare boxes and at the terminal.
 - CATS is removing all items within the count room not used for money count.
 - This recommendation will be completed by June 19, 2014.

CAPITAL AREA TRANSIT SYSTEM

Schedule of Findings and Questioned Costs (Continued) For the Year Ended December 31, 2013

4. **Compromised Control Environment**

- Working with Human Resources, CATS has increased accounting and grant personnel to adequately maintain segregation of duties.
- As stated above, stability and continuity regarding each financial process has been established and guidelines and policies are currently being written or updated.
- Inappropriate duties noted in the auditor's report have been eliminated, resulting in:
 - Human Resources now enters all employee data.
 - The National Transit Database (NTD) report procedures are executed as a team. Our Grants Assistant attended a NTD training class and has assumed the leadership role in the development of the report with the CFO acting as project manager and having final approval.
 - Procedures for orders placed in the Maintenance Department are currently being drafted and once completed, will be completely segregated.
- The Maintenance Coordinator's extra duties are currently being reassigned to those within the proper department and all financial aspects of her job are being reassigned to finance, grants and accounting.
- This recommendation will be completed by August 19, 2014.

5. **Payroll Reconciliations and Accruals are Not Performed**

- Based on the auditor's recommendation, CATS now reconciles each month. We also review, analyze and reconcile ALL general ledger activities which have been approved by at least two persons.
- This recommendation will be completed by June 19, 2014.

6. **Documentation of Biennial Inventory Does Not Exist**

- We completed our 100% count company inventory the first week of January 2014, which was submitted to the FMO auditors for review the week they were working off-site. Recommendations have not been received from them as of this writing.
 - CATS formally requests that the inventory process be reviewed and recommendations made and if properly completed, have this Material Weakness removed.
- We have implemented procedures to complete a full inventory every four months and have engaged LaPorte CPA's, our external audit firm, to assist CATS in performing the inventory.
- This recommendation will be completed by August 19, 2014.

CAPITAL AREA TRANSIT SYSTEM

Schedule of Findings and Questioned Costs (Continued) For the Year Ended December 31, 2013

7. Preventive Maintenance Not Performed Timely

- CATS hired a COO on December 9, 2013, to have responsibility over the Maintenance Director and that department.
- Planned Preventive Maintenance procedures are currently being written and will be implemented according to this document's instructions.
- This recommendation will be completed by June 19, 2014.

8. Unsupported Data in NTD Report

- CATS recently completed the current NTD report on April 30, 2014. All numbers were analyzed, justified, verified, and approved. All back up documentation is recorded.
- Indicative of our approach, a team unit was involved in the implementation, with the Grants Assistant responsible for input, the Grants Officer responsible for oversight, CFO as the project manager along with the assistance of others.
- Procedures were written and highlighted for further review as the NTD was processed. These procedures will be formalized within the time frame requested in this document.
- This recommendation will be completed by July 19, 2014.

9. No Grant Coding on Invoices or Purchase Orders

- As referenced in Material Weakness number one, CATS has implemented proper procedures to adequately ensure whether each invoice is grant associated.
- CATS has implemented proper procedures to adequately ensure the accurate coding on requisitions, purchase orders and invoices.
- This recommendation will be completed by November 19, 2014.

10. Inadequate Controls Over FFR Reporting

- As referenced in Material Weakness number one, CATS personnel have received training and guidance to properly execute FFR's in accordance with FTA guidelines. Procedures have been written.
- This recommendation will be completed by June 19, 2014.

2013 - 9 Financial Management Oversight Review (CFDA 20.507)

Criteria: There are Various Codes of Federal Regulations pertaining to the United Stated Federal Transit Administration (FTA) that should be followed.

CAPITAL AREA TRANSIT SYSTEM

Schedule of Findings and Questioned Costs (Continued) For the Year Ended December 31, 2013

- Condition:* The financial management oversight review report dated January 10, 2014 identified the following significant deficiencies:
1. The System's Information Technology (IT) processes and procedures are deficient in areas of Security Risk Assessment, Physical Access, and Business Continuity Planning.
 2. Physical security of the prior years' accounting records must be supported by such source documentation as canceled checks, paid bills, payrolls, time and attendance records, contract and subgrant award documents.
 3. Customer and union employee complaints policies and procedures do not cover all activities.
 4. Verification of receipt of goods and services, matching purchase order information to the invoice, and other invoice review procedures employed are not clearly indicated on invoices.
 5. The System charged accounts subject to federal grant reimbursement under contracts that did not comply with FTA requirements.
 6. The System's contract monitoring policies and procedures to ensure adequate performance under the Paratransit service contract are not documented.
 7. The Procurement Manual has not been kept up-to-date with revisions from FTA.
 8. There are no written procedures for an operating or capital budget process.
 9. Source payroll documentation for bus operators is not appropriately approved. As a result, bus operators' time sheets are prone to clerical error when supervisors manually input time into the TIMECO system.
 10. The insurance coverage provided does not address rolling stock.
 11. The System had not performed a physical inventory of spare parts inventory during the twelve month period under review.
 12. The System's fixed asset system has not been updated recently.
 13. The System does not review all grant activity in a timely manner, nor does it have documented closeout procedures.
 14. Grant details are not reconciled to the general ledger

CAPITAL AREA TRANSIT SYSTEM

Schedule of Findings and Questioned Costs (Continued) For the Year Ended December 31, 2013

15. Underlying supporting documentation and related schedules were not available to support encumbrances reported in the federal financial reports.

Effect: The System has experienced turnover in key positions in early 2013. Prior to 2013, staffing was not filled due to financial constraints.

Recommendation: The following recommendations by item number were included in the financial management oversight review report dated January 10, 2014:

1. The System should:
 - a. Perform a formal assessment of risks.
 - b. Evaluate the adequacy of security controls and awareness communications in light of identified risks.
 - c. Enhance building and server room security locations
 - d. Establish a documented process for granting and removing IT System access
 - e. Adopt a policy and make arrangements for identification and reporting of unauthorized attempts to access the system.
 - f. Within the constraints of a relatively small staff, further restrict financial application access to only that required for performance of current primary job responsibilities.
 - g. perform/complete comprehensive business impact analysis and Disaster Recovery Plan (DRP)
 - h. Install appropriate fire suppression systems and UPS capability
 - i. Adopt a policy to periodically test and update the DRP as needed.
2. The System should develop a written process and relocate the accounting records to locked file cabinets with limited access or consider offsite storage of such accounting records. Alternatively, the accounting records could be scanned.
3. The System should establish a complaints policy and procedure (whistle blower) for employees to report suspected conflicts of interest or any other suspected improprieties.
4. The System should develop and implement a voucher checklist, which clearly indicates responsibility and completion of applicable review functions. In addition, vendors should be instructed to mail all invoices directly to accounts payable.
5. We recommend that the System utilize a checklist for compliance with FTA requirements for each federally funded contract.

CAPITAL AREA TRANSIT SYSTEM

Schedule of Findings and Questioned Costs (Continued) For the Year Ended December 31, 2013

6. Management should ensure that contract monitoring is documented and utilized to monitor expenses and performance of service contracts. Such documentation should provide the System's personnel with descriptions of standardized methods of analysis and contractor performance monitoring, as well as define tasks, roles, and responsibilities.
7. Management should review and update the Procurement policies and procedures manual and create an electronic version that can be updated on an as-needed basis and be accessible to relevant personnel when needed.
8. The System should establish written budget control policies and procedures. These procedures should include:
 - a. Monthly variance analysis of operating budget
 - b. Internal approval of budgets for Grants in TEAM
 - c. Preparation of the TIP
 - d. Preparation of a five year capital plan.
9. The System should establish procedures for a secondary review of payroll data entry.
10. The System should determine and document the extent of its insurance coverage for rolling stock.
11. The System should perform a 100% count of its spare parts inventory, including current assessment of the condition of each asset. The results of this count should be reconciled to the general ledger control account balance. In addition, the inventory process should be conducted and reconciled by persons independent of any receipt or custody functions.
12. The System should implement procedures that ensure that the Fixed Asset Manager system is updated and reviewed on a periodic basis.
13. The System should establish a monthly review process for all grant activity and initiate the close-out process for applicable grants.
14. The System should ensure that grant detail spreadsheets are reconciled to the general ledger on a monthly basis.
15. The System should establish a process for accurately recording amounts encumbered through contracts and purchase orders, as well as amounts incurred against these obligations in order to track unliquidated obligations

CAPITAL AREA TRANSIT SYSTEM

Schedule of Findings and Questioned Costs (Continued) For the Year Ended December 31, 2013

*Management's
Response:*

1. **Information Technology Processes and Procedures are Lacking**
 - A formal assessment of risk is in the process of being developed and we are currently evaluating ALL possible security controls.
 - We have contracted with Venyu Data Center. This firm provides secure access to their facility with CATS servers housed at their site. This service will provide a secure back-up and redundancy of data and files with 24 hour monitoring and access.
 - To ensure server security with servers not housed at Venyu, cameras will be ordered and placed in the CATS server room. A keypad entry system will be installed and access will be designated as limited/restricted.
 - The Baton Rouge Fire Marshall has been invited to inspect our facilities and make the appropriate recommendation to eliminate potential fire hazards and to implement plans for added protection and security.
 - Disaster Recovery and testing plans are being written.
 - This recommendation will be completed by November 19, 2014.

2. **Inadequate Physical Control Over Accounting Documents**
 - A written process will be completed in accordance with the FMO recommendation noted in this document.
 - This recommendation will be completed by November 19, 2014.

3. **Control Environment Monitoring Activities Not Sufficient**
 - A whistle blower policy and procedure is currently being written and will be implemented within the time frame requested in this document.
 - This recommendation will be completed by August 19, 2014.

4. **Accounts Payable Procedures Do Not Adequately Control the Process**
 - We are developing our voucher process that will clearly indicate responsibility.
 - We have also begun similar processes associated with ALL requisitions.
 - Accounts Payable will begin receiving all invoices, effective May 19, 2014.
 - This recommendation will be completed by August 19, 2014.

5. **Contracts Not Complying with FTA Requirements**
 - A checklist is currently being reviewed by senior management for implementation.
 - This recommendation will be completed by August 19, 2014.

CAPITAL AREA TRANSIT SYSTEM

Schedule of Findings and Questioned Costs (Continued) For the Year Ended December 31, 2013

6. **Insufficient Review of Paratransit Invoices**

- There are NO indications that FTA funds were involved in any overbilling of para-transit services by Reliant Transportation.
- We also formally request that this Deficiency be noted that CATS initiated its own review of para-transit as part of CATS own internal audit.
- We also request that it be noted that CATS notified the FTA and the FMO auditors of this discrepancy after the interview and has made and taken the corrective action to retrieve ALL monies owed CATS by December 2014.
- CATS has procedures in place to verify and review all vendor bills prior to processing.
- This recommendation will be completed by August 19, 2014.

7. **Procurement Manual Not Updated**

- CATS has and will continue to maintain its significant and detailed hard copy version of our procurement manual. To satisfy this finding, CATS will create an electronic version.
- This recommendation will be completed by November 19, 2014.

8. **Budget Process Lacks Documentation**

- Documented written procedures have been initiated and will be available prior to the start of the 2015 budget cycle.
- The 2015 budget preparation will begin in July of 2014 using proper standards and guidelines in association with Federal, FTA, State, GAAP and local laws.
- This recommendation will be completed by November 19, 2014.

9. **Source Payroll Documentation Not Appropriately Approved and Summarized for Processing**

- Procedures for secondary review, as well as a method to streamline the payroll process, are being written.
- This recommendation will be completed by November 19, 2014.

10. **No Apparent Insurance Coverage of Rolling Stock**

- CATS will determine the status of its current insurance coverage as it relates to the rolling stock. CATS will work with the State of Louisiana regarding what obligations are required to be compliant with Federal, State, and local jurisdictions. Once determination is made, if applicable, CATS management will present any needed action to be taken to its Board of Commissioners.
- This recommendation will be completed by November 19, 2014.

CAPITAL AREA TRANSIT SYSTEM

Schedule of Findings and Questioned Costs (Continued) For the Year Ended December 31, 2013

11. Physical Inventory of Spare Parts Not Effective

- Please see discussion under Material Weakness number 6.
 - Of note, we have implemented procedures to do a 100% count audit three times per year.
- We conducted a 100% count inventory in January and submitted to the FMO auditors for review and have requested LaPorte CPA's, to update and adjust CATS financials accordingly.
- This recommendation will be completed by November 19, 2014.

12. Documentary Evidence of Key Fixed Assets Controls Not Provided

- We have enlisted the help of LaPorte CPA's to convert reports from the existing software to EXCEL and to assist in the updating of all assets.
- Once completed, we will maintain documents in accordance with FTA guidelines.
- This recommendation will be completed by August 19, 2014.

13. Grants not Reviewed Timely and no Formal Closeout Procedure

- Please reference Material Weakness numbers two (2) and ten (10). CATS has implemented a comprehensive management and procedure program to manage and maintain our grants, including a Formal Closeout procedure.
- This recommendation will be completed by November 19, 2014.

14. Grant Details are not Reconciled to the General Ledger

- Please reference Material Weakness numbers two (2) and ten (10) and Significant Deficiency number thirteen (13). CATS has implemented a comprehensive management and procedure program to manage and maintain our grants, including the listing of grant details and reconciling to the General ledger.
- This recommendation will be completed by November 19, 2014.

15. No Established Encumbrance Reporting Process

- Please reference Material Weakness numbers two (2) and ten (10) and Significant Deficiency numbers thirteen (13) and fourteen (14). CATS has implemented a comprehensive management and procedure program to manage and maintain our grants, including an established Encumbrance Process.
- We have also had several conversations with Region VI and the FMO auditors in working toward a final and complete procedure for Grant maintenance.
- This recommendation will be completed by November 19, 2014.

CAPITAL AREA TRANSIT SYSTEM

Schedule of Findings and Questioned Costs (Continued) For the Year Ended December 31, 2013

2013 - 10 Timely Filing of Federal Financial Reports

Criteria: 49 CFR 18.41 requires quarterly federal financial reports be filed within 30 days of the end of the quarter.

Condition: The System did not file its federal financial reports for the quarter ended September 30, 2013.

Cause: During the year ended December 31, 2013, the System experienced turnover in the key positions of chief executive officer, chief financial officer, and general manager.

Effect: Noncompliance with FTA regulations.

Recommendation: Management should file all future federal financial reports on a timely basis.

Management's

Response: The System filled the vacant positions and federal financial reports are now being filed timely.

2013 - 11 Ineffective Monitoring of Subrecipient

Criteria: Office of Management and Budget Circular A-102 and A-133 requires monitoring of subrecipients.

Condition: The System disburses grant funds under the Job Access and Reverse Commute (JARC) program to a local nonprofit organization. During the audit, it was noted that the System has not monitored the compliance of its subrecipient.

Cause: Unknown

Effect: Noncompliance with OMB Circulars A-102 and A-133.

Recommendation: Management should institute procedures to effectively monitor the compliance of its subrecipient.

Management's

Response: The System is conducting an internal audit of the subrecipient's compliance with the requirements of the JARC grant.

CAPITAL AREA TRANSIT SYSTEM

**Summary Schedule of Prior Audit Findings
For the Year Ended December 31, 2013**

Part IV - Prior Year Findings and Questioned Costs for Federal Awards

None