KPMG

CAPITAL TRANSPORTATION CORPORATION

General Purpose Financial Statements and Schedule

December 31, 1999 and 1998

With Independent Auditors' Report Thereon

CAPITAL TRANSPORTATION CORPORATION

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Independent Auditors' Report

Board of Directors
Capital Transportation Corporation:

We have audited the accompanying general purpose financial statements of Capital Transportation Corporation (CTC), a component unit of the City of Baton Rouge - Parish of East Baton Rouge, as of and for the years and periods indicated in the table of contents. These general purpose financial statements are the responsibility of CTC's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audits.

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

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the enterprise fund of CTC as of December 31, 1999 and 1998, and the results of its operations and cash flows for the years then ended and the financial position of its pension fund as of December 31, 1999 and January 31, 1999 and the change in plan assets of its pension fund for the eleven-months ended December 31, 1999 and the year ended January 31, 1999 in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 10, 2000 on our consideration of CTC's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The accompanying information included in Schedule 1 is not a required part of the basic financial statements of CTC, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consist principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit this information and express no opinion on it.

KPMG LLP

March 10, 2000

CAPITAL TRANSPORTATION CORPORATION

Balance Sheets - Proprietary Fund

December 31, 1999 and 1998

Assets		1999	1998
Current assets:			
Cash (note 2)	$	774,920	369,819
Accounts receivable		73,776	19,267
Inventories		195,173	150,100
Due from other governments (note 3)		236,824	219,770
Prepaid expenses and other assets		40,689	15,478
Total current assets		1,321,382	774,434
Restricted assets, cash and investments:			
Cash and cash equivalents (notes 2 and 9)		1,306,730	1,655,285
Due from other governments		765,287	362,002
Total restricted assets		2,072,017	2,017,287
Net pension asset, long-term		381,284	266,190
Property, buildings and equipment, net (note 4)		13,574,318	13,458,870
	$	17,349,001	16,516,781
Liabilities and Fund Equity			
Current liabilities (payable from current assets):			
Accounts payable contracts	$	356,602	156,248
Accrued salaries payable		167,888	74,988
Other accrued liabilities		825	26,598
Accrued compensated absences		495,005	480,081
		1,020,320	737,915
Current liabilities (payable from restricted assets):			
Retainage payable		101,927	291,082
Accounts and contracts payable		551,765	68,273
Claims payable and related liabilities (note 9)		450,519	474,941
Total current liabilities		1,104,211	834,296
Total liabilities		2,124,531	1,572,211
Fund equity (notes 5 and 8):			
Contributed capital:			
Primary government		5,389,483	4,967,249
Federal government		17,544,281	16,598,796
Amortization of Federal contributions		(6,665,487)	(5,747,497)
		16,268,277	15,818,548
Accumulated deficit (note 5(d)):			
Reserved for future capital matching		358,985	575,330
Accumulated deficit		(1,402,792)	(1,449,308)
		(1,043,807)	(873,978)
Total fund equity		15,224,470	14,944,570
	$	17,349,001	16,516,781

See accompanying notes to general purpose financial statements.

CAPITAL TRANSPORTATION CORPORATION

Statements of Revenues, Expenses and Changes in Accumulated Deficit - Proprietary Fund

For the years ended December 31, 1999 and 1998

		1999	1998
Operating revenues:			
Charges for services	$	2,876,398	2,359,826
Advertising revenue		98,492	89,236
Total operating revenues		2,974,890	2,449,062
Direct operating expenses:			
Personal services and fringe benefits (note 11)		5,091,831	3,727,369
Supplies		801,649	550,889
Contractual services and liability costs		2,798,128	1,567,532
Depreciation expense		1,161,704	934,304
Total direct operating expenses		9,853,312	6,780,094
Loss from operations		(6,878,422)	(4,331,032)
Nonoperating revenues (expenses):			
Interest and financial charges		73,295	43,435
Government operating grants:			
Federal operating subsidy		2,764,848	906,796
Planning and technical study grants		1,002,513	261,116
Planning and technical study expenses		(870,484)	(261,116)
Hotel/motel tax (notes 1(i) and 3)		776,993	779,342
Miscellaneous		15,931	27,531
Total nonoperating revenues		3,763,096	1,757,104
Excess of expenses over revenues before operating transfer from Primary Government		(3,115,326)	(2,573,928)
Operating transfers from Primary Government:			
Parish Transportation Fund		1,112,930	1,189,788
Parish General Fund		914,580	995,740
Total operating transfers from Primary Government		2,027,510	2,185,528
Net loss before transfer of contributed capital depreciation		(1,087,816)	(388,400)
Accumulated deficit:			
Balance, beginning of year		(873,978)	(1,244,968)
Credits arising from amortization of contributed premises and equipment		917,987	759,390
Balance, end of year	$	(1,043,807)	(873,978)

See accompanying notes to general purpose financial statements.

CAPITAL TRANSPORTATION CORPORATION

Statements of Cash Flows - Proprietary Fund

For the years ended December 31, 1999 and 1998

		1999	1998
Cash flows from operating activities:			
Cash received from operations	$	2,821,888	2,401,562
Cash received from other sources		98,492	89,236
Cash paid to employees for related expenses		(5,114,025)	(3,797,970)
Cash paid to suppliers and others		(3,705,332)	(2,291,981)
Net cash used in operating activities		(5,898,977)	(3,599,153)
Cash flows from noncapital financing activities:			
Operating subsidies received from other governments		3,767,361	1,167,912
Grant expenses		(870,484)	(261,116)
Hotel/motel tax		759,939	822,102
Other revenue		8,941	27,532
Operating transfers City-Parish - Transportation Fund		1,112,930	1,189,788
Operating transfers City-Parish - General Fund		914,580	995,740
Net cash provided by noncapital financing activities		5,693,267	3,941,958
Cash flows from capital and related financing activities:			
Acquisition and construction of capital assets		(775,473)	(2,334,313)
Capital contribution		964,434	2,102,609
Net cash provided by (used in) capital and related financing activities		188,961	(231,704)
Cash flows from investing activities - interest payments received		73,295	43,435
Net increase in cash and cash equivalents		56,546	154,536
Cash and cash equivalents at beginning of year		2,025,104	1,870,568
Cash and cash equivalents at end of year	$	2,081,650	2,025,104

(Continued)

CAPITAL TRANSPORTATION CORPORATION

Statements of Cash Flows - Proprietary Fund

For the years ended December 31, 1999 and 1998

		1999	1998
Reconciliation of cash as listed on the balance sheets (note 2):			
Unrestricted cash	$	774,920	369,819
Restricted cash		1,306,730	1,655,285
	$	2,081,650	2,025,104
Reconciliation of loss from operations to net cash used in operating activities:			
Loss from operations	$	(6,878,422)	(4,331,032)
Adjustments to reconcile loss from operations to net cash used in operating activities:			
Depreciation		1,161,703	934,304
(Increase) decrease in accounts receivable		(54,509)	41,736
(Increase) decrease in prepaid assets		(25,211)	(2,064)
Increase in net pension asset		(115,094)	(85,518)
Increase (decrease) in inventory		(45,073)	54,950
Increase (decrease) in accounts payable and accrued expenses		82,051	(3,665)
Decrease in the provision for legal and small claims liability		(24,422)	(207,864)
Net cash used in operating activities	$	(5,898,977)	(3,599,153)

See accompanying notes to general purpose financial statements.

CAPITAL TRANSPORTATION CORPORATION

Statements of Plan Net Assets - Pension Trust Fund

December 31, 1999 and January 31, 1999

		December 31, 1999	January 31, 1999
Assets:			
Cash and cash equivalents	$	317,932	310,452
Receivables - interest		16,969	14,184
Investments		3,417,606	2,703,142
Net plan assets (note 6)	$	3,752,507	3,027,778

See accompanying notes to general purpose financial statements.

CAPITAL TRANSPORTATION CORPORATION

Statements of Changes in Plan Net Assets - Pension Trust Fund

Eleven-months ended December 31, 1999 and the year ended January 31, 1999

		December 31, 1999	January 31, 1999
Additions:			
Contributions:			
Employer contributions	$	230,118	192,713
Employee contributions		230,118	192,713
Total contributions		460,236	385,426
Investment income:			
Dividend income		81,418	77,306
Net appreciation		271,800	225,681
		353,218	302,987
Less investment expense		(50)	(15,278)
Net investment income		353,168	287,709
Total additions		813,404	673,135
Deductions:			
Benefits		65,232	35,948
Employee refunds		10,802	60,240
Administrative expenses		12,641	25,749
		88,675	121,937
Net change in plan assets		724,729	551,198
Plan assets at beginning of period		3,027,778	2,476,580
Plan assets at end of period (note 6)	$	3,752,507	3,027,778

See accompanying notes to general purpose financial statements.

(1) Summary of Significant Accounting Policies

(a) *Report Issued Under Separate Coverage*

The Capital Transportation Corporation's ("CTC" or "the Corporation") general purpose financial statements are an integral part of the City of Baton Rouge - Parish of East Baton Rouge's (City-Parish) Comprehensive Annual Financial Reports (CAFR).

(b) *Financial Reporting Entity*

Capital Transportation Corporation is a corporation created by East Baton Rouge Parish to provide bus transportation services. The Metropolitan Council exercises oversight over CTC by approving fare changes and by approving operating subsidies. Operating subsidies are provided through a federal grant to the City-Parish government and by local matching funds. The fiscal year for CTC and the City-Parish government is the calendar year.

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

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

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

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

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

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

Based on the previous criteria, CTC is considered a component unit of the City-Parish.

In addition, based on the previous criteria, CTC's management has included the Capital Transportation Corporation's Employees' Pension Trust Fund as a Blended Component Unit within the general purpose financial statements of the Corporation.

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

Currently, the Trust is governed by a four member board composed of two members representing the Employer Trustees and two members elected as Union Trustees. The Trust is funded by the investment of the contributions from CTC and member employees who are obligated to make the contributions to the Trust. The fiscal year of the Trust was changed during 1999 from January 31 to December 31 to be consistent with the CTC. The statement of changes in plan net assets includes only eleven months of operations for the period ended December 31, 1999. The Trust does not issue a separately issued audit report.

(c) ***Basis of Presentation***

The accounts of CTC are organized on the basis of funds which are considered a separate accounting entity. The operations of each fund are accounted for with a set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenue, and expenses. Government resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The funds are classified as follows:

Proprietary Fund

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

Fiduciary Fund

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

(d) ***Basis of Accounting***

The accounting policies of the CTC conform to generally accepted accounting principles as applicable to governments. The CTC uses fund accounting to report its financial position and results of operations. The CTC's accounts are organized into a single proprietary fund. The enterprise fund is used to account for operations (a) that are operated in a manner similar to private business—where the intent of the governing body is that the cost expense, including depreciation of providing goods and services to the general public is financed or recovered primarily through user charges or (b) where the governing body has decided that the periodic determination of revenues earned, expenses incurred and/or net income is appropriate for capital maintenance.

Accordingly, the CTC maintains its records on the accrual basis of accounting. Revenue from operations, investments and other sources are recorded when earned. Expenses (including depreciation and amortization) of providing services to the public are accrued when incurred.

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

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

(e) *Restricted Assets*

Certain assets, principally consisting of cash and investments, are segregated and classified as restricted assets which may not be used except in accordance with contractual terms, under certain conditions, or for specific board-designated purposes.

(f) *Investments*

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

(g) *Inventories*

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

(h) *Property, Buildings and Equipment*

Property, buildings and equipment are recorded at cost. Depreciation or amortization is charged to expense over the estimated useful lives of the assets and is determined using the straight-line method. Expenditures for maintenance and repairs which do not materially extend the useful life of the assets are charged to expense as incurred.

The estimated depreciation rates used in computing depreciation are:

Buildings	3.3 to 10%
Revenue equipment:	
Coaches	10%
Fare collection boxes	8%
Service vehicles	10 to 33%
Shop equipment	10 to 33%
Furniture and fixtures	10 to 33%

The amount of depreciation of assets acquired with Federal capital contributions is reflected as a charge to contributed capital since replacement and/or expansion has been financed from sources other than operating funds.

(i) *Federal and State Grants, Dedicated Taxes and Contributed Capital*

Federal and state grants are made available to the CTC for the acquisition of public transit facilities, buses and other transit equipment. Unrestricted operating grants and grants restricted as to purpose, but not contingent on the actual expenditures of funds, are recognized at that point in time when the right to the funds becomes irrevocable. Where the expenditure of funds is the prime factor for determining the eligibility for the grant proceeds, the grant is recognized at the time when the expense is incurred. Operating grants are credited to income, and capital grants are credited to fund equity. Depreciation and other costs financed by government capital grants

(Continued)

are charged to operating expenses and transferred from the accumulated earnings category of fund equity to the contributed capital category of fund equity.

In addition to Federal grants, CTC is the recipient of 50% of the monies established under R.S. 47:302.29(B) and R.S. 47:322.1, which sets aside the Louisiana State sales tax on hotel occupancy. These monies are provided to the East Baton Rouge Parish Community Improvement Fund (Improvement Fund). CTC's share of these funds shall not be used to displace, replace or supplant funds previously appropriated or otherwise used for urban mass transit purposes. The monies in the Improvement Fund are appropriated annually by the State legislature. In addition, CTC also receives monies from the East Baton Rouge Enhancement Fund (Enhancement Fund), which has similar restrictions and is created by the State legislature as the Improvement Fund proceeds.

(j) ***Compensated Absences***

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

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

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

(k) ***Cash Flows***

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

(l) ***Claims and Judgments***

The CTC provides for losses resulting from claims and judgments. A liability for such losses is reported when it is probable that a loss has occurred and the amount can be reasonably estimated. Incurred but not reported claims have been considered in determining the accrued liability.

(m) ***Estimates***

The preparation of financial statements in conformity with generally accepted accounting principles 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.

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(2) Cash and Investments

The CTC's cash and investments consisted of the following:

		Proprietary Enterprise Fund	Fiduciary Pension Trust Fund	Totals
December 31, 1999:				
Cash on hand and in banks	$	1,716,368	317,932	2,034,300
Certificate of Deposit		365,282	-	365,282
Equity Mutual Funds		-	3,417,606	3,417,606
Total cash and cash equivalents	$	2,081,650	3,735,538	5,817,188
December 31, 1998:				
Cash on hand and in banks		1,674,153	310,452	1,984,605
Certificate of Deposit		350,951	-	350,951
Equity Mutual Funds		-	2,703,142	2,703,142
Total cash and cash equivalents	$	2,025,104	3,013,594	5,038,698

Restricted assets – cash and cash equivalents are restricted by either local or Federal mandate or by management for capital, self-insured claims and designated operational needs.

The cash and investments in the City-Parish consolidated cash and investment pool are primarily deposits with financial institutions. These deposits are collateralized by the financial institutions pledging government securities which are held in safekeeping with the financial institution's agent in the City-Parish's name.

Actual cash in banks and certificates of deposit as of December 31, 1999 and 1998, for restricted and unrestricted bank accounts, before outstanding checks and reconciling items, was $1,664,489 and $739,454, respectively. Of the total bank balances at December 31, 1999 and 1998, all amounts were substantially covered by federal depository insurance or by collateral held in the CTC's name.

Mutual funds are not categorized under GASB 3 requirements. Statutes authorize the CTC's enterprise fund to invest in direct United States Treasury obligations; bonds, debentures, notes or other indebtedness issued or guaranteed by U.S. Government Instrumentalities which are federally sponsored or federal agencies that are backed by the full faith and credit of the United States; short-term repurchase agreements; and time certificates of deposit at financial institutions, state banks and national banks having their principal offices in Louisiana.

As of December 31, 1999 and 1998, $203,099 and $194,694, respectively, of restricted assets was pledged as collateral to the Louisiana Office of Workman's Compensation.

(3) Receivables

Federal and state grant programs represent an important source of funding to finance housing, employment, construction, and social programs which are beneficial to the City-Parish. CTC's federal and state funds are passed-through the City-Parish. Receivables at December 31, 1999 and 1998 primarily consist of $229,092 and $207,101, respectively, of hotel/motel tax collections.

(4) Property, Buildings and Equipment

A summary of changes in fixed assets follows:

	January 1, 1999	Additions	Deletions	December 31, 1999
Land	$ 378,307	-	-	378,307
Buildings	8,847,098	109,893	-	8,956,991
Equipment, primarily transportation vehicles	9,561,080	1,167,258	-	10,728,338
	18,786,485	1,277,151	-	20,063,636
Accumulated depreciation	(5,327,615)	(1,161,703)	-	(6,489,318)
	$ 13,458,870	115,448	-	13,574,318

	January 1, 1998	Additions	Deletions	December 31, 1998
Land	$ 378,307	-	-	378,307
Buildings	2,112,136	6,734,962	-	8,847,098
Equipment, primarily transportation vehicles	9,194,757	1,866,868	(1,500,545)	9,561,080
Construction in progress	6,103,124	-	(6,103,124)	-
	17,788,324	8,601,830	(7,603,669)	18,786,485
Accumulated depreciation	(5,799,860)	(934,304)	1,406,549	(5,327,615)
	$ 11,988,464	7,667,526	(6,197,120)	13,458,870

Construction in progress is composed of CTC's administration building. The land on which CTC is constructing this building is owned by the City-Parish.

(5) Fund Equity and Working Capital

(a) Accumulated Deficit

As of December 31, 1999 and 1998, the CTC's accumulated deficit was $1,043,807 and $873,978, respectively, which reflects accumulated depreciation on fixed assets.

(b) Contributed Capital

The following summarizes the changes in contributed capital accounts, net of accumulated amortization, as of and for the years ended December 31:

		Primary Government	Federal Government	Federal Retirement	Total
December 31, 1999:					
January 1, 1999	$	4,967,249	16,598,796	(5,747,497)	15,818,548
1999 grants		422,234	945,485	-	1,367,719
1999 depreciation		-	-	(917,990)	(917,990)
	$	5,389,483	17,544,281	(6,665,487)	16,268,277
December 31, 1998:					
January 1, 1998	$	4,587,506	14,820,407	(4,988,107)	14,419,806
1998 grants		379,743	1,778,389	-	2,158,132
1998 depreciation		-	-	(759,390)	(759,390)
	$	4,967,249	16,598,796	(5,747,497)	15,818,548

(c) Working Capital

Operations of CTC have been subsidized by the Federal and local governments through various cash grants and appropriations. A summary of the subsidies are as follows:

		1999	1998
Parish Transportation Fund	$	1,112,930	1,189,788
Parish General Fund		914,580	995,740
Total operating subsidies	$	2,027,510	2,185,528

(d) Reserved for Future Grant Matching

Parish Transportation Funds and general funds received in 1999 amounting to $358,985 are restricted to matching funds for future federal capital grants.

(6) Pension Plan

The Corporation, as well as covered employees, make contributions to the Capital Transportation Corporation Pension Trust Fund (Plan), a defined benefit single employer pension plan. The Plan is administered by a local bank, under the direction of a Board of Trustees.

All full time employees are required to participate upon the date he enters covered employment. Normal retirement date is the first day of the month following a member's 65th birthday and completion of 10 years of service. Benefits vest after ten years of service. A participant is entitled to a monthly normal retirement benefit beginning on his normal retirement date in an amount of 1.2% of average compensation for each year of service after February 1, 1963.

Average compensation is determined as the average of the five consecutive plan years of compensation that produces the highest average. Early retirement is permitted for participants who have 15 years of service (five of which is after February 1, 1973) and who have attained age 55; early retirement benefits are reduced from normal retirement benefits.

Membership, pension benefit obligation, and other pension information is obtained from the Plan's Annual Actuarial Valuation Report as of January 1 and February 1, respectively. The valuation is performed at the beginning of the plan year. Current membership is comprised of the following at January 1, 2000 and February 1, 1999:

	January 1, 2000	February 1, 1999
Retirees and beneficiaries currently receiving benefits	28	24
Vested terminated employees	16	16
Active employees:		
Fully vested	48	53
Not vested	98	42
	190	135

For the periods ended January 1, 2000 and January 31, 1999, respectively, the Corporation had an annual payroll of $3,458,159 and $2,610,000, respectively. Total annual covered payroll for the periods ended January 1, 2000 and January 31, 1999 was $3,287,400 and $2,750,000, respectively.

The employees and the Corporation each contributed, as required, 7% of each employee's salary. For the plan year beginning February 1, 1995, CTC's pension plan was granted "qualified" status by the IRS which enables benefits to no longer be subject to income taxes. The plan's long-range ability to pay benefits also depends on the future financial health of the Corporation.

Key actuarial assumptions include 6% interest compounded annually prior to April 1, 1998 and 8% interest compounded annually effective April 1, 1998, mortality tables from the 1983 Group Annuity Mortality Table for males and females, anticipated turnover and disability rates, and salary increases of 4% annually. The actuarial cost method is the frozen entry age actuarial cost method. Asset valuation method is based on the current market value as of the last day of the prior plan year.

The Corporation's annual pension cost and net pension obligation for the years ended December 31, 1999 and 1998 were as follows:

		1999	1998
Annual required contribution	$	109,745	102,731
Interest on net pension obligation		(21,295)	(14,814)
Adjustment to annual required contribution		26,574	19,278
Annual pension cost		115,024	107,195
Contributions made		230,118	192,713
Increase in net pension asset		115,094	85,518
Net pension asset, beginning of year		266,190	180,672
Net pension asset, end of year	$	381,284	266,190

The remaining amortization period at December 31, 1999 was 17 years. Trend information is as follows:

Fiscal Year Ending		Annual Pension Cost (APC)	Percentage Of APC Contributed		Net Pension Asset
December 31, 1999	$	115,024	200%	$	381,284
December 31, 1998		107,195	179%		266,190
December 31, 1997		92,368	152%		180,672

(7) Deferred Compensation Plan

CTC offers its employees participation in the Louisiana Public Employees' Deferred Compensation Plan (Compensation Plan), created by Louisiana Revised Statutes and in accordance with Section 457 of the Internal Revenue Code. The Compensation Plan is available to all full-time employees and permits them to defer a portion of their salary until future years. All amounts of compensation deferred under the Compensation Plan and related activities are solely the property and the rights of the State of Louisiana, subject only to the claims of the general creditors of the State of Louisiana. Compensation deferred under this plan for fiscal years 1999 and 1998 was $27,147 and $24,953, respectively.

(8) Commitments and Contingencies

(a) Contingencies

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

(b) Grant Commitments

As of December 31, 1999 and 1998, CTC through the City-Parish is committed to using earnings to fund local matching requirements under grants for which a contractual obligation existed at the end of each year. CTC does not currently foresee any concerns in meeting its matching requirements.

(9) Self-insurance and Legal Claims

The CTC is exposed to various risks of loss related to torts, damage to and destruction of assets, errors and omissions, injuries to employees and natural disasters. CTC is self-insured for the first $250,000 for general liability claims and workers' compensation claims. Excess general liability claims are commercially insured up to $750,000, with CTC workers' compensation claims in excess of $1,000,000. Excess workers' compensation claims above this limit are covered by commercial insurance. No payments in excess of insurance coverage have occurred within the past three years.

At December 31, 1999 and 1998, $450,519 and $474,941, respectively, of accrued claims liabilities is included on the Enterprise Fund balance sheets. The accruals, which are based upon the advice of counsel and estimates of CTC's third-party administrators are, in the opinion of management, sufficient to provide for all probable estimable claims liabilities at December 31, 1999 and 1998.

Changes in claims liability during the years ended December 31, 1999 and 1998 are as follows:

	Beginning of year liability	Current year claims and changes in estimates	Claim Payments	Balance at year end
1999	$ 474,941	269,359	(293,781)	450,519
1998	$ 682,805	(10,839)	(197,025)	474,941

(10) Significant Sales Contract

An agreement was renewed in 1999 and 1998 between the Board of Supervisors of Louisiana State University and CTC. The agreement states that CTC will provide Louisiana State University (LSU) with 45 passenger buses, personnel and supplies to operate a mass transit system commencing August 15, 1999, and terminating August 14, 2000. As consideration for the service rendered, LSU paid to CTC during the calendar year of 1999 and 1998 $1,255,701 and $1,167,116, respectively. This amount is included in charges for services on the statements of revenues, expenses and changes in retained earnings.

(11) Related Parties

The members of the Pension Board of the Pension Trust Fund were paid a per diem for their attendance at board meetings in calendar year 1998 and are also reimbursed for out-of-pocket expenses resulting from their participation in pension activities. The amounts received by each Commissioner for the year ended December 31, 1999 were as follows:

	Per Diem	Expense Reimbursement	Total
Michael McCleary	$ -	1,052	1,052
Charles Brown	300	-	300
Frank Clark	200	1,084	1,284
W. T. Winfield	-	313	313
Kenneth Montgomery	400	-	400
Beverly A. Morris	100	-	100
	$ 1,000	2,449	3,449

Schedule 1

CAPITAL TRANSPORTATION CORPORATION

Required Supplementary Information Under GASB Statement No. 25

SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date		Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL	Funded Ratio	Covered Payroll	Unfunded AAL as a Percentage of Payroll
December 31, 1999	$	3,752,507	3,752,307	-	100.00%	3,917,671	-
January 31, 1998	$	2,476,580	2,814,804	338,224	87.90%	2,569,374	13.20%
January 31, 1997	$	2,048,573	1,374,337	121,418	94.40%	2,519,162	4.80%

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Year Ended		Annual Required Contribution	Actual Contribution	Percentage Contributed
December 31, 1999	$	115,094	230,118	200.00%
January 31, 1999		107,195	192,713	179.78%
January 31, 1998		92,368	140,449	152.05%
January 31, 1997		75,069	89,323	118.99%

NOTES TO THE SCHEDULES OF TREND INFORMATION LISTED ABOVE

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

Valuation date	January 1, 2000
Actuarial cost method	Frozen Entry Age Actuarial Cost Method
Amortization method	Level percent closed
Remaining amortization period	10 years
Asset valuation method	Current market value as of the last day of the prior plan year.
Actuarial assumptions:	
Investment rate of return	8.00%
Projected salary increases	4.00%

See accompanying independent auditors' report.

Bank One Centre-North Tower
Suite 1700
451 Florida Street
Baton Rouge, LA 70801-1705

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

The Board of Directors
Capital Transportation Corporation:

We have audited the general purpose financial statements of the Capital Transportation Corporation (CTC), as of and for the year ended December 31, 1999, and have issued our report thereon dated March 10, 2000. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the CTC's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards.*

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the CTC's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the Board in a separate letter dated March 10, 2000.

This report is intended solely for the information and use of the CTC Board of Directors, CTC's management, the City of Baton Rouge and Parish of East Baton Rouge, and the Legislative Auditor's Office, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

March 10, 2000

KPMG

Bank One Centre-North Tower
Suite 1700
451 Florida Street
Baton Rouge, LA 70801-1705

CONFIDENTIAL

March 10, 2000

Board of Directors
Capital Transportation Corporation
Baton Rouge, Louisiana

Ladies and Gentlemen:

We have audited the financial statements of the Capital Transportation Corporation (CTC), as of and for the year ended December 31, 1999, and have issued our report thereon dated March 10, 2000. In planning and performing our audit of the financial statements of CTC, we considered internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. An audit does not include examining the effectiveness of internal control and does not provide assurance on internal control. We have not considered internal control since the date of our report.

During our audit we noted certain matters involving internal control and other operational matters that are presented for your consideration. These comments and recommendations, all of which have been discussed with the appropriate members of management, are intended to improve internal control or result in other operating efficiencies and are summarized in Appendix A. Appendix B provides management's response to current year comments. The status of prior year comments that were pending as of December 31, 1998 are included in Appendix C.

Our audit procedures are designed primarily to enable us to form an opinion on the financial statements, and therefore may not bring to light all weaknesses in policies or procedures that may exist. We aim, however, to use our knowledge of the CTC's organization gained during our work to make comments and suggestions that we hope will be useful to you.

We would be pleased to discuss these comments and recommendations with you at any time.

This report is intended solely for the information and use of the board of directors, management of CTC, the Federal Transit Administration and the office of the Louisiana Legislative Auditor and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

KPMG LLP

CURRENT YEAR COMMENTS

Pension Plan (repeat finding)

Currently, no specific individual is assigned day-to-day responsibilities for the administration of the CTC's Employees' Pension Trust Fund (the Plan). A third-party investment company processes all purchases and sales of investments based on the terms of a contract; however, the Plan does not have a designated individual to monitor and reconcile the investment, receipt and disbursement transactions.

The Plan should contract with and/or identify an individual whose responsibilities would include maintaining all books and records of the Plan, reviewing disbursements and receipts for completeness and accuracy, reconciling and reviewing investment activity and cash accounts, and maintaining the overall records of the Plan. This person would work closely with the Plan's actuary and third-party investment company to receive the appropriate data and to ensure that controls are in place by the Plan to determine that all transactions are appropriate and approved. The third-party investment company submits weekly copies of all investment transactions and sends monthly summaries of the activity within the Plan's investment accounts. These reports should be filed in an orderly manner and should be reviewed for any unusual transactions. Such a person should also review the investment and cash statements to ensure pension amounts were paid to only valid retirees or terminated employees. The investment statements should also be reviewed for investment expenses to ensure that amounts paid for investment expenses are in line with contractual amounts.

Accounting Policies and Procedures

Accounting policies and procedures are not documented in a written manual. Although employees are familiar with the accounting procedures, a manual would serve to supplement knowledge and is especially useful during periods of transition. It is our understanding that the preparation of an accounting and procedures manual is currently in process and is expected to be completed in August 2000. All employees of the CTC administration staff should be supplied with a copy of the manual upon its completion.

Fixed Assets and Depreciation

Fixed Asset Ledger

Currently, the CTC does not maintain a detailed fixed asset ledger. We recommend that the Company prepare and maintain the ledger to include the following information:

- Asset description
- Date of acquisition
- Cost
- Location of asset
- Estimated useful life
- Salvage value, if any
- Method of depreciation
- Periodic depreciation and cumulative depreciation

The Company's detailed records should be reconciled monthly to the general ledger for both the cost and accumulated depreciation of the assets. Assets sold or retired should be deleted from the ledger at the date of disposition. Implementation of this process will provide effective accounting control over fixed assets.

Fixed Asset Supporting Documentation

Accounting department personnel often had a difficult time locating documents (invoices) to support purchases of fixed assets. All documentation should be maintained in a central file and retained for a specific period. Maintenance of documentation will provide both comprehensive support for all acquisitions and the basis for recording the cost and related depreciation of fixed assets.

Fixed Asset Purchases

Currently, fixed assets purchased with federal/local grant funds are not recorded to the CTC's accounting system until the year-end audit. Therefore, the Company's internal financial statements reflect large additions to fixed assets and depreciation in the month of December. Recording assets purchased and the related depreciation expense timely will allow the Company to present more accurate monthly financial statements to management. In addition, this process will allow CTC to more effectively manage its assets, provide a more accurate record of fixed assets and, in the event of disaster, assist the Company in its determination of losses.

Capitalization Policy

The Company does not have a written policy for capitalization of fixed assets. A written policy provides guidance to accounting personnel and enhances consistent recording of fixed asset acquisitions. CTC should develop a written capitalization policy which describes assets to be capitalized and establishes a minimum dollar amount for capitalization (we suggest a threshold of $1,000). By also establishing a minimum for capitalization, the Company can avoid the time consuming task of depreciating minor items.

Year End Accruals

Federal and local grant funding is currently recognized as revenue in the month received. An adjustment is made to the year-end balance sheet and income statement to properly reflect revenues in the financial statement period in which they were realized and measurable. We recommend that the CTC, with the assistance of the City of Baton Rouge, begin to properly state revenue in the month in which it is realized and measurable. Properly accruing for grant revenue will improve financial reporting through proper recognition of revenue in the proper period.

Reconciliation between CTC and City of Baton Rouge

Primarily all grant revenues and expenses (federal/local grant funding) pass first through the City of Baton Rouge. The CTC does not perform a monthly reconciliation of accounts with the City of Baton Rouge. We recommend that monthly reconciliations be performed by CTC personnel, and that all differences be researched and adjusted accordingly. Implementation of the reconciliation process would improve recordkeeping with regard to grants and would reduce the possibility of misstatements in the financial statements.

CURRENT YEAR COMMENTS AND MANAGEMENT'S RESPONSE

Pension Plan (repeat finding)

Currently, no specific individual is assigned day-to-day responsibilities for the administration of the CTC's Employees' Pension Trust Fund (the Plan). A third-party investment company processes all purchases and sales of investments based on the terms of a contract; however, the Plan does not have a designated individual to monitor and reconcile the investment, receipt and disbursement transactions.

The Plan should contract with and/or identify an individual whose responsibilities would include maintaining all books and records of the Plan, reviewing disbursements and receipts for completeness and accuracy, reconciling and reviewing investment activity and cash accounts, and maintaining the overall records of the Plan. This person would work closely with the Plan's actuary and third-party investment company to receive the appropriate data and to ensure that controls are in place by the Plan to determine that all transactions are appropriate and approved. The third-party investment company submits weekly copies of all investment transactions and sends monthly summaries of the activity within the Plan's investment accounts. These reports should be filed in an orderly manner and should be reviewed for any unusual transactions. Such a person should also review the investment and cash statements to ensure pension amounts were paid to only valid retirees or terminated employees. The investment statements should also be reviewed for investment expenses to ensure that amounts paid for investment expenses are in line with contractual amounts.

Management's Response

This comment is under review and consideration by the Pension Board and an economically feasible method by which to accomplish the audit recommendation is being sought.

Accounting Policies and Procedures

Accounting policies and procedures are not documented in a written manual. Although employees are familiar with the accounting procedures, a manual would serve to supplement knowledge and is especially useful during periods of transition. It is our understanding that the preparation of an accounting and procedures manual is currently in process and is expected to be completed in August 2000 employees of the CTC administration staff should be supplied with a copy of the manual upon its completion.

Management's Response

Capital Transportation Corporation is presently working on updating and refining detailed task descriptions for each employee's responsibilities, which will comprise the policies and procedures manual. Projected completion date is August 2000.

Fixed Assets and Depreciation

Fixed Asset Ledger

Currently, the CTC does not maintain a detailed fixed asset ledger. We recommend that the Company prepare and maintain the ledger to include the following information:

- Asset description
- Date of acquisition
- Cost
- Location of asset
- Estimated useful life
- Salvage value, if any
- Method of depreciation
- Periodic depreciation and cumulative depreciation

The Company's detailed records should be reconciled monthly to the general ledger for both the cost and accumulated depreciation of the assets. Assets sold or retired should be deleted from the ledger at the date of disposition. Implementation of this process will provide effective accounting control over fixed assets.

Management's Response

Capital Transportation Corporation is currently maintaining a ledger on a monthly basis.

Fixed Asset Supporting Documentation

Accounting department personnel often had a difficult time locating documents (invoices) to support purchases of fixed assets. All documentation should be maintained in a central file and retained for a specific period. Maintenance of documentation will provide both comprehensive support for all acquisitions and the basis for recording the cost and related depreciation of fixed assets.

Management's Response

Capital Transportation Corporation began implementing this practice as of January 2000. Complete documentation is presently in a central file with all the necessary/required documents attached.

Fixed Asset Purchases

Currently, fixed assets purchased with federal/local grant funds are not recorded to the CTC's accounting system until the year-end audit. Therefore, the Company's internal financial statements reflect large additions to fixed assets and depreciation in the month of December. Recording assets purchased and the related depreciation expense timely will allow the Company to present more accurate monthly financial statements to management. In addition, this process will allow CTC to more effectively manage its assets, provide a more accurate record of fixed assets and, in the event of disaster, assist the Company in its determination of losses.

Management's Response

Capital Transportation Corporation has begun doing so and will be maintaining it on a monthly basis.

Capitalization Policy

The Company does not have a written policy for capitalization of fixed assets. A written policy provides guidance to accounting personnel and enhances consistent recording of fixed asset acquisitions. CTC should develop a written capitalization policy which describes assets to be capitalized and establishes a minimum dollar amount for capitalization (we suggest a threshold of $1,000). By also establishing a minimum for capitalization, the Company can avoid the time consuming task of depreciating minor items.

Management's Response

Capital Transportation is currently in the process of establishing written policies which will provide a guidance to accounting personnel.

Year End Accruals

Federal and local grant funding is currently recognized as revenue in the month received. An adjustment is made to the year-end balance sheet and income statement to properly reflect revenues in the financial statement period in which they were realized and measurable. We recommend that the CTC, with the assistance of the City of Baton Rouge, begin to properly state revenue in the month in which it is realized and measurable. Properly accruing for grant revenue will improve financial reporting through proper recognition of revenue in the proper period.

Management's Response

Capital Transportation Corporation is presently reporting state revenue in the month in which it is realized and measurable and will continue to do so in the future.

Reconciliation between CTC and City of Baton Rouge

Primarily all grant revenues and expenses (federal/local grant funding) pass first through the City of Baton Rouge. The CTC does not perform a monthly reconciliation of accounts with the City of Baton Rouge. We recommend that monthly reconciliations be performed by CTC personnel, and that all differences be researched and adjusted accordingly. Implementation of the reconciliation process would improve recordkeeping with regard to grants and would reduce the possibility of misstatements in the financial statements.

Management's Response

Capital Transportation Corporation has been continually conversing with the City of Baton Rouge in regard to the above issue. We have submitted suggestions/documentation as far as a Reconciliation Statement to be provided to them on a monthly basis. Discussions will continue in an effort to reach a mutually agreeable procedure.

PRIOR YEAR COMMENTS

Pension Plan

Currently, no specific individual is assigned day-to-day responsibility for the administration of the Capital Transportation Corporation's Employees' Pension Trust Fund (the Plan). A third-party investment company processes all purchases and sales of investments based on the terms of a contract; however, the Plan does not have a designated individual to monitor and reconcile the investment, receipt and disbursement transactions.

The Plan should contract with and/or identify an individual whose responsibilities would include maintaining all books and records of the plan, reviewing disbursements and receipts for completeness and accuracy, reconciling and reviewing investment activity and cash accounts, and maintaining the overall records of the Plan. This person would work closely with the Plan's actuary and third-party investment company to receive the appropriate data and to ensure that controls are in place by the Plan to determine that all transactions are appropriate and approved. The third-party investment company submits weekly copies of all investment transactions and sends monthly summaries of the activity within the Plan's investment accounts. These reports should be filed in an orderly manner and should be reviewed for any unusual transactions. Such a person should also review the investment and cash statements to ensure pension amounts were paid to only valid retirees or terminated employees. The investment statements should also be reviewed for investment expenses to ensure that amounts paid for investment expenses are in line with contractual amounts.

Management's Response

This issue is still under review and consideration by the Pension Board.

Year 2000

A current key topic with all businesses is Year 2000. Year 2000 compliance is the responsibility of CTC and its management. As the end of the year approaches, CTC should ensure that its due diligence on key vendor's Year 2000 readiness has been completed, that contingency plans have been developed and are in writing, and that confirmation from CTC's vendors (all vendors, not just software vendors) has been received and reviewed. We recommend that the Board receive a report from management regarding its Year 2000 assessment and review contingency plans for appropriateness and completeness.

Management's Response

Capital Transportation Corporation met all the necessary requirements to ensure that our company was and is in compliance with the Year 2000.