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CAPITOL TRANSPORTATION CORPORATION

REPORT ON AUDIT OF GENERAL PURPOSE FINANCIAL STATEMENTS

DECEMBER 31, 1995

CONTENTS

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March 13, 1996

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Capitol Transportation Corporation
Baton Rouge, Louisiana

We have audited the accompanying general purpose financial statements of Capitol Transportation Corporation, a component unit of the City of Baton Rouge - Parish of East Baton Rouge as of and for the years ended December 31, 1995 and 1994, as listed in the table of contents. These general purpose financial statements are the responsibility of Capitol Transportation Corporation'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 generally accepted auditing standards and Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose 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 Capitol Transportation Corporation as of December 31, 1995 and 1994, and the results of its operations and the cash flows for the years then ended, in conformity with generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued a report dated March 13, 1996 on our consideration of Capitol Transportation Corporation's internal control structure and a report dated March 13, 1996, on its compliance with laws and regulations.

Respectfully submitted,

Leonard P. Gerne, C.P.A.

GENERAL PURPOSE FINANCIAL STATEMENTS

Capitol Transportation Corporation

COMPARATIVE BALANCE SHEETS

December 31, 1995 and 1994

ASSETS

	1995	1994
Current Assets:		
Cash and Cash Equivalents	$ 186,722	$ 229,404
Accounts Receivable	57,902	20,973
Inventories	186,351	167,098
Due From Primary Government - City Parish	230,102	226,859
Due From Other Governments	174,860	44,572
Prepaid Insurance	16,479	16,818
Total Current Assets	$ 852,416	$ 705,724
Restricted Assets:		
Cash and Cash Equivalents	$ 1,145,394	$ 532,850
Fixed Assets:		
Land	$ 378,307	$ 378,307
Buildings	2,112,136	2,112,136
Equipment	5,460,939	5,209,920
Construction in Progress	617,984	21,914
Total Fixed Assets	$ 8,569,366	$ 7,722,277
Accumulated Depreciation	(4,721,164)	(4,291,836)
Net Fixed Assets	$ 3,848,202	$ 3,430,441
Total Assets	$ 5,846,012	$ 4,669,015

The accompanying notes are an integral part of these statements.

LIABILITIES AND FUND EQUITY

	1995	1994
Current Liabilities (Payable From Current Assets):		
Accounts and Contracts Payable	$ 303,052	$ 146,116
Accrued Salaries Payable	35,237	35,237
Other Accrued Liabilities	35,918	22,697
Retainage Payable	16,756	-
Accrued Compensated Absences	380,050	333,344
Deferred Revenue	32,718	8,608
Total Current Liabilities	$ 803,731	$ 546,002
Liabilities Payable From Restricted Assets:		
Contingent Liabilities	1,044,356	986,988
Total Liabilities	$ 1,848,087	$ 1,532,990
Fund Equity:		
Contributed Capital:		
Federal Government	$ 7,183,325	$ 6,389,197
Retirement of Federal Government Contribution	(4,187,546)	(3,864,507)
Primary Government	3,070,473	2,513,479
Total Contributed Capital	$ 6,066,252	$ 5,038,169
Retained Earnings (Deficit) Unreserved	(2,068,327)	(1,902,144)
Total Fund Equity	$ 3,997,925	$ 3,136,025
Total Liabilities and Fund Equity	$ 5,846,012	$ 4,669,015

Capitol Transportation Corporation

STATEMENTS OF REVENUES, EXPENSES, AND
CHANGES IN RETAINED EARNINGS (DEFICIT)

For the Years Ended December 31, 1995 and 1994

	1995	1994
Operating Revenues:		
Charges for Services	$ 2,082,160	$ 1,990,147
Advertising Revenue	64,817	263,646
Total Operating Revenues	$ 2,146,977	$ 2,253,793
Operating Expenses:		
Personal Services	$ 2,554,672	$ 2,348,471
Supplies	587,586	587,085
Contractual Services	1,787,684	1,823,927
Depreciation	429,328	401,299
Total Operating Expenses	$ 5,359,270	$ 5,160,782
Operating Loss	$(3,212,293)	$(2,906,989)
Grants:		
Federal Operating Assistance	$ 1,133,181	$ 1,280,000
Federal Emergency Assistance	-	600
Study and Planning	122,274	210,711
	$ 1,255,455	$ 1,491,311
Nonoperating Revenue (Expenses):		
Interest and Fiscal Charges	$ 13,202	$ 8,013
Transportation Planning and Financing Studies	(137,467)	(229,625)
Gain on Sale of Fixed Assets	-	8,400
Miscellaneous Revenue	711	9,272
Total Nonoperating Revenue (Expenses)	$ (123,554)	$ (203,940)
Loss Before Operating Transfers	$(2,080,392)	$(1,619,618)
Operating Transfers In (Out) Primary Government:		
Parish Transportation Fund	$ 1,591,170	$ 1,223,110
	$ 1,591,170	$ 1,223,110
Net Loss	$ (489,222)	$ (396,508)
Depreciation Transferred to Equity Contributed	323,039	294,782
Loss Transferred to Retained Earnings *(Deficit)*	$ *(166,183)*	$ *(101,726)*
Retained Earnings (Deficit) at Beginning of Year	(1,902,144)	(1,800,418)
Retained Earnings (Deficit) at End of Year	$(2,068,327)	$(1,902,144)

The accompanying notes are an integral part of these statements.

Capitol Transportation Corporation

STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 1995 and 1994

	1995	1994
Cash Flows From Operating Activities:		
Cash Received From Customers	$ 2,082,160	$ 1,990,147
Cash Payments to Suppliers for Goods and Services	(2,162,722)	(2,353,804)
Cash Payments to Employees for Services	(2,507,966)	(2,294,105)
Other Operating Revenue	64,817	263,646
Net Cash Used in Operating Activities	$(2,523,711)	$(2,394,116)
Cash Flows From Noncapital Financing Activities:		
Federal Operating Assistance	$ 1,002,893	$ 1,386,315
Operating Transfers in From Primary Government - City-Parish	1,587,927	1,047,829
Transportation Planning and Financing Studies, Net	(15,193)	(18,914)
Other Noncapital Revenue, Net	13,913	25,685
Net Cash Provided by Noncapital Financing Activities	$ 2,589,540	$ 2,440,915
Cash Flows From Capital and Related Financing Activities:		
Acquisition and Construction of Capital Assets	$ (847,089)	$ (206,927)
Capital Contributed by Federal Government	794,128	167,684
Capital Contributed by Primary Government	556,994	-
Net Cash Provided by Capital Activities	$ 504,033	$ (39,243)
Net Increase in Cash and Cash Equivalents	$ 569,862	$ 7,556
Cash and Cash Equivalents - Beginning of Year	762,254	754,698
Cash and Cash Equivalents - End of Year	$ 1,332,116	$ 762,254

(CONTINUED)

Capitol Transportation Corporation

STATEMENTS OF CASH FLOWS (CONTINUED)

For the Years Ended December 31, 1995 and 1994

	1995	1994
Reconciliation of Net Operating (Loss) to Net Cash Used in Operating Activities:		
Net Operating Loss	$(3,212,293)	$(2,906,989)
Adjustments to Reconcile Net Operating (Loss) to Net Cash Used in Operating Activities:		
Depreciation	$ 429,328	$ 401,299
Change in Assets and Liabilities:		
Decrease (Increase) in Accounts Receivable	(36,929)	4,912
Decrease (Increase) in Prepaid Expenses	339	(4,781)
Decrease (Increase) in Inventory	(19,253)	(15,144)
Increase (Decrease) in Accounts and Contracts Payable	156,936	42,518
Increase (Decrease) in Accrued Salaries Payable	-	(811)
Increase (Decrease) in Other Liabilities	94,699	29,703
Increase (Decrease) in Retainage Payable	16,756	-
Increase (Decrease) in Compensated Absences	46,706	55,177
Total Adjustments	$ 688,582	$ 512,873
Net Cash Used in Operating Activities	$(2,523,711)	$(2,394,116)

The accompanying notes are an integral part of these statements.

Capitol Transportation Corporation

NOTES TO FINANCIAL STATEMENTS

December 31, 1995

(1) Summary of Significant Accounting Policies -

A. Report Issued Under Separate Cover

The Capitol Transportation Corporation's ("CTC or the Corporation") financial statements are an integral part of the City of Baton Rouge - Parish of East Baton Rouge's Comprehensive Annual Financial Reports (CAFR). This report has been formatted to coincide with the CAFR and has been issued under separate cover for the Capitol Transportation Corporation and should not be used for any other purpose.

B. Financial Reporting Entity

Capitol 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.

Based on criteria established by the Governmental Accounting Standards Board (GASB) Statement No. 14, The Financial Reporting Entity, CTC is considered a component unit of the City of Baton Rouge, Parish of East Baton Rouge (Primary Government) for financial reporting purposes.

C. Basis of Presentation

The accounts of CTC are organized on the basis of a fund which is considered a separate accounting entity. The operations of the 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 a fund based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The fund is 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.

D. Basis of Accounting

Proprietary Funds are maintained on the accrual basis of accounting wherein revenue is recognized in the accounting period in which it is earned and becomes measurable, and expenses are recognized in the period incurred, if measurable. Intergovernmental revenue is recognized in accordance with NCGA Statement 2.

E. Cash and Cash Equivalents

Cash for CTC includes the payroll cash account, cash for insurance, cash on hand, petty cash, and cash with fiscal agent. An imprest bank account is used for disbursement of payrolls.

For the statement of cash flows, cash equivalents are demand deposit accounts, repurchase agreements, certificates of deposit with maturities of three months or less as well as a share of the City-Parish consolidated cash and investments pool.

F. Inventories of Materials

Inventories are stated at cost, not to exceed market, using the average cost method.

G. Accounts Receivable

Accounts receivable deemed uncollectible are charged to bad debts using the direct charge-off method.

H. Fixed Assets

Fixed assets are maintained on the basis of original cost, except those arising from donation which are recorded at their fair market value at the time of receipt. Depreciation on fixed assets has been computed using the straight-line method based on the estimated useful lives of the individual assets. The depreciation rates for the major classifications of assets are as follows:

Building and Structures	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%

I. Contributed Capital

The Corporation records amounts received from local and federal grant contributions for the purchase of fixed assets as contributed capital. Total depreciation expense is used to determine the net operating income or loss for the year. However, the depreciation expense allocated to the federal portion of contributed capital is transferred as a reduction to contributed capital rather than closed to retained earnings.

The depreciation transferred to contributed capital for the years ended December 31, 1995 and 1994 was $323,039 and $294,782, respectively.

J. Vacation and Sick Leave

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

CONTINUOUS 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. The amount recorded is deemed to be a current liability.

(2) Stewardship, Compliance, and Accountability -

A. Deficit Retained Earnings

Capitol Transportation Corporation shows a deficit in retained earnings of $(2,068,327). CTC is a bus company that incurs a deficit each year which is offset by subsidies from federal and local governments. The operating subsidies do not cover depreciation on assets acquired with CTC funds or local government contributions, resulting in a retained earnings deficit.

Capitol Transportation Corporation

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 1995

(3) Cash and Cash Equivalents -

Cash and cash equivalents include the following:

	1995	1994
Cash on Hand	$ 450	$ 450
Cash in City-Parish Consolidated Cash and Investment Pool	$ 547,561	$ 30,820
Cash in Checking Accounts:		
Payroll Cash Accounts	3,290	3,039
Cash With Fiscal Agent	54,800	64,655
Cash for Insurance Claims	413,502	365,766
Certificate of Deposit for Insurance Reserve	174,898	167,083
Other Certificate of Deposit	137,615	130,441
	$1,331,666	$ 761,804
Total Cash and Cash Equivalents	$1,332,116	$ 762,254

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.

The Corporation's checking accounts and certificates of deposit are maintained at two financial institutions and are collateralized by FDIC insurance and pledged securities held in the Corporation's name by a third party. The insurance claims checking account in the amount of $236,015 is collateralized by FDIC insurance in the amount of $100,000 and pledged securities with a market value of $101,080, thus the remaining balance of $34,935 is considered uninsured and uncollateralized at December 31, 1995. The actual bank balances of the cash and cash equivalents at December 31, 1995 were $1,410,914.

The certificate of deposit in the amount of $174,898 is held as collateral by the Louisiana Department of Employment Security in order to comply with Louisiana's self-insured workmen's compensation provisions.

Cash and cash equivalents are included in the accompanying Balance Sheets under the following captions:

	1995	1994
Current Assets:		
Cash and Cash Equivalents	$ 186,722	$ 229,404
Restricted Assets:		
Cash and Cash Equivalents	1,145,394	532,850
Total Cash and Cash Equivalents	$1,332,116	$ 762,254

At December 31, 1995, restricted cash and cash equivalents is comprised of $588,400 which represents cash specifically reserved for payment of contingent liabilities and $556,994 representing the City-Parish's local match portion of federal capital grants which were unspent as of year end.

(4) Grants From Other Governmental Units -

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 and Parish. These funds are recorded in the Special Revenue, Capital Projects, and Enterprise Funds of the City-Parish. A grant receivable is recorded when an approved contract is authorized with the funding agency through the "Grants Review Process". The grants normally specify the purpose for which funds may be used and are audited annually in accordance with Office of Management and Budget Circular A-128 under the "Single Audit Concept". The single audit report is included in the City of Baton Rouge, Parish of East Baton Rouge's General Purpose financial statements of which the Corporation is a component unit.

(5) Changes in Contributed Capital -

	1995	1994
Balance at January 1, Net	$5,038,169	$5,165,267
Federal Government Contribution	794,128	167,684
Retirement of Federal Contributions	(323,039)	(294,782)
Primary Government Capital Contributions	556,994	-
Balance at December 31, Net	$6,066,252	$5,038,169

Capitol Transportation Corporation

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 1995

(6) Due From Other Governments -

The Corporation is due amounts from the U. S. Department of Transportation. The federal share due from the capital grants are as follows:

	1995	1994
U. S. Department of Transportation - Miscellaneous Grants	$ 174,860	$ 44,572
	$ 174,860	$ 44,572

(7) Receivables and Payables Oversight Unit -

	1995	1994
Due From Primary Government:		
Special Revenue Fund - Parish Transportation	$ 230,102	$ 226,859
	$ 230,102	$ 226,859
Due To Primary Government:		
General Fund	$ NONE	$ NONE

(8) Operating Subsidies -

Operations of the Corporation have been subsidized by the federal and local governments through various cash grants and appropriations. A summary of the subsidies for 1995 and 1994 follows:

	1995	1994
Operating Grants:		
U. S. Department of Transportation:		
Federal Transit Administration - Operating Assistance Grant	$ 1,133,181	$ 1,280,000
Federal Emergency Assistance	-	600
Operating Transfers In From Primary Government:		
City of Baton Rouge - Parish of East Baton Rouge	1,591,170	1,223,110
Total Operating Subsidies	$ 2,724,351	$ 2,503,710

(9) Retirement Commitments -

1. Plan Description and Provisions

The Corporation, as well as covered employees, make contributions to the Capitol 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 the Board of Directors of the Corporation.

All full time employees become eligible for participation upon the date he enters covered employment. 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 equal to the sum of $17.00 multiplied by the number of years of service prior to February 1, 1973 (up to 10 years); plus $12.50 multiplied by the number of years of service from February 1, 1973 to February 1, 1990; plus 1% of average compensation for each year of service after February 1, 1990. Average compensation is determined as the average of the 5 consecutive plan years of compensation that produces the highest average.

Furthermore, on January 10, 1995, the Board of Directors gave final approval to the addition of a Deferred Retirement Option Plan (DROP) to the existing pension plan with an effective date of February 1, 1995. Any member who has been eligible for retirement for at least one year can participate in the DROP program. A member can participate only once and only up to three years. When the member joins the DROP, he stops contributing to and earning benefits in the system. Employer contributions also cease. His benefit is computed as if he had retired, using final average pay and service at that point in time; if he has not met the requirements for normal retirement, the benefit is reduced by 0.5% for each month by which his DROP entry date precedes his normal retirement (this is the "early retirement reduction"). A DROP account is started for the participant and is credited with the monthly benefit amount the participant would have received if he had actually retired. No interest is earned on the DROP account during the period of DROP participation; afterwards, interest is credited at the fund's actual rate of return. Upon termination of employment at the end of the specified period of DROP participation, the monthly benefit computed for the member at DROP entry becomes payable, as well as the DROP account.

Capitol Transportation Corporation

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 1995

If the member's period of DROP participation ends and he does not terminate employment, he and the employer resume contributing to the system. The member begins earning an additional benefit which will be based only on post-DROP service. The final average pay computed at DROP entry is used for the post-DROP benefit until post-DROP service consists of at least 36 months, at which time the average is recomputed for purposes of the post-DROP benefit only. At subsequent retirement, the member receives as a monthly benefit, the sum of the pre-DROP benefit and the post-DROP benefit.

The Plan's fiscal year ends January 31, each year, and so membership, pension benefit obligation, and other pension information is obtained from the Plan's Annual Actuarial Valuation Report as of February 1, each year.

Current membership is comprised of the following:

	FEBRUARY 1, 1995	FEBRUARY 1, 1994
Retirees and Beneficiaries Currently Receiving Benefits	18	18
Vested Terminated Employees	15	12
Active Employees:		
Fully Vested	62	60
Not Vested	27	28
Total	122	118

For the years December 31, 1995 and 1994, the Corporation had an annual payroll of $2,534,860 and $2,294,104, respectively. Total annual covered payroll was $2,423,300 and $2,025,000, respectively.

The employees and the Corporation each are required to contribute 3% of the employees' salaries. Prior to June 1, 1991, the Corporation contributed a flat monthly contribution of $50 per employee, and the employee contributed $35 per month. For the plan year beginning February 1, 1995, CTC's pension plan was granted "qualified" status by the IRS. As a result of receiving this qualified status employee contributions are no longer subject to income taxes.

return on the investment of present and future assets of 6 percent a year compounded annually, (b) voluntary termination will be in accordance with the T-4 table in the actuary's handbook, (c) mortality rates are based on the 1971 Group Annuity Table, (d) disability rates are projected based on the Eleventh Actuarial Valuation of Railroad Retirement System, (e) 80% of participants are assumed to be married and (f) salary increases are estimated at 4% per year.

The following information regarding the Plan's pension benefit obligations is based on the February 1, actuarial valuation each year:

	FEBRUARY 1,		
	1995	1994	1993
Vested Benefits:			
Participants Currently Receiving Payments	$ 237,147	$ 243,917	$ 251,018
Other Participants	1,146,833	1,030,744	911,327
	$1,383,980	$1,274,661	$1,162,345
Nonvested	45,670	50,368	51,928
Total Actuarial Present Value of Accumulated Plan Benefits	$1,429,650	$1,325,029	$1,214,273
Net Assets Available for Benefits at Market	1,440,602	1,437,126	1,263,055
Overfunded Pension Benefit Obligation	$ 10,952	$ 112,097	$ 48,782

Due to a retroactive change in the plan provisions the total actuarial present value of accumulated plan benefits at February 1, 1993, were increased by $382,816.

4. Contributions Required and Contributions Made

The contribution rate for normal cost is determined using the "frozen entry age actuarial cost method" with proration based on service. The Plan uses the level payoff method to amortize the unfunded liability over a 30-year period. Unfunded frozen actuarial liability as of February 1, 1995 and 1994 was $72,668 and $130,411, respectively.

Capitol Transportation Corporation

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 1995

The significant actuarial assumptions used to compute the actuarially determined contribution requirement are the same as those used to compute the pension benefit obligation.

The required contribution expressed as a level percentage of salaries was 3% by the employer and 3% by the employee during 1995 and 1994. The actuarially determined contribution requirement for 1995 was a total of 5.109%.

The Corporation's actual contributions were $72,699 and $60,750 and the employees' contributions were $72,699 and $60,750, respectively, for the years 1995 and 1994.

5. Trend Information

Historical trend information showing the system's progress in accumulating sufficient assets to pay benefits when due is presented in the Employees' Retirement System's separately issued actuary report as of February 1, 1995. Selected trend information is presented as follows:

FISCAL YEAR	MARKET VALUE NET ASSETS AVAILABLE FOR BENEFITS	(1) ACTUARIAL NET ASSETS AVAILABLE FOR BENEFITS	(2) PENSION BENEFIT OBLIGATION	(3) PERCENTAGE FUNDED (1)/(2)	(5) OVERFUNDED PENSION BENEFIT OBLIGATION (2) - (1)
1987	$ 529,101	$ 529,101	$ 444,984	118%	$ 84,117
1988	$ 613,709	$ 613,709	$ 487,035	126%	$126,674
1989	$ 701,798	$ 701,798	$ 513,543	136%	$188,255
1990	$ 780,453	$ 780,453	$ 528,875	147%	$251,578
1991	$ 928,617	$ 928,617	$ 706,223	131%	$222,394
1992	$1,101,261	$1,101,261	$ 759,261	145%	$342,000
1993	$1,263,055	$1,263,055	$1,214,273	104%	$ 48,782
1994	$1,437,126	$1,437,126	$1,325,029	108%	$112,097
1995	$1,440,602	$1,440,602	$1,429,650	101%	$ 10,952

The standardized measure for determining the pension benefit obligation as set forth in GASB Statement No. 5 was implemented December 31, 1986; therefore, trend information is available for nine years only.

The weighted-average assumed rate of return used in determining the actuarial present value of accumulated plan benefits was 6% for all years.

A point-in-time comparison of the estimated present value of benefits to the market value of assets held is only the indicator of the pension plan's ability to pay benefits when due. The benefit information is based on estimated conditions over many future years, while the asset information relates to assets existing and market values prevailing at a specific moment. The plan's long-range ability to pay benefits also depends on the future financial health of the Corporation.

Benefits are payable as follows:

	AGE	YEARS SERVICE
Early Retirement	55	15
Normal Retirement	65	10

(10) Deferred Compensation Plan and Employee Benefit Plan -

CTC offers its employees a deferred compensation plan created in accordance with Louisiana Revised Statutes 42:1301 through 42:1308 and Section 457 of the Internal Revenue Code of 1954. The Louisiana Public Employees' Deferred Compensation Plan is available to all full-time employees and permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are (until paid or made available to the employee or other beneficiary) solely the property and rights of the State of Louisiana, subject only to the claims of the general creditors of the State of Louisiana.

It is the opinion of CTC's legal counsel that CTC has no liability for losses under the plan. CTC believes it is unlikely that the State of Louisiana will use the assets to satisfy the claims of its general creditors in the future.

Compensation deferred under this plan for the years 1995 and 1994, were $10,215 and $8,815, respectively.

Capitol Transportation Corporation

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 1995

In addition to the Retirement Plan and Deferred Compensation Plan, CTC also offers its employees the option to participate in a "Cafeteria" Plan created in accordance of Section 125 of the Internal Revenue Code. Under this plan employees may exclude from gross income, wages used to purchase certain qualified benefits (health insurance and group-term life insurance).

Amounts excluded from employees taxable wages under the cafeteria plan for the years 1995 and 1994, were $97,402 and $92,131, respectively.

(11) Self-Insurance -

The Corporation maintains a self-insurance program for injury and property damage. The injury and property program is limited to losses of up to $720,000 per claim through the use of a stop-loss policy.

In April of 1989, the Corporation became self-insured for workmen's compensation. The program requires the Corporation to maintain a self-insured retention policy of $250,000.

Contingencies resulting from lawsuit claims and judgements are discussed at Note 13.

(12) Segments of Enterprise Activities -

Services provided by the CTC are financed by user charges. Significant financial data as of December 31, 1995 and December 31, 1994 follows:

	1995	1994
Operating Revenue	$ 2,146,977	$ 2,253,793
Depreciation	$ 429,328	$ 401,299
Operating Loss	$(3,212,293)	$(2,906,989)
Operating Grants	$ 1,133,181	$ 1,280,600
Operating Transfers From Primary Government	$ 1,591,170	$ 1,223,110
Net Loss	$ (489,222)	$ (396,508)
Change in Capital Contributions, Net	$ 1,028,083	$ (127,098)
Property, Plant and Equipment Additions	$ 847,089	$ 206,927
Total Assets	$ 5,846,012	$ 4,669,015
Net Working Capital	$ 48,685	$ 159,722
Due From Other Governments	$ 174,860	$ 44,572
Due From Primary Government	$ 230,102	$ 226,859
Fund Equity	$ 3,997,925	$ 3,136,025

Capitol Transportation Corporation

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 1995

(13) Claims and Judgments -

The Corporation is a defendant in several pending lawsuits and claims. It is the opinion of the Corporation's claims servicer and legal counsel that the liability resulting from claims is $909,454 for December 31, 1995 and $902,122 for December 31, 1994. The amounts are accrued and recorded as liabilities payable from restricted assets.

Legal counsel estimates an additional $152,000 in claims and lawsuits at December 31, 1995 which are considered "possible but not probable." Management has elected to record additional reserves to cover claims which are "possible but not probable" and also any unasserted or unfavorable results on estimated amounts. The additional reserves are $134,902 and $84,866 for December 31, 1995 and 1994, respectively, and are also classified as liabilities payable from restricted assets on the financial statements.

(14) Significant Sales Contract -

An agreement was renewed on August 13, 1995 between the Board of Supervisors of Louisiana State University and CTC. The agreement states that CTC will provide LSU with 45 passenger buses, personnel and supplies to operate a mass transit system commencing August 15, 1995, and terminating August 14, 1996. As consideration for the service rendered, LSU paid to CTC during the calendar years the sum of $1,034,416 for 1995 and $883,218 for 1994. This amount is included in Charges for Services on the Statement of Revenues, Expenses and Changes in Retained Earnings.

(15) Nonmonetary Transactions -

Prior to August 1, 1995, CTC's advertising contract was with Bus Signs, Inc. Effective August 1, 1995 CTC terminated its contract with Bus Signs, Inc. and entered into a new contract with Lamar Transit Advertising, Inc.

The majority of advertising revenues and expenses generated under the contract with Bus Signs, Inc. was in the form of non-cash transactions, whereby CTC would exchange advertising space on its buses with various vendors for non-cash credits such as television and radio air time, printing services, etc. Of the approximately $260,000 reported as revenue for the fiscal year ended December 31, 1994, approximately $240,000 of this amount was in the form of non-cash credit exchanges with the remaining $20,000 received in actual cash payments. Likewise, of the approximately $244,000 reported as advertising expense, $240,000 of this amount was in the form of non-cash credit exchanges with the remaining $4,000 representing expenses paid in cash.

The current contract with Lamar Transit Advertising, Inc. is designed to operate on more of a cash basis. Under the terms of their contract, CTC is guaranteed to receive $6,000 in cash each month. Lamar then receives the next $6,000 advertising revenues generated (whether in the form of cash or credits) with any excess revenues (after CTC's $6,000 guarantee and Lamar's $6,000) being split 75% to CTC and 25% to Lamar. Any advertising revenues received in the form of non-cash transactions will then be exchanged by CTC for non-cash credits such as television and radio air time, etc.

For the fiscal year ending December 31, 1995, of the $64,817 reported as advertising revenues, $36,928 was received in cash payments and the remaining amount of $27,889 was in the form of "non-cash" credits. Likewise, of the $28,815 in advertising expenses, $926 represented cash payments with the remaining amount of $27,889 representing the trade of "non-cash" credits. In addition, CTC has approximately $26,000 in "non-cash" credits available for their use in 1996. This amount is not included in revenues or expense at December 31, 1995 since the credits had not yet been utilized as of December 31, 1995.

(16) Construction of New Administrative Facility -

At December 31, 1994, CTC had just begun preliminary architecture work on the construction of a new administrative facility. The amount of the architect fees and demolition costs incurred as of December 31, 1995 of $617,984 are reflected as Construction In Progress on these financial statements. The estimated construction cost of the new administrative facility is approximately $4,000,000 with an estimated completion date of late 1996.

Approximately 80% of the construction costs of this new facility will be financed through a federal grant from the U.S. Department of Transportation. The City Parish of East Baton Rouge has made available to CTC a 20% in kind property match consisting of land with a cost of $1,093,388.

(17) Subsequent Events -

Revenues:

Effective March 11, 1996, the Metropolitan Council of the City of Baton Rouge - Parish of East Baton Rouge, approved the following increase in passenger revenue fares:

- Fares for adults and children over 5 years of age increased from $1.00 to $1.25.
- Weekday fare passes increased from $9.00 to $11.00.
- Saturday fare passes increased from $1.25 to $1.50.

All other fares were unchanged. Management anticipates that the additional revenues generated by the fare increases with partially offset the projected decrease in the federal operating grant revenues for 1996.

In addition, the Louisiana State Legislature approved a rebate to the City of Baton Rouge, Parish of East Baton Rouge, of a portion of the Hotel-Motel tax being paid to the State. This rebate, according to the legislation, is dedicated to CTC.

Bus Purchases:

On February 28, 1996, CTC entered into an agreement with Gillig Corporation for the purchase of eight (8) Advance Design Coaches with an estimated delivery date of May 1997. The total cost of this purchase is estimated to be approximately $1.7 million and will be funded by two federal grants. These grants will provide 80% of the total cost with the remaining 20% being provided by a local match from the City-Parish.

OTHER SUPPLEMENTARY INFORMATION

REPORT ON THE INTERNAL CONTROL STRUCTURE IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

HANNIS T. BOURGEOIS & CO., L.L.P.

RANDY J. BONNECAZE, C.P.A.*
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MEMBERS
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CERTIFIED PUBLIC ACCOUNTANTS

2322 TREMONT DRIVE, SUITE 200
BATON ROUGE, LA 70809

March 13, 1996

Board of Directors
Capitol Transportation Corporation
Baton Rouge, Louisiana

We have audited the general purpose financial statements of the Capitol Transportation Corporation, a component unit of the City of Baton Rouge - Parish of East Baton Rouge, as of and for the year ended December 31, 1995, and have issued our report thereon dated March 13, 1996.

We conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement.

The management of Capital Transportation Corporation is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of general purpose financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the general purpose financial statements of Capital Transportation Corporation for the year ended December 31, 1995, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the general purpose financial statements.

Cash

Finding:

During our previous year's audit, it was noted that no personnel is assigned the duty of monitoring the adequacy of FDIC insurance and safekeeping receipts to assure complete protection of funds on deposit in excess of $100,000 at each banking institution. During the current year, it was noted that third party safekeeping agreements were signed with all institutions in which funds exceeded the FDIC limit. Some funds, however, at December 31, 1995 still exceeded FDIC limits and third party safekeeping receipts, which is indicated in Note 3 of the financial statements.

Recommendation:

We again recommend that an employee be assigned the responsibility of monitoring the adequacy of FDIC insurance and third party safekeeping receipts for each banking institution in which funds are on deposit.

Personnel Files

Finding:

During our previous year's audit, it was noted that the employees' personnel files had not been updated to indicate pay raises received in 1994.

Recommendation:

We recommended that all personnel files be updated for all employees so that current pay rates are clearly reflected.

Corrective Action Taken:

During the current year, it was noted that the employees' personnel files had been adequately updated.

Payroll Checks

Finding:

During our current year audit, it was noted that the payroll checks can be stamped rather than have original signatures for the authorized check signers. Both signature stamps were located together in an unlocked desk drawer.

Recommendation:

We recommend that the two signature stamps be kept separate in secured locations in an effort to increase internal control in this area. Each stamp should also only be used by the individual responsible for the stamp.

Payroll and Related Expenses

Finding:

During the current year, it was noted that the cafeteria plan withholding account was not being adequately reconciled on a monthly basis due to a variety of reasons.

Recommendation:

We recommend that the payroll withholding accounts be reconciled monthly to match the subsequent disbursements and any differences be investigated and appropriately recorded.

Finding:

The W-2's for the year ended December 31, 1995 were incorrectly prepared for employees participating in the CTC's pension plan. Although the tax deferred portion of the employee's contribution to the pension plan was properly excluded from gross taxable wages, the amount of the tax deferred contribution was not indicated on Form W-2 as required.

Recommendation:

Subsequent to year end amended W-2's were prepared for all affected employees. We recommend more care be exercised in the future.

Finding:

During our testing of accrued leave, it was noted that there were several instances where leave slips were not signed by a supervisor as required by CTC's policy. This problem seems to be limited to only leave taken by administrative staff. However, per our discussion with management, all leave taken was approved orally.

Recommendation:

We recommend that in the future, CTC comply with its stated policy requiring all leave slips to be signed by supervisors as evidence of proper approval.

Finding:

During our current year audit, we noted that payroll tax deposits relating to payroll periods occurring in the third and fourth quarter of 1995 were not made timely. (All tax liabilities were paid.) As a result of the untimely deposits, CTC has been assessed penalties and interest of approximately $10,000 by the IRS. Management is in the process of attempting to eliminate these penalties.

Recommendation:

It is essential that all payroll tax deposits be made on a timely basis. Even a 1 day delay in a payroll tax deposit will result in penalties and interest being assessed by the IRS. Because of the total dollars of payroll tax deposits made by the Corporation penalties increase significantly in a relatively short period of time.

Accounts Receivable

Finding:

In prior year audits, it was noted that the Corporation did not maintain any form of accounts receivable subsidiary register. This fact was noted again in our current year audit.

Recommendation:

We again recommend that even though the Corporation's current accounting software program does not include an accounts receivable subsidiary package, at least a manual listing of receivables should be maintained and reconciled to the general ledger on a monthly basis.

Inventory

Finding:

In our current year audit, it was noted that an adjustment of approximately $10,000 was necessary in order to balance the inventory general ledger account to the actual physical inventory count at December 31, 1995. Through our discussions with personnel, it appears that this adjustment was necessary since the maintenance department doesn't always indicate on work orders all parts that were used for repairs.

Recommendation:

We recommend that management stress to the maintenance department personnel the importance of listing all parts used for repairs on future work orders.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the general purpose 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.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe none of the reportable conditions described above is a material weakness.

This report is intended for the information of management and regulatory agencies. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Respectfully submitted,

Leonard P. Henne, C.P.A.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE BASED ON AN AUDIT OF GENERAL PURPOSE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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March 13, 1996

Board of Directors
Capitol Transportation Corporation
Baton Rouge, Louisiana

We have audited the general purpose financial statements of Capitol Transportation Corporation, a component unit of the City of Baton Rouge - Parish of East Baton Rouge, as of and for the year ended December 31, 1995, and have issued our report thereon dated March 13, 1996.

We conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement.

Compliance with laws, regulations, contracts and grants applicable to Capitol Transportation Corporation is the responsibility of Capitol Transportation Corporation's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of Capitol Transportation Corporation's compliance with certain provisions of laws, regulations, contracts and grants. However, the objective of our audit of the general purpose financial statements was not to provide an opinion on overall compliance with such provisions. 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.

This report is intended for the information of management and regulatory agencies. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Respectfully submitted,

Leonard P. Genre, C.P.A.