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, 1996
Retirees and Beneficiaries	
Currently Receiving Benefits	20
Vested Terminated Employees	15
Active Employees:	
Fully Vested	59
Not Vested	35
Total	129

For the year ended December 31, 1996, the Corporation had an annual payroll of $2,622,602. Total annual covered payroll was $2,519,765.

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.

2. Funding Status and Progress

The amount shown below as the "pension benefit obligation" is the same under FASB No. 35 as under GASB No. 5. As discussed above, the Plan is based on years of service and not salaries. Thus, no projected salary increase or step-rate benefits, estimated to be payable in the future are applicable. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among public employee retirement systems and employees.

The pension benefit obligation was computed as part of an actuarial valuation performed as of January 31, 1996. Significant actuarial assumptions used in the valuation include (a) rate of 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, 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. Employees are assumed to enter the DROP at the later of age 62 and 15 years of service, participate for three years, and then retire at the rates assumed above.

The following information regarding the Plan's pension benefit obligations is based on the February 1, 1996 actuarial valuation:

	FEBRUARY 1, 1996
Vested Benefits:	
Participants Currently Receiving Payments	$ 272,080
Other Participants	1,391,063
	1,663,143
Nonvested Benefits	75,893
Total Actuarial Present Value of Accumulated Plan Benefits	1,739,036
Net Assets Available for Benefits at Market	1,810,942
Overfunded Pension Benefit Obligation	$ 71,906

3. 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, 1996 was $29,378.

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 1996. The actuarially determined contribution requirement for 1996 was a total of 4.941%.

The Corporation's actual contributions for the Pension Trust's fiscal year ended January 31, 1996 was $71,497 and the employees' contributions were $71,497.

4. Trend Information

Historical trend information showing the system's progress in accumulating sufficient assets to pay benefits when due is presented below:

FISCAL YEAR ENDED JANUARY 31,	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
1996	$1,810,942	$1,810,942	$1,739,036	104%	$ 71,906

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 fiscal year ended December 31, 1996 was $11,724.

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 fiscal year ended December 31, 1996, was $102,836.

(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 1985, 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 of the proprietary fund as of December 31, 1996 is as follows:

Operating Revenue	$ 2,164,503
Depreciation	$ 438,968
Operating Loss	$(3,115,870)
Operating Grants	$ 593,692
Operating Transfers From Primary Government	$ 2,148,827
Net Loss	$ (159,474)
Change in Capital Contributions, Net	$ 4,006,803
Property, Plant and Equipment Additions	$ 4,034,050
Total Assets	$10,287,615
Due From Other Governments	$ 747,168
Due From Primary Government	$ 9,703
Fund Equity	$ 8,175,441

(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 a Board of Trustees.

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 Trustees 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.

Based on the previous criteria, Capital Transportation Corporation is considered a component unit of the City of Baton Rouge, Parish of East Baton Rouge.

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

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

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 ends January 31st each year. 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.

CONTENTS

(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.

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

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

2. Whether the City-Parish governing authority (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.

FIDUCIARY FUND

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

D. Basis of Accounting

Proprietary Funds and Pension Trust 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 of the Proprietary Fund is recognized in accordance with NCGA Statement 2. The Pension Trust Fund's financial statements are prepared in conformity with the provisions of Statement No. 6 Pension Accounting and Financial Reporting issued by the National Council on Governmental Accounting. Contributions from CTC and its employees are recognized as revenue in the period in which employees provide services to CTC.

E. 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 and disclosure of contingent 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.

F. 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.

G. Investments

Investments are stated at cost and include various mutual funds.

(6) Due From Other Governments -

The Corporation is due amounts as of December 31, 1996 from governmental agencies as follows:

Current Assets:	
U. S. Department of Transportation - Planning/Operations Grants	$ 50,230
State of Louisiana - Hotel/Motel Tax	130,000
	$ 180,230
Restricted Assets:	
U. S. Department of Transportation - Capital Grants	$ 566,938

(7) Receivables and Payables Oversight Unit -

Due From Primary Government:	
Special Revenue Fund - Parish Transportation	$ 9,703
	$ 9,703
Due To Primary Government:	
General Fund	$ 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 is as follows:

Operating Grants:	
U. S. Department of Transportation:	
Federal Transit Administration - Operating Assistance Grant	$ 593,692
Operating Transfers In From Primary Government:	
City of Baton Rouge - Parish of East Baton Rouge	2,148,827
Total Operating Subsidies	$2,742,519

The certificate of deposit in the amount of $182,926 is held as collateral by the Louisiana Department of Employment Security in order to comply with Louisiana's self-insured workmen's compensation provisions.

At December 31, 1996, restricted cash and cash equivalents is comprised of amounts which represent cash specifically reserved for payment of contingent liabilities and the City-Parish's local match portion of federal capital grants which were unspent as of year end.

The Investments in the Paragon Mutual Funds of the Pension Trust Fund are comprised of U.S. Government Securities and are held in the fiscal agent's trust department in the Pension Trust's name.

	COST	MARKET	UNREALIZED GAIN (LOSS)
Fixed Income	$1,282,541	$1,331,998	$ 49,457
Equity Income	397,595	467,153	69,558
	$1,680,136	$1,799,151	$119,015

(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 -

Balance at January 1, Net	$ 6,066,252
Federal Government Contribution	3,890,952
Retirement of Federal Contributions	(330,187)
Primary Government Capital Contributions	446,038
Balance at December 31, Net	$10,073,055

	PROPRIETARY FUND TYPE ENTERPRISE	FIDUCIARY FUND TYPE TRUST	TOTALS
Investments			
Paragon Mutual Funds			
Fixed Income	-	1,282,541	1,282,541
Equity Income	-	397,595	397,595
Total Investments	-	1,680,136	1,680,136
Total Cash, Cash Equivalents and Investments	$1,832,666	$1,691,927	$3,524,593

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

	PROPRIETARY FUND TYPE ENTERPRISE	FIDUCIARY FUND TYPE TRUST	TOTALS
Current Assets:			
Cash and Cash Equivalents	$ 823,040	$ 11,791	$ 834,831
Restricted Assets:			
Cash and Cash Equivalents	1,009,626	-	1,009,626
Total Cash and Cash Equivalents	$1,832,666	$ 11,791	$1,844,457

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 actual bank balances of the cash and cash equivalents at December 31, 1996 were $1,957,178. These amounts were completely collateralized at December 31, 1996.

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.

(2) Stewardship, Compliance, and Accountability -

A. Deficit Retained Earnings

Capitol Transportation Corporation shows a deficit in retained earnings of $1,897,614. 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.

(3) Cash, Cash Equivalents and Investments -

Cash and cash equivalents and investments include the following:

Cash and Cash Equivalents	PROPRIETARY FUND TYPE ENTERPRISE	FIDUCIARY FUND TYPE TRUST	TOTALS
Cash on Hand	$ 450	$ -	$ 450
Cash in City-Parish Consolidated Cash and Investment Pool	762,910	-	762,910
Cash in Checking Accounts:			
Payroll Cash Accounts	1,595	-	1,595
Cash With Fiscal Agent	228,247	11,791	240,038
Cash for Insurance Claims	512,832	-	512,832
Certificate of Deposit for Insurance Reserve	182,926	-	182,926
Other Certificate of Deposit	143,706	-	143,706
Total Cash and Cash Equivalents	1,832,666	11,791	1,844,457

(CONTINUED)

H. Inventories of Materials

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

I. Accounts Receivable

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

J. 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%

K. 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 year ended December 31, 1996 was $330,187.

L. Vacation and Sick Leave

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

LIABILITIES AND FUND EQUITY

	PROPRIETARY FUND TYPE ENTERPRISE	FIDUCIARY FUND TYPE PENSION TRUST	TOTALS (MEMORANDUM ONLY)
Current Liabilities (Payable From Current Assets):			
Accounts and Contracts Payable	$ 116,560	$ -	$ 116,560
Accrued Salaries Payable	59,968	-	59,968
Other Accrued Liabilities	34,309	-	34,309
Accrued Compensated Absences	399,366	-	399,366
Deferred Revenue	100,343	-	100,343
Total Current Liabilities	710,546	-	710,546
Liabilities Payable From Restricted Assets:			
Retainage Payable	184,118	-	184,118
Accounts and Contracts Payable	312,704	-	312,704
Contingent Liabilities	904,806	-	904,806
Total Liabilities Payable From Restricted Assets	1,401,628	-	1,401,628
Total Liabilities	2,112,174	-	2,112,174
Fund Equity:			
Contributed Capital:			
Federal Government	11,074,277		11,074,277
Retirement of Federal Government Contribution	(4,517,733)	-	(4,517,733)
Primary Government	3,516,511	-	3,516,511
Total Contributed Capital	10,073,055	-	10,073,055
Retained Earnings (Deficit):			
Unreserved	(1,897,614)	-	(1,897,614)
Fund Balance:			
Reserved for Employees' Pension Benefits	-	1,691,927	1,691,927
Total Fund Equity	8,175,441	1,691,927	9,867,368
Total Liabilities and Fund Equity	$10,287,615	$1,691,927	$11,979,542

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

Certified Public Accountants
2322 Tremont Drive, Suite 200
Baton Rouge, Louisiana 70809-1487
Telephone: (504) 928-4770
Fax: (504) 926-0945

RANDY J. BONNECAZE, C.P.A.*
JOSEPH D. RICHARD, JR., C.P.A.*
RONNIE E. STAMPER, C.P.A.*
FERNAND P. GENDRON, C.P.A.*
STEPHEN M. HUGGINS, C.P.A.*
MONICA L. ZUMO, C.P.A.*
RONALD L. GAGNET, C.P.A.*
DOUGLAS J. NELSON, C.P.A.*

CELESTE D. VIATOR, C.P.A.
LAURA E. MONROE, C.P.A.

*A Professional Accounting Corporation

MEMBERS
AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS

[illegible] S. RANGE, SUITE [illegible]
DENHAM SPRINGS, LA [illegible]

March 7, 1997

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 year ended December 31, 1996, 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 audit.

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. 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 audit provides 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, 1996, and the results of its operations and its cash flows for the year then ended, in conformity with generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued a report dated March 7, 1997 on our consideration of Capitol Transportation Corporation's internal control structure and a report dated March 7, 1997, on its compliance with laws and regulations.

Respectfully submitted,

Hannis T. Bourgeois & Co., L.L.P.

Capitol Transportation Corporation

COMBINED BALANCE SHEET - ALL FUND TYPES

December 31, 1996

ASSETS

	PROPRIETARY FUND TYPE ENTERPRISE	FIDUCIARY FUND TYPE *PENSION TRUST	TOTALS (MEMORANDUM ONLY)
Current Assets:			
Cash and Cash Equivalents	$ 823,040	$ 11,791	$ 834,831
Investments, at Cost	-	1,680,136	1,680,136
Accounts Receivable	55,464	-	55,464
Inventories	183,327	-	183,327
Due From Primary Government - City Parish	9,703	-	9,703
Due From Other Governments	180,230	-	180,230
Prepaid Insurance	16,003	-	16,003
Total Current Assets	1,267,767	1,691,927	2,959,694
Restricted Assets:			
Cash and Cash Equivalents	1,009,626	-	1,009,626
Due From Other Governments	566,938	-	566,938
Total Restricted Assets	1,576,564	-	1,576,564
Fixed Assets:			
Land	378,307	-	378,307
Buildings	2,112,136	-	2,112,136
Equipment	5,487,152	-	5,487,152
Construction in Progress	4,625,821	-	4,625,821
Total Fixed Assets	12,603,416	-	12,603,416
Accumulated Depreciation	(5,160,132)	-	(5,160,132)
Net Fixed Assets	7,443,284	-	7,443,284
Total Assets	$10,287,615	$1,691,927	$11,979,542

*(Fiscal year ended January 31, 1996)

The accompanying notes are an integral part of these statements.

Capitol Transportation Corporation

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCE - FIDUCIARY FUND

For the Year Ended January 31, 1996
(Fiscal Year End of the Component Unit)

Revenues:	
Investment Income:	
Dividends	$ 105,381
Net Gains on Sales of Investments	2,815
Net Investment Income	108,196
Contributions:	
Employee	71,497
Employer	71,497
Total Contributions	142,994
Total Revenue	251,190
Expenses:	
Benefit Payments	28,923
Refunds and Withdrawals	6,168
Investment Management Fees	4,431
Administrative Expenses	16,832
Total Operating Expenses	56,354
Excess Revenues over Expenses	194,836
Fund Balance - Beginning of Year	1,497,091
Fund Balance - End of Year	$1,691,927

The accompanying notes are an integral part of these statements.

GENERAL PURPOSE FINANCIAL STATEMENTS

Capitol Transportation Corporation

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS (DEFICIT) - PROPRIETARY FUND

For the Year Ended December 31, 1996

Operating Revenues:	
Charges for Services	$ 2,092,503
Advertising Revenue	72,000
Total Operating Revenues	2,164,503
Operating Expenses:	
Personal Services and Fringe Benefits	3,033,299
Supplies	637,392
Contractual Services	1,170,714
Depreciation	438,968
Total Operating Expenses	5,280,373
Operating Loss	(3,115,870)
Grants:	
Federal Operating Assistance	593,692
Study and Planning	214,177
	807,869
Non-Operating Revenue (Expenses):	
Hotel/Motel Tax	179,758
Interest and Fiscal Charges	35,188
Transportation Planning and Financing Studies	(225,195)
Gain on Sale of Fixed Assets	3,510
Miscellaneous Revenue	6,439
Total Non-Operating Revenue (Expenses)	(300)
Loss Before Operating Transfers	(2,308,301)
Operating Transfers In (Out) Primary Government:	
Parish Transportation Fund	1,194,939
Parish General Fund	953,888
	2,148,827
Net Loss	(159,474)
Depreciation Transferred to Equity Contributed	330,187
Income Transferred to Retained Earnings	170,713
Retained Earnings (Deficit) at Beginning of Year	(2,068,327)
Retained Earnings (Deficit) at End of Year	$(1,897,614)

The accompanying notes are an integral part of these statements.

The estimated remaining cost to complete the construction of the new administrative facility is approximately $1.5 million with an estimated completion date of late 1997. Total estimated construction costs of the facility is approximately $6.1 million.

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. In addition, the City-Parish has also transferred $120,000 in cash as a 20% match for the construction project.

Capital Transportation Corporation
1111 Seneca Street Baton Rouge, Louisiana 70805
Telephone (504) 343-8331 Fax (504) 383-3235

VIA FAX

April 9, 1997

Mr. Fernand Genre'
Hannis T. Bourgeois
Denham Springs, LA 70726

Dear Ferde:

This is in response to the two findings noted by your firm during your audit of Capital Transportation Corporation's financial statements. The audit was for the calendar year ended December 31, 1996.

The first finding noted was a $3,637.00 bill for a wreck to my personal automobile. I thought the bill was sent to and paid by my insurance company. As it turned out the bill was sent to CTC by mistake and paid. At no time was it CTC's responsibility to pay this charge. When it was brought to my attention, I reimbursed CTC the full amount from my personal funds. This will not happen in the future.

The second finding noted was for a $221.00 airline ticket for our operation chief's wife who attended a conference with him. CTC booked the airline tickets for all those who attended, i.e. staff, board members, etc., with the understanding that the cost of any spouse's ticket would be reimbursed to CTC. Due to an oversight, the ticket in question was not reimbursed. However, payment in full has been made, and steps are being taken to assure that this will not happen again.

Thank you for the opportunity to respond to these findings. We appreciate your assistance. Should you have any questions or need additional information, please advise.

Sincerely yours,

Michael L. McCleary
Executive Director

(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 $694,949 as of December 31, 1996. This amount is accrued and recorded as a liability payable from restricted assets.

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 $209,857 as of December 31, 1996, and are also classified as liabilities payable from restricted assets on the financial statements. Also, see footnote 16 for details of claims resulting from construction of the new administrative facility.

(14) Significant Sales Contract -

An agreement was renewed on August 13, 1996 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, 1996, and terminating August 14, 1997. As consideration for the service rendered, LSU paid to CTC during the calendar year of 1996 the sum of $1,055,660. This amount is included in Charges for Services on the Statement of Revenues, Expenses and Changes in Retained Earnings.

(15) Nonmonetary Transactions -

Effective August 1, 1995 CTC entered into an advertising contract with Lamar Transit Advertising, Inc.

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, 1996, the entire $72,000 reported as advertising revenue was received in cash payments as there were no "non-cash" credits utilized during 1996.

Finding:

During the current year audit, we noted that an automobile repair expense on the personal vehicle of the executive director in the amount of $3,637 was paid by the Corporation.

Also, during the current year, we noted that an employee's spouse's airplane ticket in the amount of $221 was paid by the Corporation. The employee was attending a conference on behalf of the Corporation and his spouse accompanied him.

Upon discussions with management, these two items had inadvertently not been reimbursed by the employees to CTC, and accordingly, an adjustment to the general ledger to record these amounts as due from employees was made at December 31, 1996. Each of the amounts were repaid immediately upon disclosure to the employees.

Recommendation:

According to Louisiana Revised Statutes Section 42:1101-1124, "Code of Ethics for Public Officials and Public Employees," public employees or public officials cannot accept anything of "economic value" from a governmental entity, i.e. loans, services, promises, etc. The findings noted above constitute employee loans and thus are considered to be a violation of the above mentioned statute.

We recommend that management take more care in the approval of invoices for payment. CTC also should not be paying invoices for employees and then having the employee reimburse CTC for the disbursement. These types of transactions constitutes employee loans.

Management's Response:

A copy of management's response is shown at Exhibit A.

We considered these immaterial instances of noncompliance in forming our opinion on whether Capitol Transportation Corporation's 1996 general purpose financial statements are presented fairly, in all material respects, in conformity with generally accepted accounting principles, and this report does not affect our report dated March 7, 1997 on those financial statements.

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,

Hannis T. Bourgeois & Co., L.L.P.

Capitol Transportation Corporation

STATEMENT OF CASH FLOWS - PROPRIETARY FUND (CONTINUED)

For the Year Ended December 31, 1996

Reconciliation of Net Operating Loss to Net Cash Used in Operating Activities:	
Net Operating Loss	$(3,115,870)
Adjustments to Reconcile Net Operating Loss to Net Cash Used in Operating Activities:	
Depreciation	438,968
Change in Assets and Liabilities:	
Decrease (Increase) in Accounts Receivable	3,141
Decrease (Increase) in Prepaid Expenses	476
Decrease (Increase) in Inventory	3,024
Increase (Decrease) in Accounts and Contracts Payable	(22,746)
Increase (Decrease) in Accrued Salaries Payable	24,731
Increase (Decrease) in Other Liabilities	(141,159)
Increase (Decrease) in Compensated Absences	19,316
Increase (Decrease) in Deferred Revenue	67,625
	393,376
Net Cash Used in Operating Activities	$(2,722,494)

The accompanying notes are an integral part of these statements.

Payroll Checks

Finding:

During our 1995 audit, it was noted that the payroll checks can be stamped rather than have original signatures for the authorized check signers. Signature stamps were located together in an unlocked desk drawer.

Recommendation:

We recommended 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.

Corrective Action Taken:

Through discussion with personnel, it was noted that during 1996, the two signature stamps were kept separate in secure locations. Also, each stamp was used only by the individual responsible for the stamp.

Payroll and Related Expenses

Finding:

During the prior 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 recommended that the payroll withholding accounts be reconciled monthly to match the subsequent disbursements and any differences be investigated and appropriately recorded.

Corrective Action Taken:

During the current year, the Corporation was monitoring the cafeteria plan withholding account, but the account did not reconcile to the general ledger at year-end.

Additional Recommendation:

We recommend that the Corporation continue its efforts in reconciling, on a monthly basis, the payroll withholding accounts by matching 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.

In planning and performing our audit of the general purpose financial statements of Capital Transportation Corporation for the year ended December 31, 1996, 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 the prior year, it was noted that although third party safekeeping agreements were signed with all institutions in which funds exceeded FDIC limit, funds exceeded FDIC limits and third party safekeeping receipts by $34,935.

Recommendation:

We recommended 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.

Corrective Action Taken:

During the current year, an employee was assigned the responsibility of monitoring the adequacy of FDIC insurance and third party safekeeping receipts. As of December 31, 1996, all funds are adequately collateralized.

Finding:

Currently, the Corporation requires that two cashiers be present during cash and token counts of the bus vaults. However, only one of the cashiers is signing the Actual Machine Count of Daily Revenue form.

Recommendation:

We recommend that both cashiers be required to sign the Actual Machine Count of Daily Revenue form, thus documenting that two cashiers were present for the count.

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

RANDY J. BONNECAZE, C.P.A.*
JOSEPH D. RICHARD, JR., C.P.A.*
RONNIE E. STAMPER, C.P.A.*
FERNAND P. GENRE, C.P.A.*
STEPHEN M. HUGGINS, C.P.A.*
MONICA L. ZUMO, C.P.A.*
RONALD L. GAVIN, C.P.A.*
DOUGLAS J. NELSON, C.P.A.*

[illegible] D. [illegible], C.P.A.
LAURA E. MONROE, C.P.A.

*A Professional Accounting Corporation

Certified Public Accountants

2322 Tremont Drive, Suite 200
Baton Rouge, Louisiana 70809-1487
Telephone: (504) 928-4770
Fax: (504) 926-0945

MEMBERS
AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS

[illegible], SUITE [illegible]
DENHAM SPRINGS, LA [illegible]

March 7, 1997

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, 1996, and have issued our report thereon dated March 7, 1997.

We conducted our audit in accordance with generally accepted auditing standards and <u>Government Auditing Standards</u>, 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.

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

8075

CAPITOL TRANSPORTATION CORPORATION

REPORT ON AUDIT OF GENERAL PURPOSE FINANCIAL STATEMENTS

DECEMBER 31, 1996

OTHER SUPPLEMENTARY INFORMATION

Recommendation:

Subsequent to December 31, 1995 amended W-2's were prepared for all affected employees. We recommended more care be exercised in the future.

Corrective Action Taken:

The W-2's for the year ended December 31, 1996 appear to have been prepared correctly.

Finding:

During our testing of accrued leave in 1995, 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 appeared 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.

Corrective Action Taken:

During our testing of accrued leave in the current year, it appears that leave slips selected for testing were properly approved.

Finding:

During our testing of accrued leave in the current year, it was noted that several employees sold more than six days of sick leave in 1996. Per review of the client's union agreement, employees are allowed to sell a total of six days of sick leave per year. "Sold" and "Sale" means an employee can request to be paid for sick leave without actually taking time off. Through discussions with management, it was noted that this policy may be waived under certain circumstances.

Recommendation:

We recommend that management adhere to its policy on sick leave and formally document the circumstances in which the policy will be waived. If the policy is waived for an employee, the reason why should then be adequately documented.

Finding:

During our audit in 1995, 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 was assessed penalties and interest by the IRS. Although CTC was assessed penalties and interest by the IRS, CTC was successful in having the penalties and interest waived.

CTC has approximately $34,000 in "non-cash" credits available for their use in 1997. Since none of these credits had been utilized as of December 31, 1996, there are no amounts included in revenue or expense relating to these "non-cash" credits.

(16) Construction of New Administrative Facility -

A construction contract between the City of Baton Rouge - Parish of East Baton Rouge and Harvey Honore Construction Company was executed on November 19, 1995 for the construction of the new Administration Facility. When actual construction activity began in 1996, it was determined that due to an oversight, the prevailing wage requirement of the Davis Bacon Act had not been included in the original contract amount. At that time, Harvey Honore Construction Company and all subcontractors submitted estimates of the additional labor expense including overhead and gross profit amounts necessary to pay prevailing wages to date, as well as through completion of the contract. These additional labor expenses were estimated to be approximately $380,000.

Subsequent to December 31, 1996, CTC obtained approval that they would receive a FTA grant in the amount of $600,000 to cover these additional labor costs. The local match portion of the grant amounted to $120,000, which the Metropolitan Council of the City of Baton Rouge - Parish of East Baton Rouge had appropriated in December of 1996 to serve as the local match pending approval of this grant. These additional funds appear adequate based upon the estimated additional labor costs of $380,000.

In addition, Harvey Honore Construction Company is seeking an additional amount of $387,965 as alleged "administrative" costs incurred for complying with the Davis Bacon Act. It is the opinion of legal counsel that it is remote that there is any liability for these "administrative" costs and therefore, no liability has been accrued in these financial statements.

The total construction costs of $4,625,821 incurred as of December 31, 1996 is reflected as Construction In Progress on these financial statements.

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

Recommendation:

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

Corrective Action Taken:

Through our discussions with your personnel, it was noted that the maintenance department is now doing a better job of indicating on work orders all parts used for repairs. We recommend that management continue to stress the importance of indicating all parts used on work orders so inventory accounts can be adjusted accordingly.

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,

Harris T. Bourgeois & Co., L.L.P.

Recommendation:

We recommended 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.

Corrective Action Taken:

During the current year, it appears that the Corporation submitted payroll tax deposits in a timely manner.

Accounts Receivable

Finding:

In prior year audits, it was noted that the Corporation did not maintain any form of accounts receivable subsidiary register.

Recommendation:

We recommended 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.

Corrective Action Taken:

During the current year, the Corporation started preparing a manual listing of receivables, but at year-end, this manual listing did not reconcile to the general ledger. Through discussions with personnel, it was noted that the Corporation is in the process of preparing procedures to reconcile the manual listing of receivables.

Additional Recommendation:

We recommend that the Corporation continue its efforts in preparing procedures to reconcile the manual listing of receivables and that the reconciliation to the general ledger be done on a monthly basis.

Inventory

Finding:

In our 1995 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 your 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.

Capitol Transportation Corporation

STATEMENT OF CASH FLOWS - PROPRIETARY FUND

For the Year Ended December 31, 1996

Cash Flows From Operating Activities:	
Cash Received From Customers	$ 2,099,501
Cash Payments to Suppliers for Goods and Services	(1,904,743)
Cash Payments to Employees for Services	(2,989,252)
Other Operating Revenue	72,000
Net Cash Used in Operating Activities	(2,722,494)
Cash Flows From Noncapital Financing Activities:	
Federal Operating Assistance	593,692
Operating Transfers in From Primary Government - City-Parish	2,369,226
Transportation Planning and Financing Studies, Net	(24,476)
Hotel/Motel Tax	49,759
Other Noncapital Revenue, Net	44,435
Net Cash Provided by Noncapital Financing Activities	3,032,636
Cash Flows From Capital and Related Financing Activities:	
Acquisition and Construction of Capital Assets	(3,717,731)
Capital Contributed by Federal Government	3,462,101
Capital Contributed by Primary Government	446,038
Net Cash Provided by Capital Activities	190,408
Net Increase in Cash and Cash Equivalents	500,550
Cash and Cash Equivalents - Beginning of Year	1,332,116
Cash and Cash Equivalents - End of Year	$ 1,832,666

(CONTINUED)