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CAPITAL TRANSPORTATION CORPORATION

General Purpose Financial Statements
and Schedules

December 31, 1997

With Independent Auditors' Report Thereon

CAPITAL TRANSPORTATION CORPORATION

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KPMG Peat Marwick LLP

Suite 3500 One Shell Square
New Orleans, LA 70139-3599

Independent Auditors' Report

Board of Directors
Capital Transportation Corporation:

We have audited the accompanying general purpose financial statements of Capital Transportation Corporation (CTC), a component unit of the City of Baton Rouge - Parish of East Baton Rouge, as of and for the year ended December 31, 1997, as listed in the table of contents. These general purpose financial statements are the responsibility of CTC's management. Our responsibility is to express an opinion on these general purpose financial statements based on our 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in note 11, the pension trust fund financial statements have been restated as a result of a change in reporting the period of the related financial statements.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of CTC as of December 31, 1997, and the results of its operations and cash flows of its proprietary fund and the changes in plan net assets of its pension trust fund for the year ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 22, 1998, on our consideration of CTC's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

Our audit was made for the purpose of forming an opinion on the 1997 general purpose financial statements taken as a whole. The accompanying information included in Required Supplementary Information under GASB Statement No. 25 as listed in the Table of Contents, which is also the responsibility of CTC's management, is presented for purposes of additional analysis and is a required part of the general purpose financial statements of CTC. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.

Effective January 1, 1997, the CTC adopted GASB Statement Numbers 30 and 31 as discussed in note 11.

KPMG Peat Marwick LLP

May 22, 1998

CAPITAL TRANSPORTATION CORPORATION

Balance Sheet - Proprietary Fund

December 31, 1997

Assets

Current assets:	
Cash (note 2)	$ 513,424
Accounts receivable (note 3)	61,003
Inventories	205,050
Due from other governments	262,530
Prepaid expenses and other assets	13,414
Total current assets	1,055,421
Restricted assets, cash and investments:	
Cash and cash equivalents (notes 2 and 9)	1,357,144
Due from other governments	306,479
Total restricted assets	1,663,623
Property, buildings and equipment, net (note 4)	11,988,464
	$ 14,707,508

Liabilities and Fund Equity

Current liabilities (payable from current assets):	
Accounts payable contracts - payable	105,470
Accrued salaries payable	60,070
Other accrued liabilities	30,829
Accrued compensated absences	399,366
Deferred revenue	95,067
	690,802
Current liabilities (payable from restricted assets):	
Retainage payable	248,688
Accounts and contracts payable	91,047
Claims payable and related liabilities (note 9)	682,805
Total current liabilities	1,022,540
Total liabilities	1,713,342
Fund equity (notes 5 and 8):	
Contributed capital:	
Primary government	4,587,506
Federal government	14,820,407
Retirement of Federal contributions	(4,988,107)
	14,419,806
Accumulated deficit	(1,425,640)
Total fund equity	12,994,166
	$ 14,707,508

See accompanying notes to general purpose financial statements.

CAPITAL TRANSPORTATION CORPORATION

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

For the year ended December 31, 1997

Operating revenues:	
Charges for services (note 11)	$ 2,173,532
Advertising revenue	83,393
Total operating revenues	2,256,925
Direct operating expenses:	
Personal services and fringe benefits	3,340,294
Supplies	576,848
Contractual services and liability costs	1,032,270
Depreciation expense	671,600
Total direct operating expenses	5,621,012
Loss from operations	(3,364,087)
Nonoperating revenues (expenses):	
Interest and financial charges	43,373
Government operating grants:	
Federal operating subsidy	593,500
Planning and technical study grants	240,216
Planning and technical study expenses	(242,408)
Hotel/motel tax (notes 1(i) and 3)	745,504
Miscellaneous	10,668
Total nonoperating revenues	1,390,853
Excess of expenses over revenues before operating transfer from Primary Government	(1,973,234)
Operating transfers from Primary Government:	
Parish Transportation Fund	1,005,902
Parish General Fund	968,932
	1,974,834
Net income before transfer of contributed capital depreciation	1,600
Accumulated deficit:	
Balance, beginning of year	(1,897,614)
Credits arising from amortization of contributed premises and equipment	470,374
Balance, end of year	$(1,425,640)

See accompanying notes to general purpose financial statements.

CAPITAL TRANSPORTATION CORPORATION

Statement of Cash Flows

For the year ended December 31, 1997

Cash flows from operating activities:	
Cash received from operations	$ 2,167,993
Cash received from other sources	83,393
Cash paid to employees and for related expenses	(3,461,831)
Cash paid to suppliers and others	(1,737,370)
Net cash used in operating activities	(2,947,815)
Cash flows from noncapital financing activities:	
Operating subsidies received from other governments	833,716
Grant expenses	(242,408)
Sales tax	672,907
Other revenue	10,668
Operating transfers City-Parish - Transportation Fund	1,005,902
Operating transfers City-Parish - General Fund	968,932
Net cash provided by noncapital financing activities	3,249,717
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets	(5,384,957)
Capital contribution	5,077,584
Net cash used for capital and related financing activities	(307,373)
Cash flows from investing activities - interest payments received	43,373
Net increase in cash and cash equivalents	37,902
Cash and cash equivalents at beginning of year	1,832,666
Cash and cash equivalents at end of year	$ 1,870,568

Reconciliation of cash as listed in the balance sheet:

Unrestricted cash	$ 513,424
Restricted cash	1,357,144
	$ 1,870,568

(Continued)

CAPITAL TRANSPORTATION CORPORATION

Statement of Cash Flows, Continued

Reconciliation of loss from operations to net cash used in operating activities:	
Loss from operations	$ (3,364,087)
Adjustments to reconcile loss from operations to net cash used in operating activities:	
Depreciation	671,600
Increase in accounts receivable	(5,539)
Decrease in prepaid assets	2,589
Increase in inventory	(21,723)
Decrease in accounts payable and accrued expenses	(8,654)
Decrease in the provision for legal and small claims liability	(222,001)
Net cash used in operating activities	$ (2,947,815)

See accompanying notes to general purpose financial statements.

CAPITAL TRANSPORTATION CORPORATION

Statement of Changes in Plan Net Assets

January 31, 1998

Assets:	
Cash and equivalents	$ 68,692
Receivables - interest	9,790
Investments	2,398,098
Net plan assets (note 6)	$ 2,476,580

See accompanying notes to general purpose financial statements.

CAPITAL TRANSPORTATION CORPORATION

Statement of Changes in Plan Net Assets

Year ended January 31, 1998

Additions:	
Contributions:	
Employer contributions	$ 145,727
Employee contributions	145,727
Total contributions	291,454
Investment income:	
Dividend income	174,355
Net appreciation	104,882
	279,237
Less investment expense	(4,305)
Net investment income	274,932
Total additions	566,386
Deductions:	
Benefits	50,687
Employee refunds	28,939
Administrative expenses	48,199
	127,825
Net change in plan assets	438,561
Plan assets at beginning of year as previously reported	1,691,927
Restatement (note 11)	346,092
Plan assets at beginning of year as restated	2,038,019
Plan assets at end of year (note 6)	$ 2,476,580

See accompanying notes to general purpose financial statements.

(1) Summary of Significant Accounting Policies

(a) Report Issued Under Separate Coverage

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

(b) Financial Reporting Entity

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

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

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

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

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

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

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

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

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

(Continued)

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 of each year. The Trust does not issue a separately issued audit report.

(c) Basis of Accounting

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

Proprietary Fund

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

Fiduciary Fund

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

(d) Basis of Accounting

The accounting policies of the CTC conform to generally accepted accounting principles as applicable to governments. The CTC uses fund accounting to report its financial position and results of operations. The CTC's accounts are organized into a single propriety fund. The enterprise fund is used to account for operations (a) that are operated in a manner similar to private business--where the intent of the governing body is that the cost expense, including depreciation of providing goods and services to the general public is financed or recovered primarily through user

(Continued)

charges or (b) where the governing body has decided that the periodic determination of revenues earned, expenses incurred and/or net income is appropriate for capital maintenance.

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

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

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

(e) Restricted Assets

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

(f) Investments

Investments, consisting of mutual funds, are stated at market.

(g) Inventories

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

(h) Property, Buildings and Equipment

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

The estimated depreciation rates used in computing depreciation are:

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

(Continued)

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

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

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

In addition to Federal grants, CTC is the recipient of 50% of the monies established under R.S 47:302.29(B) and R.S. 47:322.1, which sets aside the Louisiana State sales tax on hotel occupancy. These monies are provided into the East Baton Rouge Parish Community Improvement Fund (Improvement Fund). CTC's share of these funds shall not be used to displace, replace or supplant funds previously appropriated or otherwise used for urban mass transit purposes. The monies in the Improvement Fund are appropriated annually by the State legislature. Current year revenues form the Improvement Fund totaled $645,504. In addition, CTC also receives $100,000 from the East Baton Rouge Enhancement Fund (Enhancement Fund), which has similar restrictions and is created by the State legislature as the Improvement Fund proceeds.

(j) Compensated Absences

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

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

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

(k) Cash Flows

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

(Continued)

(l) Claims and Judgments

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

(m) Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(2) Cash and Investments

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

	Proprietary Enterprise Fund	Fiduciary Pension Trust Fund	Totals
Cash on hand and in banks	$ 1,529,291	68,692	1,597,983
Certificate of Deposit	341,277	-	341,277
Paragon Mutual Funds:			
Fixed income	-	1,777,755	1,777,755
Equity	-	620,343	620,343
Total cash and cash equivalents	$ 1,870,568	2,466,790	4,337,358

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

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

Actual cash in banks and certificates of deposit as of December 31, 1997, for restricted and unrestricted bank accounts, before outstanding checks and reconciling items, was $1,619,864. Of the total bank balances at December 31, 1997, all amounts were substantially covered by federal depository insurance or by collateral held in the CTC's name.

Investments are held in the name of the CTC by its agent and are a category 1 under GASB 3 requirements. Statutes authorize the CTC to invest in direct United States Treasury obligations; bonds, debentures, notes or other indebtedness issued or guaranteed by U.S. Government Instrumentalities which are federally sponsored or federal agencies that

(Continued)

are backed by the full faith and credit of the United States; short-term repurchase agreements; and time certificates of deposit at financial institutions, state banks and national banks having their principal offices in Louisiana.

As of December 31, 1997, $191,292 of restricted assets was pledged as collateral to the Louisiana Office of Workman's Compensation.

(3) Receivables

Federal and state grant programs represent an important source of funding to finance housing, employment, construction, and social programs which are beneficial to the City-Parish. CTC's federal and state funds are passed-through the City-Parish. Receivables at December 31, 1997 primarily consists of $241,654 of hotel/motel tax collections.

(4) Property, Buildings and Equipment

A summary of changes in fixed assets follows:

	January 1, 1997	Additions	Deletions	December 31, 1997
Land	$ 378,307	-	-	378,307
Buildings	2,112,136	-	-	2,112,136
Equipment, primarily transportation vehicles	5,487,152	3,707,605	-	9,194,757
Construction in progress	4,625,821	1,477,303	-	6,103,124
	12,603,416	5,184,908	-	17,788,324
Accumulated depreciation	(5,160,132)	(639,728)	-	(5,799,860)
	$ 7,443,284	4,545,180	-	11,988,464

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

(5) Fund Equity and Working Capital

(a) Accumulated Deficit

As of December 31, 1997, the CTC's accumulated deficit was $1,425,650, which reflects accumulated depreciation on fixed assets.

(Continued)

(b) Contributed Capital

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

	Primary Government	Federal Government	Federal Retirement	Total
January 1, 1997	$ 3,516,511	11,074,277	(4,517,733)	10,073,055
1997 grants	1,070,995	3,746,130	-	4,817,125
1997 depreciation	-	-	(470,374)	(470,374)
December 31, 1997	$ 4,587,506	14,820,407	(4,988,107)	14,419,806

(c) Working Capital

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

Parish Transportation Fund	$ 1,005,902
Parish General Fund	968,932
Total operating subsidies	$ 1,974,834

(6) Pension Plan

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

All full time employees become eligible for participation upon the date he enters covered employment. Normal retirement date is the first day of the month following a member's 65th birthday and completion of 10 years of service. Benefits vest after ten years of service. A participant is entitled to a monthly normal retirement benefit beginning on his normal retirement date in an amount 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 five consecutive plan years of compensation that produces the highest average. Early retirement is permitted for participants who have 15 years of service (five of which is after February 1, 1973) and who have attained age 55; early retirement benefits are reduced from normal retirement benefits.

(Continued)

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 at February 1, 1997:

Retirees and beneficiaries currently receiving benefits	24
Vested terminated employees	14
Active Employees:	
Fully vested	55
Not vested	39
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For the year ended January 31, 1997, the Corporation had an annual payroll of approximately $2,615,480. Total annual covered payroll was $2,519,1962.

The employees and the Corporation each contributed, as required, 5.5% of each employee's salary through November 1997, after which the contribution rate changed to 7%. For the plan year beginning February 1, 1995, CTC's pension plan was granted "qualified" status by the IRS which enables benefits to no longer be subject to income taxes. The plan's long-range ability to pay benefits also depends on the future financial health of the Corporation.

Key actuarial assumptions include 6% interest compounded annually, mortality tables from the 1983 Group Annuity Mortality Table for males and females, anticipated turnover and disability rates, and salary increases of 4% annually.

(7) Deferred Compensation Plan

CTC offers its employees participation in the Louisiana Public Employees' Deferred Compensation Plan (Compensation Plan), created by Louisiana Revised Statutes and in accordance with Section 457 of the Internal Revenue Code. The Compensation Plan is available to all full-time employees and permits them to defer a portion of their salary until future years. All amounts of compensation deferred under the Compensation Plan and related activities are solely the property and the rights of the State of Louisiana, subject only to the claims of the general creditors of the State of Louisiana. Compensation deferred under this plan for fiscal year 1997 was $19,515.

(8) Commitments and Contingencies

(a) Contingencies

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

(Continued)

(b) Grant Commitments

As of December 31, 1997, the CTC through the City-Parish is committed to use earnings to fund local matching requirements under grants for which a contractual obligation existed at the end of each year. CTC does not currently foresee any concerns in meeting its matching requirements.

(9) Self-insurance and Legal Claims

The CTC is exposed to various risks of loss related to torts, damage to and destruction of assets, errors and omissions, injuries to employees and natural disasters. The CTC is self-insured for the first $250,000 for general liability claims and workers' compensation claims. Excess general liability claims are commercially insured up to $750,000, with CTC self-injury claims in excess of $1,000,000. Excess workers' compensation claims above this limit are covered by commercial insurance.

At December 31, 1997, $683,805 of accrued claims liabilities is included on the Enterprise Fund balance sheet. The accruals, which are based upon the advice of counsel and estimates of CTC's third-party administrators are, in the opinion of management, sufficient to provide for all probable estimable claims liabilities at December 31, 1997.

Changes in claims liability during the year ended December 31, 1997 are as follows:

	Beginning of year liability	Current year claims and changes in estimates	Claim payments	Balance at year end
1997	$ 904,806	27,960	(248,961)	683,805

Information related to prior years is not readily available.

(10) Significant Sales Contract

An agreement was renewed in 1996 and 1997 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, 1998. As consideration for the service rendered, LSU paid to CTC during the calendar year of 1997 $1,075,934. This amount is included in charges for services on the statement of revenues, expenses and changes in retained earnings.

(11) Recent Accounting Pronouncements and Prior Period Adjustments

The following summarizes the impact of recent accounting pronouncements and prior period adjustments:

(a) Implemented Pronouncements

In November 1994, GASB issued Statement No. 25, *Financial Reporting of Defined Benefit Pension Plans and Note Disclosures for Defined*

(Continued)

Contributions Plans, which was effective for periods beginning after June 15, 1996. This Statement established a financial reporting framework for defined benefit pension plans into two categories of data: (1) current financial information about plan assets and financial activities and (2) actuarially determined information, from a long-term perspective, about funded status of the plan and progress in accumulating sufficient assets. The Plan data included in the 1996 financial statements was for the plan year ended January 31, 1996, rather than January 31, 1997. Consequently, beginning net plan assets have been restated as follows:

Plan assets at beginning of year as previously reported	$ 1,691,927
Restatement for 1997 activity	346,092
Plan assets at beginning of year as restated	$ 2,038,019

In February 1996, GASB issued Statement No. 30, *Risk Financing Omnibus*, which was effective for periods beginning after June 15, 1996. This Statement required the inclusion of specific incremental claim adjustment expenditures/expenses and estimated recoveries in the determination of the liability for unpaid claims and modifies current disclosure requirements. Prior year estimates appeared to have included expense reserves; therefore, the statements have not been materially impacted by this statement.

In March 1997, GASB issued Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, which is effective for periods beginning after June 15, 1997. This Statement required governmental entities to report non-external pool investments with a maturity period of greater than one year at market value. This statement was adopted in 1997 with no material affect to the enterprise fund financial statements.

(b) Upcoming Pronouncements

In November 1994, GASB issued Statement No. 27, *Accounting for Pensions by State and Local Government Employers*, which is effective for periods beginning after June 15, 1997. This Statement establishes standards for the measurement, recognition and display of pension expenditures/expense and related liabilities, assets, note disclosures and required supplementary information in the financial statements of state and local governmental employers. CTC is addressing the impact of this Statement.

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(12) Related Parties

The members of the Pension Board of the Pension Trust Fund were paid a per diem for the attendance at board meetings in calendar year 1997 and are also reimbursed for out-of-pocket expenses resulting from their participation in pension activities. The amounts received by each Commissioner for the year ended December 31, 1997 were as follows:

	Per Diem	Expense Reimbursement	Total
Michael McCleary	$ 680	-	680
Charles Brown	2,401	3,263	5,664
Kenneth Montgomery	2,401	3,263	5,664
Marion Verde	680	-	680
	$ 6,162	6,526	12,688

CAPITAL TRANSPORTATION CORPORATION

Required Supplementary Information Under GASB Statement No. 25

SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL	Funded Ratio	Covered Payroll	Unfunded AAL as a percentage of payroll
1/31/97	$ 2,048,573	2,169,991	121,418	94.4%	$2,519,162	4.8%

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Year Ended	Annual Required Contribution	Actual Contribution	Percentage Contributed
1/31/97	$30,726	$145,727	5.78%

NOTES TO THE SCHEDULES OF TREND INFORMATION LISTED ABOVE

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

Valuation date	January 31, 1997
Actuarial cost method	Frozen Entry Age Actuarial Cost Method
Amortization method	Level percent closed
Remaining amortization period	10 years
Asset valuation method	Current market value as of the last day of the prior plan year.
Actuarial assumptions:	
Investment rate of return	6.0%
Projected salary increases	4.0%

See accompanying independent auditors' report.

KPMG Peat Marwick LLP

Bank One Centre-North Tower
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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

The Board of Directors
Capital Transportation Corporation:

We have audited the general purpose financial statements of Capital Transportation Corporation (CTC), as of and for the year ended December 31, 1997, and have issued our report thereon dated May 22, 1998. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered CTC's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of CTC in a separate letter dated May 22, 1998.

This report is intended for the information of CTC's Board, CTC's management and the Legislative Auditor's Office. However, this report is a matter of public record and its distribution is not limited.

KPMG Peat Marwick LLP

May 22, 1998

KPMG Peat Marwick LLP

Suite 3500 One Shell Square
New Orleans, LA 70139-3599

May 22, 1998

Capital Transportation Corporation
Baton Rouge, Louisiana

Ladies and Gentlemen:

We have audited the financial statements of Capital Transportation Corporation (CTC) as of and for the year ended December 31, 1997, and have issued our report thereon dated May 22, 1998. In planning and performing our audit of the financial statements of CTC, we considered internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. An audit does not include examining the effectiveness of internal control and does not provide assurance on internal control. We have not considered internal control since the date of our report.

During our audit we noted certain matters involving internal control and other operational matters that are presented for your consideration. These comments and recommendations, all of which have been discussed with the appropriate members of management, are intended to improve internal control or result in other operating efficiencies and are summarized in Appendix A. The status of prior year comments that were pending as of December 31, 1996 are included in Appendix B. Appendix C provides management's response to current year comments.

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

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

This report is intended solely for the information and use of the Board and management, and the Federal Transit Administration.

Very truly yours,

KPMG Peat Marwick LLP

CURRENT YEAR COMMENTS

Accounting Policies

There are no written policies and procedures for the CTC for any controls. Written documentation is available for actual job descriptions. These procedures detail the instructions as to how an employee performs his/her job.

Segregation of Duties

Segregation of duties should be implemented in the areas of accounting for and receiving cash for passes and tokens. Currently, one employee receives cash, prepares the deposit and holds and deposits the cash. These duties should be segregated.

Passes

The Operating Chief is responsible for distribution of passes to the two bus supervisors. Tickets are color coded and coded with a number. The number and color are used to describe the week the pass is used. The supervisors return to the Operating chief any unused or unsold tickets. The Operating Chief records the number given on his calendar and reviews the his notation when the unsold tickets are returned. It is our understanding that the Operating Chief will be implementing a procedure to better document the distribution and return of tickets. Also, the Operating Chief does not currently reconcile his count with the money received from the sale of the tickets; the Operating Chief also plans on modifying this procedure. We recommend that current procedures be changed to address the reconciliation and documentation concerns and that passes be accounted for by the number, color and code number. We also recommend that the supervisors maintain the ticket numbers sold in addition to the number sold.

In addition to the above, we noted that passes are maintained in the Operating Chief's desk that is locked by a key held by the Operating Chief. To ensure proper accounting for these passes, because the ticker desk drawer is not always locked, we recommend that the tickets be held in CTC's locked safe.

Inventory Policies

Inventory items should be recorded in the system when they are removed from the floor. Any returns of inventory should also enter the system immediately. Currently, employees manually document what is taken from inventory and what is returned. In addition, because employees are not always documenting the return of items, the physical count did not agree with the inventory system data at year-end. Accounting receives the manual documentation of what is taken from inventory and what is returned to be input in the system. By modifying the existing procedures to require written documentation of all inventory activity, CTC will have increased accountability over its inventory items.

Lump Sum Payments

The lump sum payments for pension participants that are not vested employees are not reflected in the Participant Payment Trust Statement received each month from the trustee. This information should be reported at least quarterly to the Payroll Administrator to enable a review for proper payments. Such information is available per discussion with trustee representatives. The Payroll Administrator should have access to such information and review for proper payment on a regular basis for these lump sum payments.

DISPOSITION OF PRIOR YEAR'S MANAGEMENT LETTER COMMENTS

PRIOR YEAR RECOMMENDATION	MANAGEMENT RESPONSE	STATUS	COMMENT DISPOSITION
As per prior year auditors' management letter for the year ended December 31, 1996:			
Payroll and Related Expenses			
"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."	Concur	Implemented	The Corporation is continuing to do this on a monthly basis.
Accrued Leave			
"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 discussion with management, it was noted that this policy may be waived under certain circumstances."	Concur	Implemented	A memo was sent out to all department heads to inform them of the policies concerning employees sick leave. The selling of more than six days of sick leave is allowed only in the case of an emergency and must be approved by the department head and documented. These policies will be monitored by all department heads and the payroll administrator.

MANAGEMENT'S RESPONSE TO CURRENT AND OPEN PRIOR YEAR COMMENTS

Accounting Policies

There are no written policies and procedures for the CTC for any controls. Written documentation is available for actual job descriptions. These procedures detail the instructions as to how an employee performs his/her job.

Management's Response

We are currently working on updating the "how to's" for each employee's desk which will contribute to the policies and procedures manual.

Segregation of Duties

Segregation of duties should be implemented in the areas of accounting for and receiving cash for passes and tokens. Currently, one employee receives cash, prepares the deposit and holds and deposits the cash. These duties should be segregated.

Management's Response

We are in need of additional staff. To alleviate this issue, the receptionist is now making duplicate receipts, holding them, and going over the copies with the deposit person on a monthly basis.

Passes

The Operating Chief is responsible for distribution of passes to the two bus supervisors. Tickets are color coded and coded with a number. The number and color are used to describe the week the pass is used. The supervisors return to the Operating chief any unused or unsold tickets. The Operating Chief records the number given on his calendar and reviews the his notation when the unsold tickets are returned. It is our understanding that the Operating Chief will be implementing a procedure to better document the distribution and return of tickets. Also, the Operating Chief does not currently reconcile his count with the money received from the sale of the tickets; the Operating Chief also plans on modifying this procedure. We recommend that current procedures be changed to address the reconciliation and documentation concerns and that passes be accounted for by the number, color and code number. We also recommend that the supervisors maintain the ticket numbers sold in addition to the number sold.

In addition to the above, we noted that passes are maintained in the Operating Chief's desk that is locked by a key held by the Operating Chief. To ensure proper accounting for these passes, because the ticker desk drawer is not always locked, we recommend that the tickets be held in CTC's locked safe.

Management's Response

Now that we are in the new facility these passes are kept in a locked file room within the cabinet.

The second recommendation is being reviewed and procedures are being devised; however, once again, additional staff may be necessary to adequately keep up these procedures.

Inventory

Inventory items should be recorded in the system when they are removed from the floor. Any returns of inventory should also enter the system immediately. Currently, employees manually document what is taken from inventory and what is returned. In addition, because employees are not always documenting the return of items, the physical count did not agree with the inventory system data at year-end. Accounting receives the manual documentation of what is taken from inventory and what is returned to be input in the system. By modifying the existing procedures to require written documentation of all inventory activity, CTC will have increased accountability over its inventory items.

Management's Response

Being at the new facility brings new technology to the inventory procedure and additional security to the parts area. The Maintenance Superintendent has developed procedures he feels will rectify the problems with inventory.

Lump Sum Payments

The lump sum payments for pension participants that are not vested employees are not reflected in the Participant Payment Trust Statement received each month from the trustee. This information should be reported at least quarterly to the Payroll Administrator to enable a review for proper payments. Such information is available per discussion with trustee representatives. The Payroll Administrator should have access to such information and review for proper payment on a regular basis for these lump sum payments.

Management's Response

The Payroll Administrator will receive quarterly reports showing lump sum payments for pension participants that are not vested and review these reports to ensure proper payments were made.

KPMG Peat Marwick LLP

Suite 3500 One Shell Square
New Orleans, LA 70139-3599

May 22, 1998

The Board of Directors
Capital Transportation Corporation:

We have audited the financial statements of Capital Transportation Corporation as of and for the year ended December 31, 1997, and have issued a report thereon dated May 22, 1998. Under generally accepted auditing standards, we are providing you with the attached information related to the conduct of our audit.

This information is intended solely for the use of the Board of Directors and management and should not be used for any other purpose.

Very truly yours,

KPMG Peat Marwick LLP

CAPITAL TRANSPORTATION AUTHORITY

DECEMBER 31, 1997

Our Responsibility Under Generally Accepted Auditing Standards

Our responsibility under generally accepted auditing standards is to express an opinion on the financial statements of Capital Transportation Corporation (CTC) as of and for the year ended December 31, 1997 based on our audit. In carrying out this responsibility, we planned and performed the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. Because of the nature of audit evidence and the characteristics of fraud, we are to obtain reasonable, not absolute, assurance that material misstatements are detected. We have no responsibility to plan and perform the audit to obtain reasonable assurance that misstatements, whether caused by error or fraud, that are not material to the financial statements are detected.

In addition, in planning and performing our audit, we considered internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. An audit does not include examining the effectiveness of internal control and does not provide assurance on internal control.

Furthermore, our audit, including the limited inquiries we made in connection with the Year 2000 issue, was not designed to, and does not, provide any assurance that a Year 2000 issue which may exist will be identified, on the adequacy of CTC's plans related to Year 2000 financial or operational issues, or on whether CTC is or will become Year 2000 compliant. Year 2000 compliance is the responsibility of management.

Significant Accounting Policies

The significant accounting policies used by CTC are described in the "*Summary of Significant Accounting Policies*" note to the financial statements.

We noted no transactions entered into by CTC during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Management Judgments and Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based upon management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of the significance of the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments. We are aware of no significant areas involving management judgment except as related to the recording of claims payable and related liabilities, which were determined by CTC based on data provided by its attorney and third-party administrator. We have reviewed the supporting data and agree with the estimates recorded.

Significant Audit Adjustments

We have adjusted the cash basis financial statements of CTC to the accrual basis in addition to recording significant audit adjustments related to regular year-end accruals and Federal fund activities.

Disagreements With Management

There were no disagreements with management on financial accounting and reporting matters which, if not satisfactorily resolved, would have caused a modification of our report on CTC's 1997 financial statements.

Consultation With Other Accountants

To the best of our knowledge, management has not consulted with or obtained an opinion, written or oral, from other independent accountants during the past year which were subject to the requirements of Statement on Auditing Standards No. 50, "*Reporting on the Application of Accounting Principles.*"

Major Issues Discussed With Management Prior to Retention

There have been no major issues discussed with management prior to our retention as your auditors.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.