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CAPITAL TRANSPORTATION CORPORATION

General Purpose Financial Statements and Schedules

December 31, 1998 and 1997

With Independent Auditors' Report Thereon

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the audited, or reviewed, entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date ______________

CAPITAL TRANSPORTATION CORPORATION

Table of Contents

	Page
Independent Auditors' Report	1
General Purpose Financial Statements:	
Balance Sheets - Proprietary Fund	3
Statements of Revenues, Expenses and Changes in Accumulated Deficit - Proprietary Fund	4
Statements of Cash Flows - Proprietary Fund	5-6
Statements of Plan Net Assets - Pension Trust Fund	7
Statements of Changes in Plan Net Assets – Pension Trust Fund	8
Notes to Financial Statements	9
Required Supplementary Information	
1 Required Supplementary Information under GASB Statement No. 25	20
2 Required Supplementary Information under GASB Technical Bulletin 99-1 - Year 2000 Disclosures – Unaudited	21

KPMG

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, 1998 and 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 audits in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of CTC as of December 31, 1998 and 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 years then ended in conformity with generally accepted accounting principles.

As discussed in note 11, effective January 1, 1997, the enterprise fund financial statements have been restated as a result of a the implementation of GASB Statement No. 27, *Accounting for Pensions by State and Local Government Employers*.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 27, 1999, 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.

The schedules of the Year 2000 information and funding progress and employer contributions included in Required Supplementary Information, are not a required part of the general purpose financial statements, but are supplementary information required by the Governmental Accounting Standards Board, and we did not audit and do not express an opinion on such information. We were unable to apply certain of these limited procedures to the Year 2000 information because of the nature of the subject matter underlying the disclosure requirements and because sufficiently specific criteria regarding the matters to be disclosed have not been established. In addition, we do not provide assurance that CTC is or will become Year 2000 compliant, that CTC's Year 2000 remediation efforts will be successful in whole or in part, or that parties with which CTC does business are or will become Year 2000 compliant. We have applied to the schedules of funding progress and employer contributions certain limited procedures prescribed by professional standards, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the schedules.

KPMG LLP

April 27, 1999

CAPITAL TRANSPORTATION CORPORATION

Balance Sheets - Proprietary Fund

December 31, 1998 and 1997

Assets		1998	1997
Current assets:			
Cash (note 2)	$	369,819	513,424
Accounts receivable (note 3)		19,267	61,003
Inventories		150,100	205,050
Due from other governments		219,770	262,530
Prepaid expenses and other assets		15,478	13,414
Total current assets		774,434	1,055,421
Restricted assets, cash and investments:			
Cash and cash equivalents (notes 2 and 9)		1,655,285	1,357,144
Due from other governments		362,002	306,479
Total restricted assets		2,017,287	1,663,623
Net pension asset, long-term		266,190	180,672
Property, buildings and equipment, net (note 4)		13,458,870	11,988,464
	$	16,516,781	14,888,180
Liabilities and Fund Equity			
Current liabilities (payable from current assets):			
Accounts payable contracts	$	156,248	105,470
Accrued salaries payable		74,988	60,070
Other accrued liabilities		25,065	30,829
Accrued compensated absences		480,081	399,366
Deferred revenue		1,533	95,067
		737,915	690,802
Current liabilities (payable from restricted assets):			
Retainage payable		291,082	248,688
Accounts and contracts payable		68,273	91,047
Claims payable and related liabilities (note 9)		474,941	682,805
Total current liabilities		834,296	1,022,540
Total liabilities		1,572,211	1,713,342
Fund equity (notes 5 and 8):			
Contributed capital:			
Primary government		4,967,249	4,587,506
Federal government		16,598,796	14,820,407
Retirement of Federal contributions		(5,747,497)	(4,988,107)
		15,818,548	14,419,806
Retained earnings (accumulated deficit) (note 5(d)):			
Reserved for future capital matching		575,330	-
Accumulated deficit		(1,449,308)	(1,244,968)
		(873,978)	(1,244,968)
Total fund equity		14,944,570	13,174,838
	$	16,516,781	14,888,180

See accompanying notes to general purpose financial statements.

CAPITAL TRANSPORTATION CORPORATION

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

For the years ended December 31, 1998 and 1997

		1998	1997
Operating revenues:			
Charges for services	$	2,359,826	2,173,532
Advertising revenue		89,236	83,393
Total operating revenues		2,449,062	2,256,925
Direct operating expenses:			
Personal services and fringe benefits (note 11)		3,727,369	3,292,213
Supplies		550,889	576,848
Contractual services and liability costs		1,567,532	1,064,150
Depreciation expense		934,304	639,720
Total direct operating expenses		6,780,094	5,572,931
Loss from operations		(4,331,032)	(3,316,006)
Nonoperating revenues (expenses):			
Interest and financial charges		43,435	43,373
Government operating grants:			
Federal operating subsidy		906,796	593,500
Planning and technical study grants		261,116	240,216
Planning and technical study expenses		(261,116)	(242,408)
Hotel/motel tax (notes 1(i) and 3)		779,342	745,504
Miscellaneous		27,531	10,668
Total nonoperating revenues		1,757,104	1,390,853
Excess of expenses over revenues before operating transfer from Primary Government		(2,573,928)	(1,925,153)
Operating transfers from Primary Government:			
Parish Transportation Fund		1,189,788	1,005,902
Parish General Fund		995,740	968,932
Total operating transfers from Primary Government		2,185,528	1,974,834
Net (loss) income before transfer of contributed capital depreciation		(388,400)	49,681
Accumulated deficit:			
Balance, beginning of year, as previously reported		(1,244,968)	(1,897,614)
Restatement as of the adoption of GASB 27 (note 11)		-	132,591
Balance, beginning of the year, as restated		(1,244,968)	(1,765,023)
Credits arising from amortization of contributed premises and equipment		759,390	470,374
Balance, end of year	$	(873,978)	(1,244,968)

See accompanying notes to general purpose financial statements.

CAPITAL TRANSPORTATION CORPORATION

Statements of Cash Flows - Proprietary Fund

For the years ended December 31, 1998 and 1997

		1998	1997
Cash flows from operating activities:			
Cash received from operations	$	2,401,562	2,167,993
Cash received from other sources		89,236	83,393
Cash paid to employees for related expenses		(3,797,970)	(3,340,192)
Cash paid to suppliers and others		(2,291,981)	(1,890,889)
Net cash used in operating activities		(3,599,153)	(2,979,695)
Cash flows from noncapital financing activities:			
Operating subsidies received from other governments		1,167,912	833,716
Grant expenses		(261,116)	(242,408)
Hotel/motel tax		822,102	672,907
Other revenue		27,532	10,668
Operating transfers City-Parish - Transportation Fund		1,189,788	1,005,902
Operating transfers City-Parish - General Fund		995,740	968,932
Net cash provided by noncapital financing activities		3,941,958	3,249,717
Cash flows from capital and related financing activities:			
Acquisition and construction of capital assets		(2,334,313)	(5,353,077)
Capital contribution		2,102,609	5,077,584
Net cash used for capital and related financing activities		(231,704)	(275,493)
Cash flows from investing activities - interest payments received		43,435	43,373
Net increase (decrease) in cash and cash equivalents		154,536	37,902
Cash and cash equivalents at beginning of year		1,870,568	1,832,666
Cash and cash equivalents at end of year	$	2,025,104	1,870,568

(Continued)

CAPITAL TRANSPORTATION CORPORATION

Statements of Cash Flows - Proprietary Fund

For the years ended December 31, 1998 and 1997

		1998	1997
Reconciliation of cash as listed on the balance sheets (note 2):			
Unrestricted cash	$	369,819	513,424
Restricted cash		1,655,285	1,357,144
	$	2,025,104	1,870,568
Reconciliation of loss from operations to net cash used in operating activities:			
Loss from operations	$	(4,331,032)	(3,316,006)
Adjustments to reconcile loss from operations to net cash used in operating activities:			
Depreciation		934,304	639,720
Increase in accounts receivable		41,736	(5,539)
(Increase) decrease in prepaid assets		(2,064)	2,589
Increase in net pension asset		(85,518)	(48,081)
Increase (decrease) in inventory		54,950	(21,723)
Decrease in accounts payable and accrued expenses		(3,665)	(8,654)
Decrease in the provision for legal and small claims liability		(207,864)	(222,001)
Net cash used in operating activities	$	(3,599,153)	(2,979,695)

See accompanying notes to general purpose financial statements.

CAPITAL TRANSPORTATION CORPORATION

Statements of Plan Net Assets - Pension Trust Fund

January 31, 1999 and 1998

		1999	1998
Assets:			
Cash and equivalents	$	310,452	68,692
Receivables - interest		14,184	9,790
Investments		2,703,142	2,398,098
Net plan assets (note 6)	$	3,027,778	2,476,580

See accompanying notes to general purpose financial statements.

CAPITAL TRANSPORTATION CORPORATION

Statements of Changes in Plan Net Assets - Pension Trust Fund

Years ended January 31, 1999 and 1998

		1999	1998
Additions:			
Contributions:			
Employer contributions	$	192,713	145,727
Employee contributions		192,713	145,727
Total contributions		385,426	291,454
Investment income:			
Dividend income		77,306	174,355
Net appreciation		225,681	104,882
		302,987	279,237
Less investment expense		(15,278)	(4,305)
Net investment income		287,709	274,932
Total additions		673,135	566,386
Deductions:			
Benefits		35,948	50,687
Employee refunds		60,240	28,939
Administrative expenses		25,749	48,199
		121,937	127,825
Net change in plan assets		551,198	438,561
Plan assets at beginning of year		2,476,580	2,038,019
Plan assets at end of year (note 6)	$	3,027,778	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") general purpose financial statements are an integral part of the City of Baton Rouge - Parish of East Baton Rouge's (City-Parish) Comprehensive Annual Financial Reports (CAFR).

(b) Financial Reporting Entity

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

Government Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, established criteria for determining which component units should be considered part of the City 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 general purpose financial statements of the Corporation.

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

Currently, the Trust is governed by a four member board composed of two members representing the Employer Trustees and two members elected as Union Trustees. The Trust is funded by the investment of the contributions from CTC and member employees who are obligated to make the contributions to the Trust. The fiscal year of the Trust ends January 31st of 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.

Fiduciary Fund

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

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

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

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

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

(Continued)

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 based on market values as determined by CTC's investment broker.

(g) ***Inventories***

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

(h) ***Property, Buildings and Equipment***

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

The estimated depreciation rates used in computing depreciation are:

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

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

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

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

(Continued)

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. In addition, CTC also receives monies from the East Baton Rouge Enhancement Fund (Enhancement Fund), which has similar restrictions and is created by the State legislature as the Improvement Fund proceeds.

(j) Compensated Absences

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

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

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

(k) Cash Flows

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

(l) Claims and Judgments

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

(m) Estimates

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

(Continued)

(2) Cash and Investments

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

		Proprietary Enterprise Fund	Fiduciary Pension Trust Fund	Totals
December 31, 1998:				
Cash on hand and in banks	$	1,674,153	310,452	1,984,605
Certificate of Deposit		350,951	-	350,951
Equity Mutual Funds		-	2,703,142	2,703,142
Total cash and cash equivalents	$	2,025,104	3,013,594	5,038,698
December 31, 1997:				
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, 1998 and 1997, for restricted and unrestricted bank accounts, before outstanding checks and reconciling items, was $1,739,454 and $1,619,864, respectively. Of the total bank balances at December 31, 1998 and 1997, all amounts were substantially covered by federal depository insurance or by collateral held in the CTC's name.

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

As of December 31, 1998 and 1997, $194,694 and $191,292, respectively, of restricted assets was pledged as collateral to the Louisiana Office of Workman's Compensation.

(3) Receivables

Federal and state grant programs represent an important source of funding to finance housing, employment, construction, and social programs which are beneficial to the City-Parish. CTC's federal and state funds are passed-through the City-Parish. Receivables at December 31, 1998 and 1997 primarily consists of $207,101 and $241,654, respectively, of hotel/motel tax collections.

(4) Property, Buildings and Equipment

A summary of changes in fixed assets follows:

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

	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, 1998 and 1997, the CTC's accumulated deficit was $873,978 and $1,244,968, respectively, 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
December 31, 1998:					
January 1, 1998	$	4,587,506	14,820,407	(4,988,107)	14,419,806
1998 grants		379,743	1,778,389	-	2,158,132
1998 depreciation		-	-	(759,390)	(759,390)
	$	4,967,249	16,598,796	(5,747,497)	15,818,548
December 31, 1997:					
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)
	$	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:

		1998	1997
Parish Transportation Fund	$	1,189,788	1,005,902
Parish General Fund		995,740	968,932
Total operating subsidies	$	2,185,528	1,974,834

(d) *Reserved for Future Grant Matching*

Parish Transportation Funds and general funds received in 1998 amounting to $575,330 are restricted to matching funds for future federal capital grants.

(6) Pension Plan

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

All full time employees 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

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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 1.2% of average compensation for each year of service after February 1, 1963.

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

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. The valuation is performed at the beginning of the plan year. Current membership is comprised of the following at February 1, 1998 and 1997:

	1998	1997
Retirees and beneficiaries currently receiving benefits	24	24
Vested terminated employees	16	14
Active employees:		
Fully vested	53	55
Not vested	42	39
	135	132

For the years ended January 31, 1999 and 1998, respectively, the Corporation had an annual payroll of approximately $2,610,000 and $2,392,000. Total annual covered payroll for the years ended January 31, 1999 and 1998 was $2,750,000 and $2,569,374, respectively.

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

(Continued)

The Corporation's annual pension cost and net pension obligation for the years ended December 31, 1998 and 1997 were as follows:

		1998	1997
Annual required contribution	$	102,731	88,077
Interest on net pension obligation		(14,814)	(7,955)
Adjustment to annual required contribution		19,278	12,246
Annual pension cost		107,195	92,368
Contributions made		192,713	140,449
Increase in net pension asset		85,518	48,081
Net pension asset, beginning of year		180,672	132,591
Net pension asset, end of year	$	266,190	180,672

The remaining amortization period at January 31, 1999 was 18 years. Trend information is as follows:

Fiscal Year Ending		Annual Pension Cost (APC)	Percentage Of APC Contributed		Net Pension Asset
December 31, 1998	$	107,195	179%	$	266,190
December 31, 1997		92,368	152%		180,672
December 31, 1996		75,069	119.9%		132,591

(7) Deferred Compensation Plan

CTC offers its employees participation in the Louisiana Public Employees' Deferred Compensation Plan (Compensation Plan), created by Louisiana Revised Statutes and in accordance with Section 457 of the Internal Revenue Code. The Compensation Plan is available to all full-time employees and permits them to defer a portion of their salary until future years. All amounts of compensation deferred under the Compensation Plan and related activities are solely the property and the rights of the State of Louisiana, subject only to the claims of the general creditors of the State of Louisiana. Compensation deferred under this plan for fiscal years 1998 and 1997 was $24,953 and $19,515, respectively.

(8) Commitments and Contingencies

(a) Contingencies

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

(Continued)

(b) Grant Commitments

As of December 31, 1998 and 1997, the CTC through the City-Parish is committed to using earnings to fund local matching requirements under grants for which a contractual obligation existed at the end of each year. CTC does not currently foresee any concerns in meeting its matching requirements.

(9) Self-insurance and Legal Claims

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

At December 31, 1998 and 1997, $474,941 and 682,805, respectively, 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, 1998 and 1997.

Changes in claims liability during the years ended December 31, 1998 and 1997 are as follows:

	Beginning of year liability	Current year claims and changes in estimates	Claim payments	Balance at year end
1998	$ 682,805	(10,839)	(197,025)	474,941
1997	$ 904,806	26,960	(248,961)	682,805

(10) Significant Sales Contract

An agreement was renewed in 1997 and 1998 between the Board of Supervisors of Louisiana State University and CTC. The agreement states that CTC will provide Louisiana State University (LSU) with 45 passenger buses, personnel and supplies to operate a mass transit system commencing August 15, 1998, and terminating August 14, 1999. As consideration for the service rendered, LSU paid to CTC during the calendar year of 1998 and 1997 $1,167,116 and $1,075,934, respectively. This amount is included in charges for services on the statements of revenues, expenses and changes in retained earnings.

(11) Recent Accounting Pronouncements and Prior Period Adjustment

The following summarizes the impact of a recent accounting pronouncement and prior period adjustment:

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. This statement is effective retroactively to December 31, 1996. The impact of the implementation of this pronouncement on the enterprise fund is as follows:

		Accumulated deficit
As of December 31, 1996:		
Balance, beginning of year, as previously reported	$	(1,897,614)
Restatement as a result of the adoption of GASB No. 27		132,591
Balance, beginning of the year, as restated	$	(1,765,023)

		Net income
Year ended December 31, 1997:		
Net income before transfer of contributed capital depreciation, as previously reported	$	1,600
Restatement as of the adoption of GASB No. 27		48,081
Net income before transfer of contributed capital deprecation, as restated	$	49,681

(12) Related Parties

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

		Per Diem	Expense Reimbursement	Total
Michael McCleary	$	-	-	-
Charles Brown		555	2,886	3,441
Frank Clark		-	371	371
W. T. Winfield		-	350	350
Kenneth Montgomery		555	2,886	3,441
Marion Verde		-	-	-
	$	1,110	6,493	7,603

REQUIRED SUPPLEMENTARY INFORMATION

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
January 31, 1998	$	2,476,580	2,814,804	338,224	87.90%	2,569,374	13.20%
January 31, 1997	$	2,048,573	1,374,337	121,418	94.40%	2,519,162	4.80%

Note: Since the valuation is performed at the beginning of the year, the January 31, 1997 is the most recent actuarial valuation.

SCHEDULE OF EMPLOYER CONTRIBUTIONS

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

NOTES TO THE SCHEDULES OF TREND INFORMATION LISTED ABOVE

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

Valuation date	January 31, 1998
Actuarial cost method	Frozen Entry Age Actuarial Cost Method
Amortization method	Level percent closed
Remaining amortization period	10 years
Asset valuation method	Current market value as of the last day of the prior plan year.
Actuarial assumptions:	
Investment rate of return	8.00%
Projected salary increases	4.00%

See accompanying independent auditors' report.

CAPITAL TRANSPORTATION CORPORATION

Required Supplementary Information under GASB Technical Bulletin 99-1

Year 2000 Disclosures
(unaudited)

The following is a synopsis of Capital Transportation Corporation's (CTC's) actions to ensure that the Corporation is year 2000 compliant and will continue to provide service to the public on and beyond January 1, 2000.

Awareness Stage

The Executive Director of CTC directed the staff to send out a request for assurances from all vendors in June 1998. This request was sent out again in January, 1999. Prior to this time the issue of Y2K was discussed with our computer consultant and main software providers. CTC was assured that all current systems were compliant, with the exception of one that will be converted at the end of April 1999.

Assessment Stage

After receiving the first assurances in July of 1998, CTC began to identify those that were not in writing. CTC also acquired additional equipment during this time frame and began reviewing it for compliance.

Remediation Stage

According to the documentation received from vendors, only one system has to be converted. This is an upgrade from a DOS-based system to the Windows version of the same system. CTC already has a written statement from this software provider that the Windows version of their software is compliant. This conversion will take place at the end of April, 1999. The cost of this upgrade and file conversion is estimated at $3,000.

Validation/Testing Stage

CTC has assurances from its vendors that its equipment is year 2000 compliant. We have no plans to test this equipment. However, CTC does have an emergency plan that can be put in to place in case one of its systems fails.

See accompanying independent auditors' report.

KPMG

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

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

The Board of Directors
Capital Transportation Corporation:

We have audited the general purpose financial statements of the Capital Transportation Corporation (CTC), as of and for the year ended December 31, 1998, and have issued our report thereon dated April 27, 1999. 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 the CTC's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards.*

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the CTC's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the Board in a separate letter dated April 27, 1999.

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

KPMG LLP

April 27, 1999

April 27, 1999

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, 1998, and have issued our report thereon dated April 27, 1999. In planning and performing our audit of the financial statements of CTC, we considered internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. An audit does not include examining the effectiveness of internal control and does not provide assurance on internal control. We have not considered internal control since the date of our report.

During our audit we noted certain matters involving internal control and other operational matters that are presented for your consideration. These comments and recommendations, all of which have been discussed with the appropriate members of management, are intended to improve internal control or result in other operating efficiencies and are summarized in Appendix A. Appendix B provides management's response to current year comments. The status of prior year comments that were pending as of December 31, 1997 are included in Appendix C.

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

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

This report is intended solely for the information and use of the Board and management of CTC and the Federal Transit Administration of the State Legislative Auditor.

Very truly yours,

KPMG LLP

CURRENT YEAR COMMENTS

98-1 Pension Plan

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

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

98-2 Year 2000

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

MANAGEMENT'S RESPONSE TO CURRENT YEAR COMMENTS

98-1 Pension Plan

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

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

Management's Response

This comment is under review and consideration by the Pension Board.

98-2 Year 2000

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

Management's Response

The Executive Director of CTC directed the staff to send out a request for assurances from all vendors in June 1998. This request was sent out again in January 1999. According to the documentation received from vendors, only one system has to be converted. This is an upgrade from a DOS-based system to the Windows version of the same system. CTC already has a written statement from this software provider that the Windows version of their software is compliant. This conversion will take place at the end of April 1999. The cost of this upgrade and file conversion is estimated at $3,000. CTC has assurances from its vendors that its equipment is year 2000 compliant. We have no plans to test this equipment. However, CTC does have an emergency plan that can be put in to place in case one of its systems fails. We will also prepare a contingency plan that summarizes alternative processing and procedural changes.

MANAGEMENT'S RESPONSE TO PRIOR YEAR COMMENTS

97-1 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

In-process. We are currently working on updating the "how to's" for each employee's desk which will contribute to the policies and procedures manual. Targeted completion: June 2000.

97-2 Segregation of Duties

Segregation of duties should be implemented in the areas of accounting 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

Completed. 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.

97-3 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 this 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

Completed. These passes are kept in a locked file room within the cabinet. The Operation's Chief has updated his procedures as recommended.

97-4 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

Completed. 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 to rectify the problems with inventory.

97-5 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

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