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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 the RTA's 1996 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.

KPMG Peat Marwick LLP

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

April 14, 1997

The Board of Commissioners
Regional Transit Authority:

We have audited the consolidated financial statements of Regional Transit Authority as of and for the year ended December 31, 1996, and have issued a report thereon dated April 14, 1997.

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

Very truly yours,

KPMG Peat Marwick LLP

CURTIS A. MORET
CERTIFIED PUBLIC ACCOUNTANT

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NEW ORLEANS, LOUISIANA 70130
(504) 523-1028

INDEPENDENT AUDITOR'S REPORT ON THE SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE

To The Board of Commissioners
Regional Transit Authority

I have audited the Schedule of Federal Financial Assistance of the Regional Transit Authority (the RTA) for the year ended December 31, 1996. This Schedule of Federal Financial Assistance is the responsibility of the management of the RTA. My responsibility is to express an opinion on this Schedule of Federal Financial Assistance based on my audit. The accompanying Schedule of Federal Financial Assistance is a supplementary schedule and is not a part of the RTA's general purpose financial statements. Those statements were audited by other auditors whose report has been furnished to me; and in my opinion, insofar as it relates to the amounts included from the general purpose financial statements, is based solely on the report of the other auditors.

I conducted my audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, issued by the Comptroller General of the United States, and the provisions of Office of Management and Budget Circular A-128, "Audits of State and Local Governments." Those standards and OMB Circular A-128 require that I plan and perform the audit to obtain reasonable assurance about whether the Schedule of Federal Financial Assistance is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Schedule of Federal Financial Assistance. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

My audit was conducted for the purpose of forming an opinion on the Schedule of Federal Financial Assistance of the RTA taken as a whole. This Schedule of Federal Financial Assistance is not a required part of the RTA's general purpose financial statements and is presented for the purpose of additional analysis and , in my opinion, based on my audit and the report of other auditors, the Schedule of Federal Financial Assistance is fairly presented, in all material respects in relation to the general purpose financial statements taken as a whole.

Curtis A. Moret

Curtis A. Moret
April 11, 1997

DISPOSITION OF PRIOR YEARS' MANAGEMENT LETTER COMMENTS

PRIOR YEARS' RECOMMENDATION	MANAGEMENT RESPONSE	STATUS	COMMENT DISPOSITION
INVESTMENTS			
In view of the recent legislature enactments related to investments, as well as the general industry concerns regarding certain types of investments, we recommend that the RTA update its investment policy to detail and clarify investment objectives and the procedures and constraints to reach these objectives. In addition, the RTA should review its investment portfolio to ensure compliance objectives as stated in its updated investment policy.	Concur	Implemented	RTA has updated its policy.
To ensure timely recording of transactions and to assist with the reconciliation process, the RTA should maintain a monthly schedule of transfers between bank and investment accounts. The schedule should include the date, account, and amounts transferred in and out, in order to properly reconcile each account. In addition, investment schedules including interest income should be reconciled monthly to the general ledger balances and the Treasurer's outstanding investment reports.	Concur	In-progress	The planned upgrade of J.D. Edwards financial management software system will provide for additional applications. A subledger(s) will be established to track bank and investment transactions. Also, the upgrade will enable the Treasury Department to automate its daily and monthly activities, thus providing for a reconciliation with the general ledger.
EMPLOYEE RECORDS			
During the audit of payroll and fringe benefits, KPMG reviewed several employee records. Employee records are maintained in manual folders and information is not updated or	Concur	Implemented	Employee records more accurately reflect current status and initials of the Director supporting verification document is occurring.

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INDEPENDENT AUDITOR'S REPORT ON THE INTERNAL CONTROL STRUCTURE USED IN ADMINISTERING FEDERAL FINANCIAL ASSISTANCE PROGRAMS

To the Board of Commissioners
Regional Transit Authority

I have audited the Schedule of Federal Financial Assistance of the Regional Transit Authority (the RTA) for the year ended December 31, 1996, and have issued my report thereon dated April 11, 1997. The general purpose financial statements were audited by other auditors whose report thereon has been furnished to me, and my opinion expressed herein, insofar as it relates to the general purpose financial statements, is based solely on the report of other auditors. I have also audited the RTA's compliance with requirements applicable to major federal financial assistance programs and have issued my report thereon dated April 11, 1997. The results of my study and evaluation of external administrative controls used in administering federal financial assistance programs are presented herein.

I conducted my audit in accordance with generally accepted auditing standards; *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Circular A-128, "Audits of State and Local Governments." Those standards and OMB Circular A-128 require that I plan and perform the audit to obtain reasonable assurance about whether the Schedule of Federal Financial Assistance is free of material misstatement and whether the RTA, complied with laws and regulations, noncompliance with which would be material to a major federal financial assistance program.

In planning and performing my audit for the year ended December 31, 1996, I considered the RTA's internal control structure in order to determine my auditing procedures for the purpose of expressing my opinion on the RTA's Schedule of Federal Financial Assistance and on the compliance of RTA with requirements applicable to major programs and not to provide assurance on the internal control structure in accordance with OMB Circular A-128. This report addresses my consideration of internal control structure policies and procedures relevant to compliance with requirements applicable to federal financial assistance programs. Other auditors issued a report dated March 1997 in which they reported separately on the results of their study and evaluation of internal accounting controls, (as part of their audit of the general purpose financial statements) other than those used in administering federal financial assistance programs.

DISPOSITION OF PRIOR YEARS' MANAGEMENT LETTER COMMENTS

PRIOR YEARS' RECOMMENDATION	MANAGEMENT RESPONSE	STATUS	COMMENT DISPOSITION
support additional revenue sources. Cash flow is a significant issue for the RTA and needs to be addressed in the near term.			
HEALTH INSURANCE			
In 1994, RTA was self-insured for health. Both RTA and employees contribute toward the insurance funding of the health costs. Procedures need to be established whereby the health insurance liability and withholding amounts are reviewed at least quarterly to ensure the proper recording of health insurance costs.	Concur	Implemented	Quarterly analysis is occurring to adjust the general ledger reserves to third-party data.
PERFORMANCE BUDGETING			
The RTA should consider developing a performance-based budget, expanding the current budget document to include the product/services that will be generated as a result of the expenditures provided to a department. This expanded process can be used to set performance standards that can be used by management to monitor their staff and their progress toward the RTA's goals. In addition, (1) before final distribution a draft of the proposed total detailed budget should be presented to all departments for final input and suggestions, particularly the Accounting Department, Grants and Risk Management, and (2) monthly explanations of budget to actual variances should be prepared and presented to the Board in a timely manner.	Concur	Considered and postponed	While RTA concurs with the comment, RTA is currently preparing a generally-accepted accounting principle budget and currently does not have the resources to meet the demands required by this type of budgeting.

DISPOSITION OF PRIOR YEARS' MANAGEMENT LETTER COMMENTS

PRIOR YEARS' RECOMMENDATION	MANAGEMENT RESPONSE	STATUS	COMMENT DISPOSITION
capital appreciation bonds, as well as funding for self-insurance, should be reviewed at least annually and assets should be designated as appropriate.			
DEFICIT			
The RTA has had an accumulated deficit for the past couple of years. In addition, available cash for operating purposes has been declining. The nature of RTA's operations is such that it is dependent on user fees, federal grants and sales taxes in order to finance operations and capital improvements. Short-term and long-term plans need to be developed by management in order to prepare the RTA for the next decade. The plans should consider potential areas of increased efficiency, monetary impact of any upcoming federal regulations, the demands on its cash flows for debt as well as operating costs, the RTA's capital needs, including expansion, replacement and maintenance needs, the market demands in the area, the need to fund self insurance, retirement programs, etc. The short-term plan should address cash flow needs for the next 6 to 12 months, with the long-term plan addressing the next 1 to 10 years. Identification of the need for additional resources needs to be addressed early in order that the RTA can present the data which will be needed by the public and business community in order to	Concur	In-process	RTA has undertaken several steps to reduce the deficit in 1997. Health insurance costs are being reviewed for further reduction via a new health insurance plan request for proposal, layoffs of staff occurred, reduction in budgets, reviewing revisions to the pension, reviewing options to reduce costs of employees' benefits, reductions in schedules on duplicative and nonproductive routes, initiated an aggressive marketing plan to enhance ridership, entered into an agreement with the Plaza Shopping Center for a Plaza Park n' Ride, issued a request for proposals for a lease maintenance service agreement on buses, and considering outsourcing certain areas of Risk Management.

DISPOSITION OF PRIOR YEARS' MANAGEMENT LETTER COMMENTS

PRIOR YEARS' RECOMMENDATION	MANAGEMENT RESPONSE	STATUS	COMMENT DISPOSITION
SALES TAX DOCUMENTATION			
To better understand the allocation of sales taxes to debt, capital and operations, a report should be prepared annually by management to summarize the uses of the sales tax proceeds and to summarize the RTA's compliance with the provisions of the sales tax ordinance. Accounting information may need to be reorganized to reflect these changes. A report summarizing the above mentioned items would document the RTA's compliance with the sales tax ordinances.	Concur	In-process	As a component of the annual budgetary process of the RTA, a sales tax revenue allocation was developed. Accounting information and the recordation processes will be reviewed and revised as required to ensure that the sales tax revenue is recorded in accordance with the Board approved allocation. A year-end report summarizing the actual collection and utilization of the sales tax revenue will be developed and presented to the Board. The 1996 RTA budget process included an allocation of sales tax revenue. A report will be developed and presented to the Board summarizing the collection and utilization of sales tax revenue.
BOND ACCOUNTS AND RESTRICTED ASSETS			
The RTA has two bond issues with numerous accounts, as well as other Board-restricted assets. While these accounts have designated purposes, the use of the funds and consideration of redesignations should be performed periodically by management and presented to the Board for approval. For example, the need to fund interest on the	Concur	Implemented	Accounts are currently being reconciled, allocation of funds are reviewed annually by management and capital appreciation bond interest will be recorded in 1997.

DISPOSITION OF PRIOR YEARS' MANAGEMENT LETTER COMMENTS

PRIOR YEARS' RECOMMENDATION	MANAGEMENT RESPONSE	STATUS	COMMENT DISPOSITION
maintained on a regular basis. We recommend the timely update of data and use of an automated system to maintain employee records.			
To strengthen controls and safeguarding of data we recommend that this data be maintained in the personnel files by the Human Resources Director, who should review all changes in status and pay as processed by the clerks and verify the changes to the supporting documentation.			
EMPLOYEE BENEFITS			
KPMG requested certain information maintained by Human Resources relating to accrued vacation. This information was not readily available to Human Resources staff. We recommend that Human Resource Department work closely in conjunction with the Accounting Department in order to gain a full understanding of the financial impact of the information input maintained by Human Resources.	Concur	Partially implemented	Accounting and Human Resources have worked closely together to reconcile the accruals. Recent software training has also helped personnel understanding and communications.

REGIONAL TRANSIT AUTHORITY SUMMARY
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE

FOR THE YEAR ENDED DECEMBER 31, 1996

FEDERAL GRANTOR/ PROGRAM TITLE	FEDERAL CFDA NUMBER	GRANT CONTRACT NUMBER	FEDERAL SHARE OF TOTAL AUTHORIZED AMOUNT	GRANT RECEIVABLE AT 12/31/95	FEDERAL SHARE OF EXPENDITURES	FEDERAL FUNDS RECEIVED	ADJUSTMENTS	GRANT RECEIVABLE AT 12/31/96
DEPARTMENT OF TRANSPORTATION								
FEDERAL TRANSPORTATION ADMINISTRATION (FTA)								
Capital Improvement Grants:								
	20-500	LA-03-0049	18,600,000	2,950,105	4,793,668	2,686,596	(1,018,389)	4,038,788
	20-500	LA-03-0052	9,643,943	18,759	334,255	260,479	0	92,535
	20-500	LA-03-0053	2,000,000	71,448	71,311	78,040	0	64,719
	20-500	LA-03-0054	14,235,000	2,434	5,906,679	2,722,139	0	4,186,974
	20-500	LA-03-0055	2,354,728	314	532,390	275,055	0	257,649
	20-500	LA-03-0056	2,543,618	152,886	1,469,192	1,321,671	0	300,407
	20-500	LA-03-0060	2,720,085	99,411	1,026,792	1,040,160	0	86,043
	20-500	LA-03-0061	3,763,200	1,523	2,457,714	1,483,702	0	975,535
	20-500	LA-03-0062	1,970,462	0	0	0	0	0
			58,231,036	3,296,880	17,592,001	9,867,842	(1,018,389)	10,002,650
Capital and Operating Assistance Grants:								
	20-507	LA-26-0001	200,000	37,305	9,120	15,496	(30,929)	0
	20-507	LA-26-2002	185,600	0	0	0	0	0
	20-507	LA-90-0124	3,160,216	2,862	73,662	66,051	0	10,473
	20-507	LA-90-0142	120,000	8,932	0	1,500	0	7,432
	20-507	LA-90-2113	118,000	198	0	0	0	198
	20-507	LA-90-2124	120,000	1,419	0	0	0	1,419
	20-507	LA-90-0154	9,580,295	(97,404)	715,591	585,383	0	32,804
	20-507	LA-90-0161	3,520,000	250,149	5,178	221,368	0	33,959
	20-507	LA-90-0171	2,505,000	58	1,617,660	1,069,367	0	548,351
	20-507	LA-90-2171	620,000	0	212,262	129,534	0	82,728
	20-507	LA-90-8124	3,060	0	3,060	3,060	0	0

The accompanying notes are an integral part of this schedule.

REGIONAL TRANSIT AUTHORITY

Notes to the Schedule of Federal Financial Assistance

For the Year Ended December 31, 1996

NOTE 1 - Summary of Significant Accounting Policies

The Schedule of Federal Financial Assistance for the Regional Transit Authority of New Orleans, Louisiana (RTA) has been prepared on the accrual basis in accordance with generally accepted accounting principles. The major programs of the RTA are the Capital Improvement Grant Programs and the Capital and Operating Assistance Grant Programs.

NOTE 2 - Adjustments

The adjustments primarily represent a reclass from the receivable balance of Grant No. LA-03-0049 to LA-90-0113. Funds were made available in LA-90-0113 to cover expenditures in excess of budget in LA-03-0049. Additionally, the receivable balance of LA-26-0001 was written off since this grant was closed-out during 1996.

INDEPENDENT AUDITOR'S REPORT ON THE INTERNAL CONTROL STRUCTURE USED IN ADMINISTERING FEDERAL FINANCIAL ASSISTANCE PROGRAMS
(Continued)

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

For the purpose of this report, I have classified the significant internal control policies and procedures used in administering federal financial assistance programs in the following categories:

Accounting Controls

- Cash Receipts
- Cash Disbursements
- Payroll Management
- Property Management

General Requirements

- Political Activity
- Davis-Bacon Act

INDEPENDENT AUDITOR'S REPORT ON THE INTERNAL CONTROL STRUCTURE USED IN ADMINISTERING FEDERAL FINANCIAL ASSISTANCE PROGRAMS
(Continued)

General Requirements (Continued)

- Civil Rights
- Cash Management
- Federal Financial Reporting
- Relocation Assistance and Real Property Acquisition
- Allowable Costs/Costs Principles
- Drug-Free Workplace Act
- Administrative Requirements

Specific Requirements

- Types of Services Allowed or Unallowed
- Eligibility
- Matching Level of Effort and/or Earmarking Requirements
- Special Reporting Requirements
- Cost Allocation
- Monitoring Subrecipients
- Claims for Advances and Reimbursements
- Amounts Claimed or Used for Matching
- Special Tests and Provisions as Applicable

INDEPENDENT AUDITOR'S REPORT ON THE INTERNAL CONTROL STRUCTURE USED IN ADMINISTERING FEDERAL FINANCIAL ASSISTANCE PROGRAMS
(Continued)

For all of the internal control structure categories listed above, I obtained an understanding of the design of relevant policies and procedures and determined whether they have been placed in operation, and I assessed control risk.

During the year ended December 31, 1996, the RTA expended 100% of its total federal financial assistance under major federal financial assistance programs.

I performed tests of controls, as required by OMB Circular A-128, to evaluate the effectiveness of the design and operation of internal control structure policies and procedures that I considered relevant to preventing or detecting material noncompliance with specific requirements, general requirements, and requirements governing claims for advances and reimbursements and amounts claimed or used for matching that are applicable to each of the RTA's major federal financial assistance programs, which are identified in the accompanying Schedule of Federal Financial Assistance. My procedures were less in scope than would be necessary to render an opinion on these internal control structure policies and procedures. Accordingly, I do not express such an opinion.

My consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that noncompliance with laws and regulations that would be material to a federal financial assistance program may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control structure and its operation that I consider to be material weaknesses as defined above.

This report is intended for the information of the Board of Commissioners, management and the Federal Transportation Administration. However, this report is a matter of public record and its distribution is not limited.

Curtis A. Moret

Curtis A. Moret
April 11, 1997

CURTIS A. MORET
CERTIFIED PUBLIC ACCOUNTANT

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH SPECIFIC REQUIREMENTS APPLICABLE TO MAJOR FEDERAL FINANCIAL ASSISTANCE PROGRAMS

To the Board of Commissioners
Regional Transit Authority

I have audited the Schedule of Federal Financial Assistance of the Regional Transit Authority (the RTA), as of and for the year ended December 31, 1996, and have issued my report thereon dated April 11, 1997. The general purpose financial statements were audited by other auditors whose report thereon has been furnished to me, and my opinion expressed herein, insofar as it relates to the general purpose financial statements, is solely based on the report of other auditors.

I have audited the RTA's compliance with the requirements governing types of services allowed or unallowed; eligibility; amounts claimed or used for matching; reporting; cost allocation; and claims for advances and reimbursements that are applicable to each of its major federal financial assistance programs, which are identified in the accompanying Schedule of Federal Financial Assistance, for the year ended December 31, 1996. The management of RTA is responsible for RTA's compliance with those requirements. My responsibility is to express an opinion on compliance with those requirements based on my audit and the report of other auditors.

I conducted my audit of compliance with those requirements in accordance with generally accepted auditing standards; *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Circular A-128, "Audits of State and Local Governments." Those standards and OMB Circular A-128 require that I plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the RTA's compliance with those requirements. I believe that my audit provides a reasonable basis for my opinion.

The results of my audit procedures disclosed immaterial instances of noncompliance with the requirements referred to above, which are described in the accompanying Schedule of Findings and Questioned Costs. I considered these instances of noncompliance in forming my opinion on compliance, which is expressed in the following paragraph.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH SPECIFIC REQUIREMENTS APPLICABLE TO MAJOR FEDERAL FINANCIAL ASSISTANCE PROGRAMS
(Continued)

In my opinion, the RTA complied, in all material respects, with the requirements governing types of services allowed or unallowed; eligibility; amounts claimed or used for matching; reporting; cost allocation; and claims for advances and reimbursements that are applicable to each of its major federal financial assistance programs for the year ended December 31, 1996.

This report is intended for the information of the Board of Commissioners, management, and the Federal Transportation Administration (FTA). However, this report is a matter of public record and its distribution is not limited.

Curtis A. Moret

Curtis A. Moret
April 11, 1997

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH THE GENERAL REQUIREMENTS APPLICABLE TO FEDERAL FINANCIAL ASSISTANCE PROGRAMS

To the Board of Commissioners
Regional Transit Authority

I have audited the Schedule of Federal Financial Assistance of the Regional Transit Authority (the RTA), as of and for the year ended December 31, 1996, and have issued my report thereon dated April 11, 1997. The general purpose financial statements were audited by other auditors whose report thereon has been furnished to me, and my opinion expressed herein, insofar as it relates to the general purpose financial statements, is solely based on the report of other auditors.

I have applied procedures to test the RTA's compliance with the following requirements applicable to its federal financial assistance programs, which are identified in the Schedule of Federal Financial Assistance, for the year ended December 31, 1996:

General Requirements

- Administrative Requirements
- Political Activity
- Davis-Bacon Act
- Civil Rights
- Real Property Acquisition and Relocation Assistance
- Cash Management
- Allowable Costs/Cost Principles
- Federal Financial Reporting
- Drug-Free Workplace Act

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH THE GENERAL REQUIREMENTS APPLICABLE TO FEDERAL FINANCIAL ASSISTANCE PROGRAMS
(Continued)

My procedures were limited to the applicable procedures described in the Office of Management and Budget's, "Compliance Supplement for Single Audits of State and Local Governments." My procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the RTA's compliance with the requirements listed in the preceding paragraph. Accordingly, I do not express such an opinion.

With respect to the items tested, the results of those procedures disclosed no material instances of noncompliance with the requirements listed in the second paragraph of this report. With respect to items not tested, nothing came to my attention that caused me to believe that the RTA had not complied, in all material respects, with those requirements. However, the results of my procedures disclosed immaterial instances of noncompliance with those requirements, which are described in the accompanying Schedule of Findings and Questioned Costs.

This report is intended for the information of the Board of Commissioners, management, and the Federal Transportation Administration. However, this report is a matter of public record and its distribution is not limited.

Curtis A. Moret

Curtis A. Moret
April 11, 1997

REGIONAL TRANSIT AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
DECEMBER 31, 1996

Status of Prior Year Findings

In my prior year report dated May 3, 1996, I noted that the RTA was not using accrual basis accounting with respect to the preparation of the quarterly financial status reports submitted to the FTA. Based on my review of the 1996 quarterly reports and discussion with grant personnel, the financial status reports have been prepared on the accrual basis of accounting.

DISPOSITION OF PRIOR YEARS' MANAGEMENT LETTER COMMENTS

PRIOR YEARS' RECOMMENDATION	MANAGEMENT RESPONSE	STATUS	COMMENT DISPOSITION
To improve the legal reserve calculation process, the following are suggested for consideration: verification of input, analysis and trend reports, review of large dollar cases, etc.			
INTERNAL AUDIT			
We noted that the majority of the Internal Audit's efforts have been centered around capital projects. To better utilize their services, an internal audit plan should be developed annually and approved by the finance committee. In addition, the Internal Audit Department should be involved with the installation of new systems to ensure the integrity of the output of the data.	Concur	Implemented	The Director of Internal Audit developed a five-year strategic and audit plan, has established necessary policies for the department, created a mission statement and has had increased involvement in and review of financial operations of the RTA. Internal Audit is involved with the JD Edwards upgrade to ensure that the output of financial data is sufficient to meet the needs of all departments.
ARBITRAGE			
It appears that there is a potential arbitrage liability. Management should periodically assess the arbitrage situation in periods where rates on investments approach or exceed the bond rates. Calculation of the arbitrage liability should be performed annually by RTA.	Concur	Implemented	Bond counsel has prepared the arbitrage analysis.

Changes in legal and small claims liability during the years ended December 31 were as follows:

	Beginning of year liability	Current year claims and changes in estimates	Claim payments	Balance at year end
1994	$ 16,195,524	9,162,961	(6,136,767)	19,221,718
1995	19,221,718	9,118,678	(5,442,426)	22,897,970
1996	22,897,970	5,320,792	(7,704,851)	20,513,911

Restricted assets in the amount of $2,254,606 at December 31, 1996 and $8,786,535 at December 31, 1995 are available to fund current portions of the aforementioned accrued liabilities.

(11) Management Fees

The RTA contracted with Metro providing that Metro manage and supervise the operations of the transit system. Management fees paid under contract to Metro for the years ended December 31, 1996 and 1995 were $243,000 and $157,530, respectively.

(12) Related Parties

The RTA has a standing agreement with the City of New Orleans to provide mutually beneficial services (interagency agreement) through 1996. The RTA offset $1,200,000 in police services provided by the City against related receivables in 1996 and 1995.

The members of the Board of Commissioners were paid a per diem for the attendance at board meetings in calendar year 1996 and 1995 and are also reimbursed for out-of-pocket expenses resulting from their participation in RTA activities. The amounts received by each Commissioner for the year ended December 31, 1996 and 1995 were as follows:

	Per Diem	Expense Reimbursement	Total
1996:			
Daniel Alfortish	$ 900	480	1,380
Dennis DiMarco	900	–	900
Earline Roth	900	–	900
Nat Lacour	600	560	1,160
Thomas Lacour	900	2,020	2,920
Ronald Gardner	825	–	825
Robert Tucker	825	1,968	2,793
	$ 5,850	5,028	10,878

(Continued)

REGIONAL TRANSIT AUTHORITY SUMMARY
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE

FOR THE YEAR ENDED DECEMBER 31, 1996

FEDERAL GRANTOR/ PROGRAM TITLE	FEDERAL CFDA NUMBER	GRANT CONTRACT NUMBER	FEDERAL SHARE OF TOTAL AUTHORIZED AMOUNT	GRANT RECEIVABLE AT 12/31/95	FEDERAL SHARE OF EXPENDITURES	FEDERAL FUNDS RECEIVED	ADJUSTMENTS	GRANT RECEIVABLE AT 12/31/96
Capital and Operating Assistance Grants:								
	20-507	LA-90-2142	182,400	(9,730)	12,406	2,814	0	(138)
	20-507	LA-90-2154	40,000	124,939	(102,588)	0	0	22,351
	20-507	LA-90-2161	200,000	19,397	123,184	27,702	0	114,879
	20-507	LA-90-4171	1,914,262	0	1,914,262	1,914,262	0	0
	20-507	LA-90-0113	11,427,974	(3,400)	129,842	774,766	1,378,454	730,130
	20-507	LA-90-0103	2,683,148	287,196	66,930	31,197	0	322,929
			36,579,955	621,921	4,780,569	4,842,500	1,347,525	1,907,515
			94,810,991	3,918,801	22,372,570	14,710,342	329,136	11,910,165

The accompanying notes are an integral part of this schedule.

Statements of Cash Flows, Continued

	1996	1995
Reconciliation of loss from operations to net cash used in operating activities:		
Loss from operations	$(16,382,696)	(21,217,731)
Adjustments to reconcile loss from operations to net cash used in operating activities:		
Depreciation	9,853,116	8,561,513
Provision for doubtful accounts	2,578,810	2,147,715
Amortization of bond issue costs	79,855	79,855
Increase in accounts receivable	(4,485,841)	(1,016,899)
Decrease in prepaid assets	91,040	212,903
Increase in inventory	(263,538)	(450,611)
Increase in accounts payable and accrued expenses	1,554,146	96,215
Increase in amounts due to TMSEL	205,278	3,514,170
Increase (decrease) in the provision for legal and small claims liability	(3,009,419)	1,437,794
Net cash used in operating activities	$ (9,779,249)	(6,635,076)

See accompanying notes to financial statements.

REGIONAL TRANSIT AUTHORITY

Schedule of Changes in Fund Equity

For the years ended December 31, 1996 and 1995

	Accumulated Deficit - Reserved and Unreserved	Net Contributed Capital - Local Government	Net Contributed Capital - Federal Government	Total
Balance at December 31, 1994	$ (23,483,497)	19,560,527	89,381,390	85,458,420
Capital grants earned	-	-	12,359,562	12,359,562
Excess of expenses over revenue	(13,738,180)	-	-	(13,738,180)
Transfer of depreciation on contributed capital purchases	5,489,044	-	(5,489,044)	-
Balance at December 31, 1995	(31,732,633)	19,560,527	96,251,908	84,079,802
Capital grants earned	-	-	19,773,705	19,773,705
Excess of expenses over revenue	(12,244,864)	-	-	(12,244,864)
Transfer of depreciation on contributed capital purchases	6,587,699	-	(6,587,699)	-
Balance at December 31, 1996	$ (37,389,798)	19,560,527	109,437,914	91,608,643

See accompanying independent auditors' report.

(3) Accounts Receivable

Accounts receivable consist of the following as of December 31:

	1996	1995
Health and welfare benefit receivable	$ 19,595,796	17,003,957
Sales tax	5,370,564	3,236,551
Federal capital grants	11,910,166	3,965,185
State operating subsidy	-	1,369,756
Passenger (Transpass, Visitour)	701,194	902,137
Property damage	489,234	439,670
Orleans Parish School Board	523,073	578,926
Interest	226,139	207,570
Kenner operating subsidy	212,933	167,364
Other	63,932	88,434
Advertising	44,705	88,034
TMSEL	-	10,517
	39,137,736	28,058,101
Less allowance for uncollectible amounts	(20,165,858)	(17,587,048)
	$ 18,971,878	10,471,053

The allowance for doubtful accounts is primarily comprised of the health and welfare benefit receivable due from the City of New Orleans of $19,595,796 and $17,003,957 as of December 31, 1996 and 1995, respectively. During 1993, the RTA filed suit against the City to collect this outstanding amount as more fully discussed in note 9.

(4) Property, Buildings and Equipment

A summary of changes in fixed assets follows:

	January 1, 1996	Additions	Deletions	December 31, 1996
Land	$ 9,220,312	-	-	9,220,312
Buildings	74,054,173	830,907	-	74,885,080
Equipment, primarily transportation vehicles	132,156,666	12,843,553	(3,908,152)	141,092,067
Furniture and fixtures	4,652,098	2,632,523	(809,466)	6,475,155
Construction in progress	4,966,503	14,774,886	(4,117,520)	15,623,869
	225,049,752	$31,081,869	(8,835,138)	247,296,483
Accumulated depreciation and amortization	(81,896,323)	$(9,853,116)	3,971,078	(87,778,361)
	$ 143,153,429			$ 159,518,122

(Continued)

Actual cash in banks and certificates of deposit as of December 31, 1996 and 1995, for restricted and unrestricted bank accounts, before outstanding checks and reconciling items, was $4,672,541 and $3,327,092, respectively. Of the total bank balances at December 31, 1996 and 1995, all amounts were substantially covered by federal depository insurance or by collateral held in the RTA's name.

Investments are held in the name of the RTA by its agent and are a category 1 under GASB 3 requirements. Statutes authorize the RTA 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.

Repurchase agreements and securities purchased and sold during 1996 and 1995 totaled $23,600,000 and $136,162,300, respectively.

The market values of investment securities as of December 31, 1996 are as follows:

	Cost	Unrealized gain	Unrealized loss	Market value
U.S. Treasury note	$ 983,541	4,922	(2,119)	986,344
U.S. Government Agencies	9,638,275	-	(61,560)	9,576,715
Corporate bonds	265,500	31,917	-	297,417
Certificates of deposit	320,466	-	-	320,466
	$ 11,207,782	36,839	(63,679)	11,180,942

Gross unrealized gains on investments at December 31, 1995 were $215,020; there were no unrealized losses at December 31, 1995. The total market value of investment securities was $26,087,364 as of December 31, 1995.

As of December 31, 1996 and 1995, $600,000 and $985,828, respectively, of restricted assets was pledged as collateral to the Louisiana Office of Workman's Compensation.

(Continued)

the Regional Transit Authority Act (Act 439), an annual budget of revenue, expenses and capital expenditures is prepared under the accrual basis of accounting, consistent with generally accepted accounting principles (GAAP). The budget is adopted by resolution of the Board of Commissioners after public hearings are conducted and public input is received. The RTA, operating as an enterprise fund, utilizes a budget and related budgetary accounting to assure that: (1) service objectives are attained; (2) expenditures are properly controlled; and (3) adequate resources will be available to finance current operations, repay long-term liabilities and meet capital outlay requirements. A budget presentation is not required and has not been included in the financial statements.

Because the RTA's revenue and expenses may fluctuate with changing service delivery levels, a flexible, rather than fixed dollar budget, is utilized to permit budgetary revision based upon changing fare revenue, levels of service and cost of operations at specific service levels. Actual results of operations are compared to the final, revised budget of the RTA for the year then ended.

(k) Claims and Judgments

The RTA 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.

(l) Reclassifications

Certain amounts for the year ended December 31, 1995 have been reclassified.

(2) Cash and Investments

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

	December 31, 1996 Restricted	December 31, 1996 Unrestricted	December 31, 1995 Restricted	December 31, 1995 Unrestricted
Cash and money market	$ 2,668,910	1,482,018	2,210,338	567,407
Investments –				
U.S. Government Treasury and Agency securities	10,621,816	–	23,076,040	–
Certificates of deposit	320,466	–	320,466	–
Corporate bonds	265,500	–	265,500	–
	11,207,782	–	23,662,006	–
	$ 13,876,692	1,482,018	25,872,344	567,407

(Continued)

straight-line method. Expenditures for maintenance and repairs which do not materially extend the useful life of the asset are charged to expense as incurred.

The estimated useful lives used in computing depreciation and amortization are:

Buildings	20 years
Buses and equipment	3-12 years
Streetcars, track system and related equipment	20 years
Furniture and fixtures	3-10 years
Leasehold improvements	3-5 years

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

(g) Federal and State Grants

Federal and state grants are made available to the RTA 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.

(h) Compensated Absences

RTA is obligated to reimburse TMSEL for vacation in 1996 and 1995 when earned by TMSEL employees, either in accordance with TMSEL's general personnel policy or under certain TMSEL union agreements. The total liability for accrued vacation at December 31, 1996 and 1995, included in current liabilities, was $2,494,499 and $2,459,818, respectively.

(i) Cash Flows

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

(j) Budgets and Budgetary Accounting

In accordance with Act 186 of the Louisiana Legislature and under authority granted to the Board of Commissioners of the RTA within

(Continued)

(5) Long-term Debt

Long-term debt consisted of the following as of December 31:

	1996	1995
1988 Series, Sales Tax Refunding Bonds, interest rates between 6.8% and 8%, due in annual principal debt service requirements ranging from $855,000 to $2,815,000, final payment due December 2013	$ 27,850,000	28,650,000
1991 Series, Sales Tax Revenue Bond, interest rates between 5.5% and 6.5% on current interest and current interest term bonds, and approximate yields of 7% and 7.10% on capital appreciation bonds, with annual principal debt service requirements ranging from $348,633 to $1,500,000	21,115,733	21,850,733
	48,965,733	50,500,733
Less current maturities	1,630,000	1,535,000
Long-term debt less current maturities	$ 47,335,733	48,965,733

1988 Bond Series

On March 29, 1988, the RTA issued $33,080,000 in Sales Tax Refunding Bonds, Series 1988 with an average interest rate of 7.2 percent over 25 years to advance refund $29,500,000 of outstanding 1986 Series A Revenue Bonds with an average interest rate of 7.6 percent over its 9-year remaining life of the issue. The net proceeds of $32,379,700 (after payment of $700,000 in underwriting fees and discount costs) received by the RTA on the sale of the bonds were applied as follows: (a) $29,117,244 was deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1986 Series A Revenue Bonds; (b) $3,043,510 was deposited in a reserve fund account to satisfy the Reserve Fund Requirement of the bonds; and (c) the remaining proceeds of $218,946 were used toward the payment of issuance costs of the bonds. As a result, the 1986 Series A Revenue Bonds are in substance considered defeased, and the liability for those bonds has been removed from the long-term liability accounts. At December 31, 1995, the outstanding principal balance of the 1986 Bonds was $4,200,000. No bonds were outstanding as of December 31, 1996.

The interest on the Sales Tax Refunding Bonds, Series 1988 is due and payable on December 1 and June 1 of each year through December 1, 2013. The bonds are secured by a pledge and lien upon a portion of the RTA's sales tax revenue (one-half of one percent upon the items and services subject to the sales tax). Bond issue costs were deferred and are being amortized over the 25-year life of the sales tax refunding bonds.

(Continued)

(1) Summary of Significant Accounting Policies

(a) Organization and Reporting Entity

The Regional Transit Authority (RTA) is an independent political subdivision of the State of Louisiana created in 1979 by Act 439 of the Louisiana Legislature in order to provide mass transportation within its jurisdiction, which comprises the Greater New Orleans area. Effective July 1, 1983 under a transfer agreement among the RTA, the City of New Orleans (the City) and New Orleans Public Service, Inc. (NOPSI), the RTA assumed responsibility for all mass transit operations in Orleans Parish and acquired transit-related assets and assumed certain transit-related liabilities of NOPSI and of the City through purchase, funded by federal and local government grants, and through contributions from the City. Subsequently, the RTA has also assumed responsibility for mass transit operations of the City of Kenner. The RTA's scope of service presently comprises Orleans Parish and the City of Kenner in Jefferson Parish and may ultimately include future transit operations throughout the Greater New Orleans area.

The RTA is governed by an eight-member Board of Commissioners composed of appointees of the participating local governments within the RTA's jurisdiction. The Board of Commissioners establishes policies, approves the budget, controls appropriations and appoints an Executive Director responsible for administering all RTA operations and activities. At December 31, 1996 and 1995, one position on the Commission was vacant.

The RTA holds title to substantially all assets and controls, or is entitled to, substantially all revenue and funds used to support its operations and is solely responsible for its fiscal affairs. The Board of Commissioners is authorized to issue bonds, incur short-term debt and levy taxes upon approval of the voters in one or more of the parishes or municipalities served by the RTA. The RTA conducts substantially all of its transit and related operations through Transit Management of Southeast Louisiana, Inc. (TMSEL), pursuant to the management contract between RTA, TMSEL and Metro New Orleans Transit (Metro). The labor, fringe benefits and other similar costs reflected in the statement of revenues, expenses and changes in accumulated deficit are TMSEL expenses which are reimbursed by RTA pursuant to the management contract.

The RTA is a stand-alone entity as defined by GASB 14, The Financial Reporting Entity. The RTA is neither fiscally dependent on any other local government nor does it provide specific financial benefits to or impose specific financial burdens on any other government. No other potential component units meet the criteria for inclusion in the financial statements of the RTA.

(Continued)

1991 Bond Series

On December 26, 1991, the RTA issued $23,215,733 in Sales Tax Revenue Bonds, Series 1991. These bonds are to be repaid over 30 years. The net proceeds of $22,968,624 (after original issue discount of $103,661 and payment of $143,448 in underwriting fees and costs) received by the RTA on the sale of the bonds were applied as follows: (a) $19,193,382 was deposited in a reserve fund account designated for capital projects, including, but not limited to, the St. Charles facility renovation and restoration of streetcars used on the St. Charles Avenue Streetcar line, construction of maintenance facilities for the Riverfront streetcar line and the acquisition of buses; (b) $1,513,528 was deposited in a reserve fund for payment of interest costs; (c) $1,596,845 was deposited in a reserve fund account to satisfy the reserve fund requirement of the bonds; and (d) the remaining proceeds of $664,869 were used toward the payment of issuance costs of the bonds.

The current interest and capital appreciation bonds are secured by a pledge and lien upon a portion of the RTA's sales tax revenue (one-half of one percent upon the items and services subject to the sales tax). The interest on the current interest bonds is due and payable on June 1, and December 1 of each year through December 1, 2004. The interest for the capital appreciation bonds is due and payable in series in 2012, 2015 and 2021. Bond issue costs were deferred and are being amortized over the 30-year life of the sales tax bonds.

In accordance with the requirements of the bond indentures, the RTA maintains, with a designated trustee, certain restricted asset bond accounts. The RTA is in compliance with its bond covenants as of December 31, 1996 and 1995.

Cross-Border Sales Leaseback Agreement

In December 1994, the RTA entered into a sales-leaseback agreement for 73 buses which are included in fixed assets. The term of the lease is for approximately seven years with a purchase option of $23,500 per bus in March 2002. The purchase option cost was included in the financing arrangement. RTA anticipates no liability with this agreement.

(Continued)

REGIONAL TRANSIT AUTHORITY

Statements of Cash Flows

For the years ended December 31, 1996 and 1995

	1996	1995
Cash flows from operating activities:		
Cash received from operations	$ 32,911,408	34,800,851
Cash received from sales tax	40,457,744	42,660,300
Cash received from other sources	1,411,687	849,505
Cash paid to employees and for related expenses	(55,122,251)	(53,264,964)
Cash paid to suppliers	(21,683,422)	(26,620,598)
Cash paid for legal claims	(7,754,415)	(5,060,170)
Net cash used in operating activities	(9,779,249)	(6,635,076)
Cash flows from noncapital financing activities - operating subsidies received from other governments	7,550,375	9,573,072
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(17,836,139)	(16,179,894)
Capital contribution	11,828,724	11,534,221
Interest paid	(3,116,226)	(3,513,151)
Repayment of bonds	(1,535,000)	(1,450,000)
Net cash used for capital and related financing activities	(10,658,641)	(9,608,824)
Cash flows from investing activities:		
Purchases of investment securities	(12,796,855)	(23,211,544)
Proceeds from sale and maturities of investment securities	24,792,507	28,483,677
Interest payments received	1,806,474	1,963,660
Net cash provided from investing activities	13,802,126	7,235,793
Net increase in cash and cash equivalents	914,611	564,965
Cash and cash equivalents at beginning of year	567,407	2,442
Cash and cash equivalents at end of year	$ 1,482,018	567,407

(Continued)

REGIONAL TRANSIT AUTHORITY

Statements of Revenues, Expenses and Changes in Accumulated Deficit

For the years ended December 31, 1996 and 1995

	1996	1995
Operating revenues:		
Passenger fares	$ 32,654,612	35,026,390
Sales tax	42,591,757	41,324,583
Other	1,378,908	943,454
Total operating revenues	76,625,277	77,294,427
Direct operating expenses:		
Labor and fringe benefits (note 1a)	55,313,500	56,266,133
Materials, fuel and supplies	8,557,342	10,922,034
Contract services	6,789,961	7,286,701
Insurance and self-insured costs	4,696,432	7,125,552
Utilities	1,664,487	1,395,132
Taxes, other than payroll	901,190	941,067
Rent	189,632	185,375
Purchased transportation	1,584,234	1,099,135
Miscellaneous	3,458,079	4,729,516
Total direct operating expenses	83,154,857	89,950,645
Depreciation expense:		
Owned premises and equipment	3,265,417	3,072,469
Contributed premises and equipment	6,587,699	5,489,044
Total depreciation expense	9,853,116	8,561,513
Loss from operations	(16,382,696)	(21,217,731)
Nonoperating revenues (expenses):		
Interest income	1,825,043	1,601,831
Interest expense	(3,867,830)	(4,214,307)
Government operating grants:		
Federal operating subsidy	1,914,262	4,000,000
State Department of Transportation	3,298,625	3,789,114
Planning and technical study grants	967,732	2,302,913
Total nonoperating revenues	4,137,832	7,479,551
Excess of expenses over revenues	(12,244,864)	(13,738,180)
Accumulated deficit:		
Balance, beginning of year	(31,732,633)	(23,483,497)
Credits arising from amortization of contributed premises and equipment	6,587,699	5,489,044
Balance, end of year	$ (37,389,798)	(31,732,633)

See accompanying notes to financial statements.

REGIONAL TRANSIT AUTHORITY

Balance Sheets

December 31, 1996 and 1995

Assets	1996	1995
Current assets:		
Cash (note 2)	$ 1,482,018	567,407
Accounts receivable, net (note 3)	18,971,878	10,471,053
Inventories	3,327,744	3,066,206
Prepaid expenses and other assets	131,738	222,778
Total current assets	23,913,378	14,325,444
Restricted assets, cash and investments (note 2):		
1988 series bond trustee accounts (note 5)	3,809,078	3,640,675
1991 series bond trustee accounts (note 5)	6,975,389	10,018,041
Cross border lease escrow (note 5)	837,619	811,006
Self-insurance and legal claims (note 10)	2,254,606	8,786,535
Health and welfare (notes 2 and 9)	-	[illegible]
Total restricted assets	13,876,692	25,872,244
Deferred charges - bond issue costs (note 5)	1,812,914	1,892,769
Property, buildings and equipment, net (note 4)	159,518,122	143,153,429
	$ 199,121,106	185,243,986

Liabilities and Fund Equity	1996	1995
Current liabilities (payable from current assets):		
Accounts payable and accrued expenses	$ 19,799,397	9,863,581
Amounts due to Transit Management of Southeast Louisiana, Inc. (TMSEL)	10,636,856	10,431,578
	30,436,253	20,295,159
Current liabilities (payable from restricted assets):		
Legal and small claims (note 10)	17,201,085	20,210,504
Current portion of accrued bond interest	250,572	258,478
Current portion of bonds (note 5)	1,630,000	1,535,000
	19,081,657	22,003,982
Total current liabilities	49,517,910	42,299,141
Long-term liabilities:		
Employee benefits payable (note 8)	7,330,000	7,330,000
Accrued bond interest, less current portion	3,328,820	2,569,310
Bonds payable, less current portion (note 5)	47,335,733	48,965,733
Total long-term liabilities	57,994,553	58,865,043
Total liabilities	107,512,463	101,164,184
Fund equity (note 6):		
Accumulated deficit	(37,389,798)	(31,732,633)
Contributed capital:		
Local government	22,216,032	22,216,032
Federal government	186,596,057	166,882,981
	208,812,089	189,099,013
Accumulated amortization	(79,813,648)	(73,286,578)
	128,998,441	115,812,435
Total fund equity	91,608,643	84,079,802
Commitments and contingencies (notes 7, 8, 9 and 10)		
	$ 199,121,106	185,243,986

See accompanying notes to financial statements.

KPMG Peat Marwick LLP

Suite 3600 One Shell Square
New Orleans, LA 70139-3599

Independent Auditors' Report

Board of Commissioners
Regional Transit Authority:

We have audited the accompanying balance sheets of Regional Transit Authority (RTA) as of December 31, 1996 and 1995, and the related statements of revenues, expenses and charges in accumulated deficit, and cash flows for the years then ended. These financial statements are the responsibility of the RTA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. These 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 financial statements referred to above present fairly, in all material respects, the financial position of the RTA as of December 31, 1996 and 1995, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated April 14, 1997 on our consideration of the RTA's internal control structure, and a report dated April 14, 1997 on its compliance with laws and regulations.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information included in Schedules 1 and 2 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

KPMG Peat Marwick LLP

April 14, 1997

REGIONAL TRANSIT AUTHORITY

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REGIONAL TRANSIT AUTHORITY

Financial Statements and Schedules

December 31, 1996 and 1995

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 JUN 25 1997

(b) Basis of Accounting

The accounting policies of the RTA conform to generally accepted accounting principles as applicable to governments. The RTA uses fund accounting to report its financial position and results of operations. The RTA'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 deprecation) 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 RTA 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 RTA 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.

(c) 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.

(d) Investments

Investments are stated at cost. Investments generally consist of U.S. Government and Agency securities, repurchase agreements and time deposits.

(e) 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.

(f) 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

(Continued)

REGIONAL TRANSIT AUTHORITY

Schedule of Changes in Restricted Asset Bond Accounts

For the years ended December 31, 1996 and 1995

The following summarizes the activity in the 1988 series bond trustee accounts:

	Capital	Debt Service	Reserve	Total
Cash and investments at January 1, 1995	$ 649	977,018	4,091,926	5,069,593
Cash receipts:				
Interest income	35	28,022	160,459	188,516
Sales tax receipts	41,621,627	-	-	41,621,627
Transfer for principal and interest	-	2,418,176	-	2,418,176
Total cash receipts	41,621,662	2,446,198	160,459	44,228,319
Cash disbursements:				
Principal and interest payments	-	(3,040,974)	-	(3,040,974)
Sales tax outflow	(38,865,373)	-	-	(38,865,373)
Transfer to debt service	(2,756,254)	-	(994,636)	(3,750,890)
Total disbursements	(41,621,627)	(3,040,974)	(994,636)	(45,657,237)
Ending balance - December 31, 1995	684	382,242	3,257,749	3,640,675
Cash receipts:				
Interest income	34	68,225	220,697	288,956
Sales tax receipts	40,111,665	-	-	40,111,665
Transfer for principal and interest	-	2,920,921	-	2,920,921
Total cash receipts	40,111,699	2,989,146	220,697	43,321,542
Cash disbursements:				
Principal and interest payments	-	(3,041,474)	-	(3,041,474)
Sales tax outflow	(35,861,329)	-	-	(35,861,329)
Transfer for debt service	(4,250,336)	-	-	(4,250,336)
Total disbursements	(40,111,665)	(3,041,474)	-	(43,153,139)
Ending balance - December 31, 1996	$ 718	329,914	3,478,446	3,809,078

(Continued)

DISPOSITION OF PRIOR YEARS' MANAGEMENT LETTER COMMENTS

PRIOR YEARS' RECOMMENDATION	MANAGEMENT RESPONSE	STATUS	COMMENT DISPOSITION
SELF INSURANCE			
The RTA is self-insured through TMSEL for workers' compensation, small claims and general liability claims. The Legal Department oversees these self-insured areas. In performing testwork on the documentation supporting self-insurance payments and self-insurance reserves, we noted several deviations from existing controls and procedures. While these deviations did not have a material impact on the total self-insurance reserve, we have suggested to management various improvements in the area of claim file organization and content and improvements in data processing systems that would strengthen existing controls and procedures.	Concur	Implemented	Self-insurance has been reorganized and restructured to address the concerns noted. Items to be completed in 1997 include engaging a third-party administrator to monitor and set reserves for workers' compensation cases, continuing to increase involvement of internal attorneys on settlement amounts and general liability reserves, recording reserve amounts on the general ledger quarterly, and continue Internal Audit follow-up on changes implemented in 1996 and to be implemented in 1997.
WORKERS' COMPENSATION			
The RTA is self-insured through TMSEL for workers' compensation. Therefore, a workers' compensation reserve is calculated and maintained by the Risk Management Department and recorded as a liability on the financial statements. During our audit, we reviewed the workers' compensation reserves and noted several areas for improvement: classification of permanent, temporary and partial permanent, improving file documentation, period review of case file with medical update, payment of compensation in accordance with State Department of Labor, periodic reassessment of cash reserves, etc.	Concur	Implemented	See response to "Self-insurance" above.

REGIONAL TRANSIT AUTHORITY

CURRENT YEAR COMMENTS

Year 2000

With the year 2000 quickly approaching, organizations throughout the country are assessing the technology-readiness. To better ensure that the RTA is ready for the year 2000, the following steps should be undertaken and the results documented:

- updating list of software and purpose
- performing an assessment of readiness of the software systems for the year 2000
- confirming with commercial vendors that the systems are 2000 ready
- developing internal schedules to ensure timeframes on conversions, if necessary, are adequate
- determine the amount of funding that may be necessary and when the funds may be needed to address any issues.

While this list is not intended to be a complete list of tasks, by documenting its approach to the above and formalizing a plan to ensure that all systems have been considered and addressed, the RTA will be better assured of continued operations on January 1, 2000.

The Deficit and Cash Flow Projections and Budgeting

With the increasing deficit and decreasing cash and investments balances, RTA should develop a plan of action of what additional funds are needed to meet matching requirements and to fund working capital on a day-to-day basis. Management has discussed developing cash flow projections and budgets to monitor cash needs and has also taken initial steps to reduce cash outflow and expenses for 1997. We applaud these actions and recommend formalizing these processes into written and communicated documents that can be used by upper management and the Board to monitor the progress toward deficit reduction and increased cash and investments balances.

Other Audit Reports and Findings

During 1997, the RTA was reviewed by FTA in the Financial Management Oversight and Procurement Reviews and State of Louisiana Department of Labor and Office of Worker's Compensation. Each review resulted in a report, the majority of which required corrective actions and strong recommendations. It is our understanding that management is monitoring the progress of these reports; therefore, inclusion herein is not considered necessary.

Prior Year Management Letter Comments

There were several comments noted in the prior year management letter that are not yet implemented. Rather than repeat these comments, the status of each comment is reflected in Appendix B.

KPMG Peat Marwick LLP

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

April 14, 1997

Board of Commissioners
Regional Transit Authority
6700 Plaza Drive
New Orleans, Louisiana 70127-2677

Dear Commissioners:

We have audited the financial statements of the Regional Transit Authority (RTA) for the year ended December 31, 1996, and have issued our report thereon dated April 14, 1997. In planning and performing our audit of the financial statements of the RTA, we considered the RTA's internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to 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 contains a list of the status of prior 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 RTA's organization gained during our work to make comments and suggestions that we hope will be useful to you.

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

This report is intended solely for the information and use of the Board of Commissioners, the Louisiana Legislative Auditor's Office, federal and state grantors, management, and others within the RTA.

Very truly yours,

KPMG Peat Marwick LLP

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the 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 structure and its operation that we consider to be material weaknesses as defined above.

We also noted other matters involving the internal control structure and its operation that we have reported to management of the RTA, in a separate letter dated April 14, 1997.

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

KPMG Peat Marwick LLP

April 14, 1997

KPMG Peat Marwick LLP

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

Independent Auditors' Report on the Internal Control Structure at the Financial Statement Level

The Board of Commissioners
Regional Transit Authority:

We have audited the financial statements of the Regional Transit Authority (the RTA) as of and for the year ended December 31, 1996, and have issued our report thereon dated April 14, 1997.

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.

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

In planning and performing our audit of the financial statements of the RTA for the year ended December 31, 1996, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

	January 1, 1995	Additions	Deletions	December 31, 1995
Land	$ 9,220,312	-	-	9,220,312
Buildings	43,508,267	30,545,906	-	74,054,173
Equipment, primarily transportation vehicles	141,171,471	1,015,539	(10,030,344)	132,156,666
Furniture and fixtures	3,807,100	844,998	-	4,652,098
Construction in progress	21,156,024	15,006,528	(31,196,049)	4,966,503
	218,863,174	$ 47,412,971	(41,226,393)	225,049,752
Accumulated depreciation and amortization	(83,328,126)	(8,561,513)	9,993,316	(81,896,323)
	$ 135,535,048			143,153,429

During 1995, the RTA auctioned 74 buses that were fully depreciated. The resulting gain is included in other revenue.

Construction in progress is composed of the following as of December 31:

	1996	1995
St. Charles Streetcar Line and Carrollton Facility	$ 6,160,741	4,273,453
New Orleans East Maintenance Facility	248,922	233,359
Canal Street Facility	5,994,487	-
Canal Street Corridor	2,996,399	-
Other	223,309	459,691
	$ 15,623,858	4,966,503

(Continued)

REGIONAL TRANSIT AUTHORITY

Schedule of Changes in Restricted Asset Bond Accounts, Continued

The following summarizes the activity in the 1991 series bond trustee accounts:

	Capital	Debt Service	Reserve	Interest	Issuance	Capitalized Interest	Total
Beginning balance January 1, 1995	$ 10,988,856	152,784	1,847,344	12	6,384	51,405	13,046,785
Cash receipts:							
Transfer for principal and interest	6,326	1,564,843	-	-	-	-	1,571,169
Investment income	537,005	29,660	88,620	-	24	241	655,550
Total cash receipts	543,331	1,594,503	88,620	-	24	241	2,226,719
Cash disbursements:							
Transfer of principal and interest	-	(1,597,355)	-	(12)	(6,408)	(51,646)	(1,655,421)
Capital acquisitions and construction cost	(3,419,689)	-	(180,353)	-	-	-	(3,600,042)
Total disbursements	(3,419,689)	(1,597,355)	(180,353)	(12)	(6,408)	(51,646)	(5,255,463)
Ending balance - December 31, 1995	8,112,498	149,932	1,755,611	-	-	-	10,018,041
Cash receipts:							
Transfer for principal and interest	-	1,715,824	-	-	-	-	1,715,824
Interest income	543,736	27,752	109,348	-	-	-	680,836
Total cash receipts	543,736	1,743,576	109,348	-	-	-	2,396,660
Cash disbursements:							
Transfer for debt service	-	(1,595,255)	-	-	-	-	(1,595,255)
Capital acquisitions and construction cost	(3,844,057)	-	-	-	-	-	(3,844,057)
Total disbursements	(3,844,057)	(1,595,255)	-	-	-	-	(5,439,312)
Ending balance - December 31, 1996	$ 4,812,177	298,253	1,864,959	-	-	-	6,975,389

See accompanying independent auditors' report.

DISPOSITION OF PRIOR YEARS' MANAGEMENT LETTER COMMENTS

PRIOR YEARS' RECOMMENDATION	MANAGEMENT RESPONSE	STATUS	COMMENT DISPOSITION
RISK MANAGEMENT			
The RTA is self-insured for personal injury and property damage. All initial non-litigation claims filed are maintained by the risk management department until the case is settled or a lawsuit filed. A reserve is maintained for these cases and recorded as a liability on the financial statements. During our testwork of the reserve for non-litigation claims, we noted several opportunities for efficiencies and improvements, such as improved file documentation, agreement of file reserves to report reserves, documentation of case reserves, procedures to settlement of small cases, timely update of reserves and general ledger liability, documented policy and procedures, documentation of settlement support, etc.	Concur	Implemented	See response to "Self-insurance" on previous page.
LEGAL RESERVE			
The legal department prepares a quarterly report of all open legal claims and their case reserves. This report is then actuarially reviewed at year end to determine the appropriateness of the litigation liability on the balance sheet and to record incurred but not reported claims. During a review of this report, we noted reserve amounts which did not correspond to the reserves as established by the attorney and several cases listed as open when they were actually closed.	Concur	Implemented	See response to "Self-insurance" on previous page.

	Per Diem	Expense Reimbursement	Total
1995:			
Daniel Alfortish	$ 2,475	782	3,257
Dennis DiMarco	2,175	704	2,879
Earline Roth	375	-	375
Nat Lacour	2,325	-	2,325
Thomas Lacour	2,475	1,565	4,040
Ronald Gardner	300	-	300
Ellenese Brooks-Simms	1,500	2,984	4,484
Robert Tucker	2,475	529	3,004
	$ 14,100	6,564	20,664

(13) Recent Accounting Pronouncement

In February 1996, GASB issued Statement No. 30, Risk Financing Omnibus, which is effective for periods beginning after June 15, 1996. This statement requires 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. The impact of this pronouncement is being reviewed by management.

Total lease and rental payments for the year ended December 31, 1996 and 1995 were $189,632 and $185,375, respectively.

(b) Contingencies

The RTA 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 RTA's financial position.

As discussed in notes 3 and 8, the RTA and TMSEL are plaintiffs in a lawsuit against the City of New Orleans alleging that the City violated the terms of the 1983 "Employee and Retiree Pension and Welfare Agreement" and claiming that the City was indebted to the RTA for amounts paid under the agreement for health and welfare benefits of certain retirees. The accumulated payments totaled $19,595,796 as of December 31, 1996. The City has denied liability.

(c) Grant Commitments

As of December 31, 1996 and 1995, the RTA is committed to use earnings to fund local matching requirements under grants for which a contractual obligation existed at the end of each year. The outstanding federal share of grants at December 31, 1996 and 1995 totals $32,705,000 and $18,616,000, respectively, and requires commitments of local matching funds totaling $8,233,085 and $3,918,802, respectively.

(10) Self-insurance and Legal Claims

The RTA is exposed to various risks of loss related to torts, damage to and destruction of assets, errors and omissions, injuries to TMSEL employees and natural disasters. The RTA is self-insured for general liability claims up to $1,000,000 prior to April 1, 1996 and $2,000,000 effective April 1, 1996; commercial insurance for general liability covers claims excess up to $14,000,000 and prior to April 1, 1996 and $10,000,000 effective April 1, 1996. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years. Pursuant to the TMSEL management contract, RTA reimburses TMSEL its employees' injury and workers' compensation claims. Claim expenses and liabilities are reported when it is probable that the loss has occurred and the amount of the loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported.

At December 31, 1996 and 1995, $20,513,911 and $22,897,970, respectively, of accrued liabilities were recorded to cover such claims. The accruals, which are based upon experience with previous claims, the advice of counsel, and actuarial evaluation are, in the opinion of management, sufficient to provide for all probable and reasonably estimable claims liabilities at December 31, 1996 and 1995.

(Continued)

factor of 9%. Also, NOPSI paid $7,330,000 to the RTA for indemnification against any unforeseen losses arising from the transaction, and this amount has been reflected by the RTA as employee benefits payable on behalf of TMSEL and former NOPSI employees. Adjustments to this amount could result from benefit payment experience or performance of the City of New Orleans under the terms of the Agreement.

During 1996 and 1995, RTA paid and billed the City of New Orleans for reimbursement under the terms of the Agreement in the amounts of $2,591,839 and $2,415,384, respectively, for post-retirement health care and life insurance claims. The City has not made any payments to RTA on this obligation. The RTA has filed suit against the City of New Orleans for collection of the amount due as discussed in note 9. An allowance for uncollectible accounts has been established for this receivable as described in note 3.

Currently, 181 NOPSI retirees and 125 surviving spouses are receiving medical and/or life insurance benefits. As of December 31, 1995, the RTA had designated $2,616,087 as restricted assets to be available to fund the RTA's portion of such liabilities. No restricted assets were available as of December 31, 1996.

TMSEL Retirees

The RTA, pursuant to the TMSEL management contract, underwrites benefits for health care and life insurance to TMSEL retirees who were NOPSI transit employees prior to July 1, 1983. These employees retain full retirement benefits under the plan. All other employees of TMSEL are not eligible to receive post-retirement health and life insurance under the plan benefits. The health care plan is self-insured and is financed on a pay-as-you-go-basis. During 1996 and 1995, total TMSEL expense relating to the above plan was $1,281,481 and $403,509, respectively. Total benefits paid on behalf of participants during 1996 and 1995 were $778,731 and $567,548, respectively. Currently, 230 TMSEL retirees are receiving medical and/or life insurance benefits and 26 employees are eligible to receive benefits under the terms of the plan. As of December 31, 1996, no actuarial evaluation of the plan has been performed.

(9) Commitments and Contingencies

(a) Leases

The RTA is obligated under various operating leases for office and storage space. The operating leases contain renewal options for varying periods at equal or increased annual rentals.

Future operating lease payments for the three years following December 31, 1996 are as follows:

1997	$ 182,607
1998	213,795
1999	93,683

(Continued)

Net periodic pension cost included the following components for the years ended December 31, 1996 and 1995 and are as follows:

	1996	1995
Service cost - benefits earned during the period	$ 2,611,845	2,076,132
Interest cost on projected benefit obligation	5,544,680	5,219,844
Actual return on plan assets	(8,157,503)	(12,314,600)
Net amortization and deferral	2,549,759	7,562,676
Net periodic pension cost	$ 2,548,781	2,544,052

The most recent projected pension benefit obligation was computed based on the actuarial valuation performed as of January 1, 1995. Significant actuarial assumptions used in the valuation include (a) a rate of return on the investment of present and future assets of 7.5 percent per year compounded annually, (b) a discount rate of 7.25% and 7.0% at December 31, 1996 and 1995, respectively, and 8.0% at December 31, 1994, (c) projected salary increases include an inflation component of 4.25% and 4.0% as of December 31, 1996 and 1995, respectively, and (d) no postretirement benefits increases.

TMSEL funds actuarially determined pension costs when accrued. Any unfunded actuarial accrued liability is amortized over twenty-five years. Pension expense, which is included in labor and fringe benefits expense, was $2,548,781 and $2,544,052 in 1996 and 1995, respectively. The significant actuarial assumptions used to compute the actuarially determined contribution requirements are the same as those used to compute the projected pension benefit obligation as described above.

As of the most recent IRS reporting date, the ERISA funding requirements have been met.

(8) Other Post Employment Retirement Benefits

NOPSI Retiree Employees

As part of the Transfer Agreement among the RTA, NOPSI and the City, the RTA, through TMSEL, began providing benefits for health care and life insurance to retired and disabled transit employees of NOPSI. In addition, the RTA assumed liability for benefits payable to those employees who retired or became disabled prior to July 1, 1983. On July 1, 1983, the actuarially determined present value of such benefits was approximately $24,000,000. A preliminary actuarial valuation, performed in 1991, indicated that the present value of future benefits as of December 31, 1991 was $20,500,000. In consideration for the assumption of liability under the terms of the Employee and Retiree Pension Benefits Agreement (the Agreement), NOPSI and the City of New Orleans agreed to reimburse the RTA for future health care and life insurance claims of retired and disabled transit employees of NOPSI in amounts of $13,000,000 and $11,000,000, respectively, plus an interest

(Continued)

benefits for life in an amount equal to 1.6 percent of their five year average of compensation times years of service. The plan also provides early retirement, postponed retirement, disability and death benefits.

Amalgamated Transit Union Division 1611, effective May 1, 1996, received "30 and Out" retirement benefits and contributes 2.45% of gross wages. International Brotherhood of Electrical Working Local 1700-4, effective April 1, 1996, received "30 and Out" retirement benefits and contributes 2.45% of gross wages.

TMSEL contributes such amounts as are necessary to provide assets sufficient to meet the benefits to be paid to Plan participants. The contributions of TMSEL and eligible employees are made in amounts, determined by an enrolled actuary, sufficient to fund the Plan's current service cost plus amortization of any unfunded amounts over 25 years.

Only employees covered by a collective bargaining agreement between TMSEL and the Amalgamated Transit Union, Division 1560, while a member of the Plan and prior to the normal retirement date, can contribute to the Plan. The amounts contributed, pursuant to the collective bargaining agreement, are one percent of their weekly compensation in excess of $127 in addition to 2.23 percent of total compensation.

The following table sets forth the plan's funded status and amounts recognized in the Authority's balance sheet due to TMSEL as of December 31:

	1996	1995
Actuarial present value of benefit obligation:		
Vested benefit obligation	$ 59,773,001	55,310,310
Nonvested benefit obligation	3,980,394	2,736,187
Accumulated benefit obligation	63,753,395	58,046,497
Effect of projected future compensation levels	20,147,594	19,954,522
Projected benefit obligation for service rendered to date	83,900,989	78,001,019
Plan assets at fair value	82,724,960	75,225,500
Deficiency in plan assets over projected benefit obligation	(1,176,029)	(2,775,519)
Unrecognized prior service cost	1,198,530	1,303,664
Unrecognized net loss (gain) from past experience different from that assumed	(420,556)	1,509,402
Unrecognized net asset	(798,600)	(882,575)
Accrued pension cost	$ (1,196,655)	(845,028)

(Continued)

reductions in service are considered by the Authority to be minor and should not significantly affect ridership, nor are they expected to affect the safety or efficiency of the transit system. When completed, these adjustments are expected to reduce peak operating fleet requirements by a total of approximately fifteen percent.

(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:

	Local Government	Federal Government	Total
Balance at December 31, 1994, net	$ 19,560,527	89,381,390	108,941,917
Capital grants earned	-	12,359,562	12,359,562
Transfer of depreciation on capital purchases	-	(5,489,044)	(5,489,044)
Balance at December 31, 1995, net	19,560,527	96,251,908	115,812,435
Capital grants earned	-	19,773,705	19,773,705
Transfer of depreciation on capital purchases	-	(6,587,699)	(6,587,699)
Balance at December 31, 1996, net	$ 19,560,527	109,437,914	128,998,441

(7) TMSEL Pension Plan

The RTA provides for the pension expense of TMSEL employees pursuant to the management contract. Effective August 19, 1986, TMSEL received from the Internal Revenue Service a favorable letter of determination and approval of its defined benefit retirement income plan (the plan) covering substantially all TMSEL employees. On October 15, 1986, the RTA completed the transfer of pension fund assets from NOPSI to TMSEL, as called for under the terms of the Transfer Agreement between NOPSI and the RTA. Net pension plan assets transferred totaled $35,059,639 as of the actuarial valuation, dated June 30, 1986, nearest the date of transfer.

All TMSEL or former NOPSI employees over the age of 21 are eligible to participate in the plan. Benefits vest after five years of service. Employees, except for transit operators, who retire at age 65, are entitled to annual retirement benefits for life in an amount equal to 1.5 percent of their five year average of compensation times years of service. As a result of a new contract effective in 1995, transit operators who retire at age 65 are entitled to annual retirement

(Continued)

The following represents the debt service requirements for both the 1988 and the 1991 Bond issues as of December 31, 1996:

	Total Principal	Total Interest
1997	$ 1,630,000	3,006,905
1998	1,735,000	2,902,880
1999	1,850,000	2,790,355
2000	1,970,000	2,667,975
2001	2,105,000	2,535,075
2002-2006	12,950,000	10,233,240
2007-2011	14,617,950	8,564,170
2012-2016	8,790,360	14,388,952
2017-2021	3,317,423	19,857,530
	$ 48,965,733	66,947,082

(6) Fund Equity

(a) Accumulated Deficit

As of December 31, 1996, the RTA's accumulated deficit was $37,389,798.

The Authority's Board of Commissions is committed to improving the financial condition of the Authority, through both increasing revenues and decreasing expenses. A brief discussion of certain of the steps the Authority is taking to accomplish these goals follows.

Revenues - In order to increase operating revenues, the Authority is implementing a marketing campaign to both recapture lost ridership and increase new ridership of the transit system.

Expenses - Over the past year, the Authority has identified and begun to correct inefficient areas of the Authority's operation in order to better control costs and improve operational efficiency. The following is a brief discussion of certain actions the Authority has taken to accomplish these goals.

Labor and fringe benefit costs constitute the largest component of the Authority's annual operating expenses. TMSEL has developed an employee reduction plan to reduce these costs through job eliminations and consolidations and some outsourcing. The Authority expects to begin the new health coverage program in August 1997 and believes that this will significantly reduce health care related expenses of the Authority.

The Authority recently completed an analysis of each transit route within the transit system. As a result of this analysis, TMSEL made reductions in transit service in September 1996 and January 1997 and will make additional reductions in June 1997. These

(Continued)

KPMG Peat Marwick LLP

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

Independent Auditors' Report on Compliance
at the Financial Statement Level

The Board of Commissioners
Regional Transit Authority:

We have audited the financial statements of the Regional Transit Authority (the RTA), as of and for the year ended December 31, 1996, and have issued our report thereon dated April 14, 1997.

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.

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

The results of our tests disclosed no instances of noncompliance that are required to be reported herein under Government Auditing Standards.

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

KPMG Peat Marwick LLP

April 14, 1997