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REGIONAL TRANSIT AUTHORITY

Financial Statements and Schedules

December 31, 1998 and 1997

With Independent Auditors' Report Thereon

REGIONAL TRANSIT AUTHORITY

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KPMG

Suite 3500 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, 1998 and 1997, and the related statements of revenues, expenses and changes 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the RTA as of December 31, 1998 and 1997, 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 June 25, 1999 on our consideration of the RTA's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. Schedule 1 of the Required Supplementary Information, as listed in the Table of Contents, is not a required part of the basic financial statements of RTA, but is supplementary information required by the Governmental Accounting Standards Board, and we did not audit and do not express an opinion on such information. Further, we were unable to apply to the information certain procedures prescribed by professional standards because of the nature of the subject matter underlying the disclosure requirements and because sufficiently specific criteria regarding the matters to be disclosed have not been established. In addition, we do not provide assurance that RTA is or will become Year 2000 compliant, that RTA's Year 2000 remediation efforts will be successful in whole or in part, or that parties with which RTA does business are or will become Year 2000 compliant.

The other supplementary information as listed in the Table of Contents 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 LLP

June 25, 1999

REGIONAL TRANSIT AUTHORITY

Balance Sheets

December 31, 1998 and 1997

Assets	1998	1997
Current assets:		
Cash (note 2)	$ 938,944	1,866,682
Accounts receivable, net (note 3)	13,300,203	14,313,946
Inventories	1,660,421	1,894,086
Prepaid expenses and other assets	39,592	36,717
Total current assets	15,939,160	18,111,431
Restricted assets, cash and investments (note 2):		
1998 Series bond trustee accounts (note 5)	259,477	-
1991 series bond trustee accounts (note 5)	5,641,323	5,757,486
Cross border lease escrow (note 5)	136,496	852,373
Self-insurance and legal claims (note 10)	1,931,193	2,235,565
1998 Advance Refunding Agreement (note 5)	-	2,357,396
Capital lease escrow (note 9)	12,495,949	-
Total restricted assets	20,464,438	11,202,820
Deferred charges - bond issue costs (note 5)	3,021,180	1,733,060
Property, buildings and equipment, net (note 4)	201,119,829	171,964,156
	$ 240,544,607	203,011,467

Liabilities and Fund Equity	1998	1997
Current liabilities (payable from current assets):		
Accounts payable and accrued expenses	$ 9,829,285	7,856,303
Amounts due to Transit Management of Southeast Louisiana, Inc. (TMSEL)	17,997,218	12,123,940
Sales Tax Anticipation note payable (note 5)	-	4,000,000
Current portion of capital lease (note 9)	2,628,943	-
	30,455,446	23,980,243
Current liabilities (payable from restricted assets):		
Legal and small claims (note 10)	17,423,442	15,900,279
Current portion of accrued bond interest	266,358	241,903
Current portion of bonds (note 5)	1,850,000	1,735,000
	19,539,800	17,877,182
Total current liabilities	49,995,246	41,857,425
Long-term liabilities:		
Employee benefits payable (note 8)	7,330,000	7,330,000
Accrued bond interest, less current portion	5,016,375	4,142,425
Bonds payable, less current portion (note 5)	47,567,326	45,600,733
Capital lease payable (note 9)	46,366,828	-
Advance proceeds on refunding	-	2,918,093
Total long-term liabilities	106,280,529	59,991,251
Total liabilities	156,275,775	101,848,676
Fund equity (note 6):		
Accumulated deficit	(51,086,148)	(39,953,609)
Contributed capital:		
Local government	22,216,032	22,216,032
Federal government	213,649,229	208,662,381
	235,865,261	230,878,413
Accumulated amortization	(100,510,281)	(89,762,013)
	135,354,980	141,116,400
Total fund equity	84,268,832	101,162,791
Commitments and contingencies (notes 7, 8, 9 and 10)		
	$ 240,544,607	203,011,467

See accompanying notes to financial statements.

REGIONAL TRANSIT AUTHORITY

Statements of Revenues, Expenses and Changes in Accumulated Deficit

For the years ended December 31, 1998 and 1997

		1998	1997
Operating revenues:			
Passenger fares	$	33,872,814	32,599,690
Sales tax		47,497,608	45,183,461
Other		1,624,407	4,401,268
Total operating revenues		82,994,829	82,184,419
Direct operating expenses:			
Labor and fringe benefits (note 1(a))		63,453,438	59,758,331
Materials, fuel and supplies		5,293,830	6,178,237
Contract services		10,505,830	7,043,132
Insurance and self-insured costs		6,325,154	3,820,133
Utilities		1,456,849	1,540,685
Taxes, other than payroll		883,954	856,338
Rent		188,358	131,822
Purchased transportation		2,911,485	2,461,539
Miscellaneous		572,891	1,221,972
Total direct operating expenses		91,591,789	83,012,189
Depreciation expense:			
Owned premises and equipment		4,993,739	4,084,350
Contributed premises and equipment		10,748,268	9,766,572
Total depreciation expense		15,742,007	13,850,922
Loss from operations		(24,338,967)	(14,678,692)
Nonoperating revenues (expenses):			
Interest income		1,106,834	630,767
Interest expense		(5,744,222)	(3,939,540)
Government operating grants:			
Federal subsidy		3,701,751	1,998,000
State Department of Transportation		2,579,022	2,946,219
Planning and technical study grants		814,775	712,863
Total nonoperating revenues		2,458,160	2,348,309
Net loss		(21,880,807)	(12,330,383)
Accumulated deficit:			
Balance, beginning of year		(39,953,609)	(37,389,798)
Credits arising from amortization of contributed premises and equipment		10,748,268	9,766,572
Balance, end of year	$	(51,086,148)	(39,953,609)

See accompanying notes to financial statements.

REGIONAL TRANSIT AUTHORITY

Statements of Cash Flows

For the years ended December 31, 1998 and 1997

		1998	1997
Cash flows from operating activities:			
Cash received from operations	$	34,099,157	32,278,282
Cash received from sales tax		46,573,820	44,042,484
Cash received from other sources		1,173,469	4,341,372
Cash paid to employees and for related expenses		(57,580,160)	(58,271,247)
Cash paid to suppliers		(17,922,325)	(24,097,651)
Cash paid for legal claims		(4,553,952)	(5,033,441)
Net cash provided by (used in) operating activities		1,790,009	(6,740,201)
Cash flows from noncapital financing activities - operating subsidies received from other governments		5,391,257	5,461,057
Cash flows from capital and related financing activities:			
Acquisition and construction of capital assets		(46,832,812)	(32,094,940)
Capital contribution		7,397,886	28,174,481
Interest paid		(3,332,521)	(3,134,604)
Proceeds (payment) from sales tax anticipation note		(4,000,000)	4,000,000
Repayment of bonds		(27,815,000)	(1,630,000)
Bond issue costs		(1,388,037)	-
Proceeds (payment) of advance refunding		(2,918,093)	2,918,093
Proceeds on bond sale		29,896,593	-
Proceeds from capital lease		48,995,771	-
Net cash provided by (used for) capital and related financing activities		3,787	(1,766,970)
Cash flows from investing activities:			
Purchases of investment securities		(12,755,426)	(2,357,396)
Proceeds from sale and maturities of investment securities		3,493,808	5,031,268
Interest payments received		1,148,827	756,906
Net cash (used for) provided by investing activities		(8,112,791)	3,430,778
Net (decrease) increase in cash and cash equivalents		(927,738)	384,664
Cash and cash equivalents at beginning of year		1,866,682	1,482,018
Cash and cash equivalents at end of year	$	938,944	1,866,682

(Continued)

REGIONAL TRANSIT AUTHORITY

Statements of Cash Flows

For the years ended December 31, 1998 and 1997

		1998	1997
Reconciliation of loss from operations to net cash used in operating activities:			
Loss from operations	$	(24,338,967)	(14,678,692)
Adjustments to reconcile loss from operations to net cash used in operating activities:			
Depreciation		15,742,007	13,850,922
Amortization of bond issue costs		99,916	79,854
Increase in accounts receivable		(1,248,293)	(1,380,339)
(Increase) decrease in prepaid assets		(2,875)	95,021
Decrease in inventory		233,665	1,433,658
(Decrease) increase in accounts payable and accrued expenses		3,908,115	(6,326,903)
Increase in amounts due to TMSEL		5,873,278	1,487,084
Increase (decrease) in the provision for legal and small claims liability		1,523,163	(1,300,806)
Net cash provided by (used in) operating activities	$	1,790,009	(6,740,201)

See accompanying notes to financial statements.

(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, 1998 and 1997, 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 statements 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.

(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 fair value and generally consist of U.S. Government and Agency securities, repurchase agreements and time deposits. Fair value is based on quoted market prices. If quoted prices are not available, fair value is estimated based on similar securities.

(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 and amortization is charged to expense over the estimated useful lives of the assets and is determined using the straight-line method. Expenditures for maintenance and repairs which do not materially extend the useful life of the 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, planning studies, buses and other transit equipment. Unrestricted operating grants and grants restricted as to purpose, but not contingent on the actual expenditures of funds, are

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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 the contributed capital category of fund equity.

(h) ***Compensated Absences***

RTA is obligated to reimburse TMSEL for vacation 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, 1998 and 1997, included in current liabilities, was approximately $3.5 million and $3 million, respectively.

(i) ***Cash Flows***

For the purposes of the statements of cash flows, cash and cash equivalents include investments with a maturity of less than one year.

(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 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.

(k) ***Bond Issuance Costs***

Costs related to issuing bonds are capitalized and amortized based upon the methods used to approximate the interest method over the term of the bonds.

Effective with fiscal years in 1994 and thereafter, gains and losses associated with refundings and advance refundings are being deferred and amortized based upon the methods used to approximate the interest method over the life of the new bonds or the remaining term on any refunded bond, whichever is shorter.

(l) ***Claims and Judgments***

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

(m) Use of Estimates

Management of RTA has made a number of estimates and assumptions relating to the reporting of assets and liabilities to prepare these financial statements in conformity with generally accepted accounting principles. Actual results could differ from those estimates.

(2) Cash and Investments

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

		December 31, 1998		December 31, 1997	
		Restricted	Unrestricted	Restricted	Unrestricted
Cash and money market	$	811,743	938,944	3,576,953	1,866,682
Investments -					
U.S. Government Treasury and Agency securities		19,200,062	-	7,185,947	-
Certificates of deposit		452,633	-	439,920	-
		19,652,695	-	7,625,867	-
	$	20,464,438	938,944	11,202,820	1,866,682

Actual cash in banks and certificates of deposit as of December 31, 1998 and 1997, for restricted and unrestricted bank accounts, before outstanding checks and reconciling items, was $2,327,051 and $5,347,085, respectively. Of the total bank balances at December 31, 1998 and 1997, all amounts were 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 classified as category 1 investments 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 1998 and 1997 totaled $66,890,000 and $36,213,000, respectively.

The carrying value of investment securities as of December 31, 1998 and 1997 approximates market value.

As of both December 31, 1998 and 1997, $600,000 of restricted assets was pledged as collateral to the Louisiana Office of Workman's Compensation.

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(3) *Accounts Receivable*

Accounts receivable consist of the following as of December 31:

		1998	1997
Sales tax	$	7,435,329	6,511,541
Federal capital grants		3,390,971	5,802,009
State operating subsidy		387,020	196,025
Passenger (Transpass, Visitour)		704,866	953,238
Property damage		153,697	401,736
Orleans Parish School Board		614,466	592,437
Interest		58,007	100,000
Kenner operating subsidy		184,703	164,675
Advertising		55,619	46,475
Due from lease escrow		25,000	-
Other		567,082	170,316
		13,576,760	14,938,452
Less allowance for uncollectible amounts		(276,557)	(624,506)
	$	13,300,203	14,313,946

(4) Property, Buildings and Equipment

A summary of changes in fixed assets follows:

		January 1, 1998	Additions	Deletions	December 31, 1998
Land	$	9,220,312	-	-	9,220,312
Buildings		86,006,967	22,950	(8,500)	86,021,417
Equipment, primarily transportation vehicles		129,958,717	52,002,287	(20,906,926)	161,054,078
Furniture and fixtures		16,374,998	23,853	-	16,398,851
Construction in progress		13,917,804	13,048,361	(19,035,534)	7,930,631
		255,478,798	65,097,451	(39,950,960)	280,625,289
Accumulated depreciation and amortization		(83,514,642)	(15,742,007)	19,751,189	(79,505,460)
	$	171,964,156			201,119,829

At December 31, 1998, equipment includes transportation vehicles under capital lease with a net book value of $36,040,678.

Construction in progress is composed of the following as of December 31, 1998:

Desire Corridor	$	913,767
Canal Street Corridor		6,354,574
Other		662,290
	$	7,930,631

		January 1, 1997	Additions	Deletions	December 31, 1997
Land	$	9,220,312	-	-	9,220,312
Buildings		86,006,967	-	-	86,006,967
Equipment, primarily transportation vehicles		130,166,303	18,371,014	(18,578,600)	129,958,717
Furniture and fixtures		15,101,031	1,273,967	-	16,374,998
Construction in progress		6,801,870	27,659,021	(20,543,087)	13,917,804
		247,296,483	47,304,002	(39,121,687)	255,478,798
Accumulated depreciation and amortization		(87,778,361)	(13,850,922)	18,114,641	(83,514,642)
	$	159,518,122			171,964,156

During 1997, the RTA auctioned 169 buses that were substantially depreciated. The resulting loss related to the sale is included in miscellaneous expenses.

(5) Long-term Debt

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

		1998	1997
1998 Series, Sales Tax Refunding Bonds, interest rates between 6.8% and 8%, due in annual principal debt service requirements ranging from $915,000 to $2,815,000, final payment due December 2013	$	26,080,000	-
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		19,520,733	20,340,733

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		1998	1997
1988 Series, Sales Tax Refunding Bonds, interest rates between 6.8% and 8%, due in annual principal debt service requirements ranging from $915,000 to $2,815,000, final payment due December 2013	$	-	26,995,000
		45,600,733	47,335,733
Unamortized premium		3,816,593	-
Less current maturities		1,850,000	1,735,000
Long-term debt less current maturities	$	47,567,326	45,600,733

1998 Bond Series

In September 1997, the RTA agreed to issue, not later than December 1, 1998, $26,080,000 in Sales Tax Revenue Bonds, Series 1998A. The net proceeds of the 1998A Refunding Bonds of $29,786,335 was used to repay the principal and call premium on the outstanding 1988 Bonds and the anticipated costs of issuance of $827,339. The remaining $2,357,396, representing the present value of the interest savings to the RTA, was released to RTA in December 1997 upon execution of the Forward Bond Placement agreement. A deferred premium of $2,918,093 was likewise recorded in December 1997 and was amortized beginning in 1998 over the life of the Series 1998A Refunding Bonds.

The interest on the Series 1998A Refunding Bonds is due and payable on June 1 and December 1 of each year through December 2013. The Series 1998A Refunding Bonds are secured by a pledge and lien upon a portion of RTA's one cent sales revenue (one-half of one percent upon items and services subject to the sales tax). As a result of the 1997 effective date of this Forward Bond Placement Agreement, 1988 bond debt service restricted assets had been released by RTA's trustee. Bond issue costs were deferred and are being amortized over the life of the 1998A Refunding Bonds. The unamortized premium related to the Series 1998A Refunding Bonds was $3,816,593 at December 31, 1998.

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.

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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, 1998 and 1997.

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. The 1986 bonds are no longer outstanding.

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.

The 1988 bonds have been refunded by the 1998 Bond Series in 1998 as explained above.

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.

Debt Service Requirements

The following represents the debt service requirements for both the 1991 and the 1998 Bond issues as of December 31, 1998:

	Total principal	Total interest
1999	$ 1,850,000	2,788,948
2000	1,970,000	2,666,568
2001	2,105,000	2,533,668
2002	2,245,000	2,389,443
2003-2007	13,885,000	9,291,378
2008-2012	14,420,806	8,751,745
2013-2017	6,566,392	16,606,436
2018-2022	2,558,535	15,983,002
	$ 45,600,733	61,011,188

Sales Tax Anticipation Note

In October 1997, RTA entered into a sales tax anticipation note arrangement for $4,000,000 with a local bank to assist RTA in meeting its operating requirements. The note bore a fixed interest rate of 4.35% and was collateralized by a pledge of sales tax collections. The sales tax anticipation note was paid in full in 1998.

(6) Fund Equity

(a) Accumulated Deficit and Working Capital Deficit

As of December 31, 1998, the RTA's accumulated deficit and working capital deficit were $51,086,148 and $14,516,286, respectively.

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 has implemented a marketing campaign to both recapture lost ridership and increase new ridership of the transit system.

Expenses - The RTA plans on reducing expenses through the modernization of its fleet and a resulting reduction in maintenance expenses, personnel reductions, recovery of operating costs through increased FTA grants for capital leases and maintenance, and implementation of a new health plan among other cost saving measures.

The Authority is also examining individual route productivity with alternative methods of delivery of transportation services.

Also, the Authority is in the process of developing a long-term operating and capital plan to provide it with alternative financing plans.

(Continued)

(b) Contributed Capital

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

	Local Government	Federal Government	Total
Balance at December 31, 1996, net	$ 19,560,527	109,437,914	128,988,441
Capital grants earned	-	21,884,531	21,884,531
Transfer of depreciation on capital purchases	-	(9,766,572)	(9,766,572)
Balance at December 31, 1997, net	19,560,527	121,555,873	141,116,400
Capital grants earned	-	4,986,848	4,986,848
Transfer of depreciation on capital purchases	-	(10,748,268)	(10,748,268)
Balance at December 31, 1998, net	$ 19,560,527	115,794,453	135,354,980

(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 and former NOPSI employees over the age of 21 (age 25, if hired prior to January 1, 1985) are eligible to participate in the Plan. Benefits vest after five years of benefit service. Those members who retire at age 65 are entitled to annual retirement benefits for life in amount equal to 1.5 (multiplier) percent of their five year average of compensation times years of benefit service. The Plan also provides early retirement, postponed retirement, and death benefits.

Members of Amalgamated Transit Union Division 1560, effective February 2, 1990, received a "30 and Out" Pension Service. Effective January 1, 1998, the TMSEL Pension Plan was amended to increase the multiplier from 1.6% to 1.8% and to change the participation age in the Plan from 25 to 21 for those employees hired prior to January 1, 1985. To fund these benefits, the Members of Amalgamated Transit Union Division 1560 began contributing 3.00% of their bi-weekly gross wages. As of January 1, 1998, the total amount the operators contribute to the Plan is 3.77%. This amount represents 0.77% of the wages currently being deducted plus the 3.00% of gross wages for the increase in the multiplier and change in age participation.

Members of Amalgamated Transit Union 1611, effective April 18, 1996, received "30 and Out" Pension Service and contribute 2.45% of gross wages.

Members of International Brotherhood of Electrical Workers Local 1700-4 effective March 21, 1996, received a "30 and Out" Pension Service. Effective July 1, 1998, the Plan was amended changing the

(Continued)

participation age in the Plan from 25 to 21 for those employees hired prior to January 1, 1985. To fund this benefit, the Members of IBEW Local Union 1700-4 contribute 1.27% of bi-weekly gross wages. As of July 1, 1998, the total amount the Members of IBEW Local Union 1700-4 contributions to the Plan is 3.72%. This amount represents the current 2.45% of gross wages currently being deducted plus the 1.27% of gross wages for changing the participation age in the Plan from 25 to 21.

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.

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

		1998	1997
Actuarial present value of benefit obligation:			
Vested benefit obligation	$	72,490,180	66,028,669
Nonvested benefit obligation		6,267,065	5,780,822
Accumulated benefit obligation		78,757,245	71,809,491
Effect of projected future compensation levels		20,312,908	20,474,316
Projected benefit obligation for service rendered to date		99,070,153	92,283,807
Plan assets at fair value		97,562,000	92,761,000
Excess (deficiency) in plan assets over projected benefit obligation		(1,508,153)	477,193
Unrecognized prior service cost		3,173,895	3,494,575
Unrecognized net loss from past experience different from that assumed		(1,353,565)	(5,137,772)
Unrecognized net asset		(630,650)	(714,625)
Accrued pension cost	$	(318,473)	(1,880,629)

Net periodic pension cost included the following components for the years ended December 31, 1998 and 1997 and are as follows:

		1998	1997
Service cost - benefits earned during the period	$	2,256,609	2,321,768
Interest cost on projected benefit obligation		6,470,942	6,156,857
Actual return on plan assets		(4,150,237)	(11,130,883)
Net amortization and deferral		(2,589,707)	5,195,389
Net periodic pension cost	$	1,987,607	2,543,131

The most recent projected pension benefit obligation was computed based on the actuarial valuation performed as of January 1, 1998. Significant actuarial assumptions of 1998 and 1997 used in the valuation include (a) a rate of return on the investment of present and future assets of 7.5% per year compounded annually, (b) a discount rate of 7.25%, and (c) projected salary increases including an inflation component of 4.25%.

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 $1,987,607 and $2,543,131 in 1998 and 1997, 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 December 31, 1998, the ERISA funding requirement for the plan year 1998 of $3,486,410 is included in amounts due to TMSEL on the balance sheet.

(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 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.

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 1998 and 1997, total TMSEL expense relating to the above plan for retirees was $1,116,898 and $1,375,584, respectively. As of December 31, 1998, no actuarial evaluation of the plan has been performed.

(9) Commitments and Contingencies

(a) Operating 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 five years following December 31, 1998 are as follows:

1999	$	289,342
2000		217,638
2001		164,088
2002		164,088
2003		164,088

Total lease and rental payments for the years ended December 31, 1998 and 1997 were $188,358 and $131,822, respectively.

(b) Capital Leases

The RTA has entered into a lease agreement to acquire 175 buses. As of December 31, 1998, the RTA has received 144 buses which are recorded in a capital lease payable. The term of the lease is 12 years. The lease is recorded at the present value of the future minimum lease payments as of the date of inception. The cost of the 144 buses was $37,607,664. The remaining $12,495,949 was deposited in an escrow account until delivery of the remaining buses in 1999. The lease is payable over 12 years, with the last payment due on May 1, 2010. Semiannual payments are $2,999,462 with a balloon payment of $7,554,336 due on May 1, 2010. The RTA is reimbursed for 80% of its capital lease payments by a federal grant from the Federal Transit Administration. The reimbursements are included as federal subsidy revenue to the extent of interest expense on the capitalized lease; the remainder is credited to contributed capital. The interest rate on the capital lease is 6.97%.

The following is a schedule of future minimum lease payments under the capital lease and the present value of the net minimum lease payments as of December 31, 1998:

	Present value of minimum lease payments	Interest	Total minimum lease payments
1999	$ 2,628,943	3,369,980	5,998,924
2000	2,815,374	3,183,550	5,998,924
2001	3,015,025	2,983,899	5,998,924
2002	3,228,834	2,770,090	5,998,924
2003	3,457,805	2,541,119	5,998,924
2004-2008	21,333,956	8,660,663	29,994,618
Thereafter	12,515,834	1,037,426	13,553,260
	$ 48,995,771	24,546,727	73,542,498

(c) ***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.

(d) ***Grant Commitments***

As of December 31, 1998 and 1997, the RTA is committed to using 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, 1998 and 1997 totals approximately $39,000,000 and $24,000,000, respectively, and requires commitments of local matching funds totaling approximately $7,926,589 and $5,940,000, 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 thereafter; commercial insurance for general liability covers claims in excess of up to $14,000,000 prior to April 1, 1996 and $10,000,000 thereafter. Settled claims have not exceeded this commercial coverage in any of the past four fiscal years. Pursuant to the TMSEL management contract, RTA reimburses TMSEL for its employees' workers' compensation and health care 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, 1998 and 1997, $17,423,442 and $15,900,279, respectively, of accrued general liability and small claim estimates 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, 1998 and 1997.

(Continued)

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
1995	$ 18,526,378	5,133,394	(3,449,268)	20,210,504
1996	20,210,504	2,916,465	(5,925,884)	17,201,085
1997	17,201,085	3,220,551	(4,521,357)	15,900,279
1998	15,900,279	4,718,798	(3,195,635)	17,423,442

Restricted assets in the amount of $1,931,193 at December 31, 1998 and $2,235,565 at December 31, 1997 are available to fund current portions of the aforementioned accrued liabilities.

TMSEL's self-insured reserves for workers' compensation and health benefits are included in amounts due to TMSEL on the balance sheets and total $9,195,853 as of December 31, 1998.

(11) Management Fees and Other Reimbursed Expenditures

Through the competitive procurement process, a new five-year contract between the RTA and METRO became effective November 1, 1997. METRO is to provide management and supervision of the transit system's operations. Management fees and reimbursement of expenses including professional consulting services paid under the previous and current contract to METRO for the years ended December 31, 1998 and 1997 were $1,258,406 and $660,579, respectively.

(12) Related Parties

The RTA has a standing agreement with the City of New Orleans to provide mutually beneficial services (interagency agreement). The RTA offset $1,200,000 in police services provided by the City against related receivables in 1998 and 1997.

The members of the Board of Commissioners were paid a per diem for the attendance at board meetings in calendar years 1998 and 1997 and are also reimbursed for out-of-pocket expenses resulting from their participation in RTA activities. The amounts received by each Commissioner for the years ended December 31, 1998 and 1997 were as follows:

	Per Diem	Expense Reimbursement	Total
1998:			
Daniel Alfortish	$ 825	706	1,531
Charlotte Burnell	750	1,766	2,516
Dennis DiMarco	825	3,815	4,640
Ronald Gardner	600	-	600
Nat Lacour	600	1,577	2,177
Earline Roth	825	3,493	4,318
Robert Tucker	-	1,626	1,626
	$ 4,425	12,983	17,408

		Per Diem	Expense Reimbursement	Total
1997:				
Daniel Alfortish	$	900	1,336	2,236
Charlotte Burnell		750	2,608	3,358
Dennis DiMarco		750	1,046	1,796
Ronald Gardner		750	1,472	2,222
Nat Lacour		750	-	750
Earline Roth		900	1,739	2,639
Robert Tucker		225	1,821	2,046
	$	5,025	10,022	15,047

Schedule 1

REGIONAL TRANSIT AUTHORITY

Required Supplementary Information Under GASB Technical Bulletin 99-1

Year 2000 Disclosures
(Unaudited)

The RTA has been working for the past several years to catalog all of its systems that potentially could be affected by the Year 2000 century date change. More than forty (40) systems were identified and assessed for Year 2000 compliance. Letters from vendors for hardware, software and integrated systems compliance were requested and received. Custom software systems and programs were examined and tested for compliance. Eighty percent (80%) of the RTA's systems were in Year 2000 compliance or have been made compliant by the staff. The major payroll, accounting and financial software systems have been made Year 2000 compliant and are thoroughly verified by both vendors and the RTA. Specifically, both the JD Edwards financial software and the in-house developed Time Keeping and Dispatch software are Year 2000 compliant.

Only eight (8) of the forty (40) systems have been determined to require additional work on the part of RTA. All eight (8) systems are supplied by vendors. There are no remaining RTA in-house developed systems that need updating or modification.

The eight systems are: 1. Business Communications (radios, computer hardware and software; 2. Upgrades to Elke Maintenance and Inventory software and conversion to the JD Edwards Maintenance and Inventory software; 3. Personal Computer (PC) hardware and software upgrades; 4. Meridian Voice Mail Upgrade; 5. Replacement of obsolete AS/400 printers. 6. Upgrade from DOS to Windows Prism from Corporate Systems; 7. Upgrade of GFI (fare collection) hardware and software and 8. Upgrade and software modifications to Trapeze for Windows.

As of the date of this report, the first seven (7) of the eight (8) systems have been remediated by the vendors and are Year 2000 compliant. The eighth system, Trapeze, is estimated to be designated compliant by the vendor no later than the end of June 1999. The seven (7) Year 2000 compliant systems are vendor products with numerous clients who have validated and installed these systems at their locations. The Trapeze vendor must make custom software changes for the RTA but the vast majority of Year 2000 issues have been previously addressed during earlier customization. All eight (8) systems will require validation and implementation by the RTA during the remainder of 1999 to ensure that any potential data related problems have been thoroughly investigated and tested prior to the Year 2000.

The RTA expects to encounter no problems in bringing the remaining eight (8) systems to Year 2000 compliance well before the end of 1999, however, management cannot assure that the RTA is or will be Year 2000 ready, that the Authority's remediation effort will be successful in whole or in part, or that that parties with whom the Authority does business will be Year 2000 ready.

Schedule 2

REGIONAL TRANSIT AUTHORITY

Schedule of Changes in Fund Equity

For the years ended December 31, 1998 and 1997

		Accumulated Deficit - Reserved and Unreserved	Net Contributed Capital - Local Government	Net Contributed Capital - Federal Government	Total
Balance at December 31, 1996	$	(37,389,798)	19,560,527	109,437,914	91,608,643
Capital grants earned		-	-	21,884,531	21,884,531
Net loss		(12,330,383)	-	-	(12,330,383)
Transfer of depreciation on contributed capital purchases		9,766,572	-	(9,766,572)	-
Balance at December 31, 1997		(39,953,609)	19,560,527	121,555,873	101,162,791
Capital grants earned		-	-	4,986,848	4,986,848
Net loss		(21,880,807)	-	-	(21,880,807)
Transfer of depreciation on contributed capital purchases		10,748,268	-	(10,748,268)	-
Balance at December 31, 1998	$	(51,086,148)	19,560,527	115,794,453	84,268,832

See accompanying independent auditors' report.

Schedule 3

REGIONAL TRANSIT AUTHORITY

Schedule of Changes in Restricted Asset Bond Accounts

For the years ended December 31, 1998 and 1997

The following summarizes the activity in the 1998 Series bond trustee accounts:

	Sales Tax Bond	Sales Tax Capital	Sales Tax Contingency	Sales Facility	Total
Cash receipts:					
Interest income	$ 661	57,282	11,606	46,561	116,110
Bond proceeds	99,487	28,226,293	200,813	1,370,000	29,896,593
Transfer for principal and interest	-	638,853	100,000	-	738,853
Total cash receipts	100,148	28,922,428	312,419	1,416,561	30,751,556
Cash disbursements:					
Principal and interest payments	(80,154)	(27,514,833)	(32,882)	(100,656)	(27,728,525)
Transfer for debt service	-	(1,405,104)	(47,084)	(1,311,366)	(2,763,554)
Total disbursements	(80,154)	(28,919,937)	(79,966)	(1,412,022)	(30,492,079)
Ending balance - December 31, 1998	$ 19,994	2,491	232,453	4,539	259,477

(Continued)

Schedule 3

REGIONAL TRANSIT AUTHORITY

Schedule of Changes in Restricted Asset Bond Accounts

For the years ended December 31, 1998 and 1997

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

	Capital	Debt Service	Reserve	Total
Ending balance - December 31, 1996	$ 4,812,177	298,253	1,864,959	6,975,389
Cash receipts:				
Transfer for principal and interest	-	1,334,842	3,536,440	4,871,282
Interest income	54,942	35,258	132,914	223,114
Total cash receipts	54,942	1,370,100	3,669,354	5,094,396
Cash disbursements:				
Transfer for debt service	-	(1,594,829)	-	(1,594,829)
Capital acquisitions and construction cost	(4,717,470)	-	-	(4,717,470)
Total disbursements	(4,717,470)	(1,594,829)	-	(6,312,299)
Ending balance - December 31, 1997	149,649	73,524	5,534,313	5,757,486
Cash receipts:				
Transfer for principal and interest	-	31,251,528	-	31,251,528
Interest income	10,037	84,713	361,686	456,436
Total cash receipts	10,037	31,336,241	361,686	31,707,964
Cash disbursements:				
Transfer for debt service	-	(30,869,119)	(946,489)	(31,815,608)
Capital acquisitions and construction cost	(8,519)	-	-	(8,519)
Total disbursements	(8,519)	(30,869,119)	(946,489)	(31,824,127)
Ending balance - December 31, 1998	$ 151,167	540,646	4,949,510	5,641,323

See accompanying independent auditors' report.

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

Report On Compliance And On Internal Control Over Financial Reporting Based On An Audit Of Financial Statements Performed In Accordance With *Government Auditing Standards*

To the Members of the Board of Commissioners
Regional Transit Authority:

We have audited the general purpose financial statements of the Regional Transit Authority (the Authority), as of and for the year ended December 31, 1998, and have issued our report thereon dated June 25, 1999. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards.* However, we noted certain immaterial instances of noncompliance that we have reported to management of the Authority in a separate letter dated June 25, 1999.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the Authority in a separate letter dated June 25, 1999.

This report is intended solely for the information of the Authority, the Authority's management and federal awarding agencies and the Legislative Auditor's Office and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

June 25, 1999

KPMG

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

June 25, 1999

The Board of Commissioners
Regional Transit Authority:

We have audited the financial statements of the Regional Transit Authority as of and for the year ended December 31, 1998, and have issued a report thereon dated June 25, 1999. Under generally accepted auditing standards, we are providing you with the attached information related to the conduct of our audit.

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

Very truly yours,

KPMG LLP

REGIONAL TRANSIT AUTHORITY

December 31, 1998

Our Responsibility Under Generally Accepted Auditing Standards

Our responsibility under generally accepted auditing standards is to express an opinion on the financial statements of Regional Transit Authority (RTA) as of and for the year ended December 31, 1998 based on our audit. In carrying out this responsibility, we planned and performed the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. Because of the nature of audit evidence and the characteristics of fraud, we are to obtain reasonable, not absolute, assurance that material misstatements are detected. We have no responsibility to plan and perform the audit to obtain reasonable assurance that misstatements, whether caused by error or fraud, that are not material to the financial statements are detected.

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

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

Significant Accounting Policies

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

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

Management Judgments and Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based upon management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of the significance of the financial statements and because of the possibility that future events affecting them may differ from management's current judgments. We considered the calculation of claim provisions and liabilities to be estimates that are significant due to the judgment required of management in estimating the amount of the loss recorded. Based on the testwork performed we conclude that management's methods and estimates appear reasonable at December 31, 1998.

Significant Audit Adjustments

There are a number of significant adjustments to the internal financial statements that, in our judgment, either individually or in the aggregate, had a significant effect on RTA's financial reporting process. These adjustments were proposed by both internal staff and KPMG LLP during the course of the audit.

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 RTA's 1998 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.

99 JUN 30 P 1: 08

REGIONAL TRANSIT AUTHORITY
NEW ORLEANS, LOUISIANA

SINGLE AUDIT REPORTS
FOR THE YEAR ENDED DECEMBER 31, 1998

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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 EXPENDITURES OF FEDERAL AWARDS

To The Board of Commissioners
Regional Transit Authority

I have audited the accompanying Schedule of Expenditures of Federal Awards of the Regional Transit Authority (the RTA) for the year ended December 31, 1998. This Schedule of Expenditures of Federal Awards is the responsibility of the management of the RTA. My responsibility is to express an opinion on this Schedule of Expenditures of Federal Awards based on my audit. The accompanying Schedule of Expenditures of Federal Awards 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the Schedule of Expenditures of Federal Awards is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Schedule of Expenditures of Federal Awards. 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 Expenditures of Federal Awards of the RTA taken as a whole. This Schedule of Expenditures of Federal Awards is not a required part of the RTA's general purpose financial statements and is presented for the purpose of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and , in my opinion, based on my audit and the report of other auditors, the Schedule of Expenditures of Federal Awards 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
May 21, 1999

REGIONAL TRANSIT AUTHORITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED DECEMBER 31, 1998

FEDERAL GRANTOR/ PROGRAM TITLE	FEDERAL CFDA NUMBER	GRANT CONTRACT NUMBER	FEDERAL SHARE OF TOTAL AUTHORIZED AMOUNT	GRANT RECEIVABLE AT 12/31/97	FEDERAL SHARE OF EXPENDITURES	FEDERAL FUNDS RECEIVED	ADJUSTMENTS	GRANT RECEIVABLE AT 12/31/98
DEPARTMENT OF TRANSPORTATION								
FEDERAL TRANSIT ADMINISTRATION (FTA)								
Capital Improvement Grants:								
	20-500	LA-03-0049	18,600,000	44,076	44,424	46,517	(31,702)	10,281
	20-500	LA-03-0052	9,643,943	784	45,234	43,945	0	2,073
	20-500	LA-03-0053	2,000,000	19,793	62,935	125,125	64,779	22,382
	20-500	LA-03-0054	14,235,000	231,284	219,187	447,401	0	3,070
	20-500	LA-03-0055	2,354,728	230,806	408,150	276,963	(324,856)	37,137
	20-500	LA-03-0056	2,943,618	95,626	36,256	278,901	198,498	51,479
	20-500	LA-03-0060	2,720,085	399,228	234,078	409,304	(198,954)	25,048
	20-500	LA-03-0061	3,763,200	567,262	(89,748)	321,673	0	155,841
	20-500	LA-03-0062	1,970,462	122,965	111,705	115,658	(114,589)	4,423
	20-500	LA-03-0070	2,125,226	2,350,211	1,440,190	1,272,600	(2,517,561)	240
	20-500	LA-03-0071	2,000,000	2,684	80,916	94,500	0	(10,900)
	20-500	LA-03-0072	12,674,702	55,293	2,256,385	1,546,789	0	764,889
	20-500	LA-03-0074	1,986,046	0	666,012	160,401	0	505,611
	20-500	LA-03-0078	851,190	0	330,432	325,600	0	4,832
			77,868,200	4,120,012	5,846,156	5,465,377	(2,924,385)	1,576,406
Capital and Operating Assistance Grants:								
	20-507	LA-26-7000	240,000	5,166	43,842	0	0	49,008
	20-507	LA-90-2113	118,000	198	0	0	(198)	0
	20-507	LA-90-0154	9,580,295	37,423	38,190	110,141	157,970	123,442
	20-507	LA-90-0161	3,520,000	3,166	415,450	417,752	0	864
	20-507	LA-90-0171	2,505,000	25,672	231,721	230,568	0	26,825
	20-507	LA-90-2171	620,000	105,001	188,511	162,182	0	131,330
	20-507	LA-90-0186	7,552,000	411,617	3,134,684	2,197,295	0	1,349,006
	20-507	LA-90-2186	460,000	19,776	19,778	36,003	0	3,551
	20-507	LA-90-2197	680,000	0	26,327	21,558	0	4,769
	20-507	LA-90-0197	8,089,236	0	2,741,956	2,741,956	0	0

The accompanying notes are an integral part of this schedule.

REGIONAL TRANSIT AUTHORITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED DECEMBER 31, 1998

FEDERAL GRANTOR/ PROGRAM TITLE	FEDERAL CFDA NUMBER	GRANT CONTRACT NUMBER	FEDERAL SHARE OF TOTAL AUTHORIZED AMOUNT	GRANT RECEIVABLE AT 12/31/97	FEDERAL SHARE OF EXPENDITURES	FEDERAL FUNDS RECEIVED	ADJUSTMENTS	GRANT RECEIVABLE AT 12/31/98
Capital and Operating Assistance Grants:								
	20-507	LA-90-2154	40,000	22,351	0	0	0	22,351
	20-507	LA-90-2161	200,000	15,947	0	14,395	0	1,552
	20-507	LA-90-4186	1,914,000	82,320	0	0	(82,320)	0
	20-507	LA-90-0113	13,614,750	483,333	113,072	129,915	(367,462)	99,028
	20-507	LA-90-0103	2,683,148	470,027	12,396	221,389	(258,195)	2,839
			51,816,429	1,681,997	6,965,927	6,283,154	(550,205)	1,814,565
			129,684,629	5,802,009	12,812,083	11,748,531	(3,474,590)	3,390,971

The accompanying notes are an integral part of this schedule.

REGIONAL TRANSIT AUTHORITY

Notes to the Schedule of Expenditures of Federal Awards

For the Year Ended December 31, 1998

NOTE 1 - Summary of Significant Accounting Policies

The Schedule of Expenditures of Federal Awards 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 Federal Transit Capital and Operating Assistance Grants.

NOTE 2 - Adjustments

The adjustments primarily represent expenditures made by the RTA which were recorded as receivables in current and prior years, but not reimbursed by the Federal Transit Administration (FTA). Additionally, similar project costs have been transferred between various grants.

CURTIS A. MORET
CERTIFIED PUBLIC ACCOUNTANT

616 GIROD STREET, SUITE 100S
NEW ORLEANS, LOUISIANA 70130
(504) 523-1028

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO MAJOR FEDERAL FINANCIAL ASSISTANCE PROGRAMS AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Commissioners
Regional Transit Authority

I have audited the Schedule of Expenditures of Federal Awards of the Regional Transit Authority (the RTA) for the year ended December 31, 1998, and have issued my report thereon dated May 21, 1999. 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.

Compliance

I have audited the compliance of the RTA with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 1998. The RTA's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the RTA's management. My responsibility is to express an opinion on the RTA's compliance based on my audit.

I conducted my audit in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the RTA's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination of the RTA's compliance with those requirements.

In my opinion, the RTA complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 1998.

Internal Control Over Compliance

The management of RTA is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing my audit, I considered the RTA's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

My consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited 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 over compliance and its operation that I consider to be material weaknesses.

This report is intended for the information of the audit committee, management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

Curtis A. Moret

Curtis A. Moret
May 21, 1999

REGIONAL TRANSIT AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
DECEMBER 31, 1998

Summary of Auditor's Results:

Federal Awards

Internal control over major programs: Material weaknesses identified	No
Reportable conditions identified not considered to be material weaknesses	None Reported
Type of auditor's report issued on compliance for major programs.	Unqualified
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)	No
Major program	Federal Transit Capital and Operating Assistance Grants CFDA number 20-507
Dollar threshold used to distinguish between Type A and Type B programs	$384,362
Auditee qualified as low risk auditee	Yes

REGIONAL TRANSIT AUTHORITY
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED DECEMBER 31, 1998

Department of Transportation

Finding 97-1: Federal Transit Administration Capital Improvement Grant

Condition: The RTA applied an indirect and fringe benefit cost rate based on 1994 financial data to 1997 payroll grant expenditures.

Recommendation: The auditor recommended that the RTA update its indirect and fringe benefit cost rate. Management concurred with the recommendation and indicated that the rate would be updated.

Current Status: The indirect and fringe benefit cost rate is updated annually.

Finding 97-2: Federal Transit Administration Capital Improvement Grant

Condition: The RTA was not consistently adhering to its policy that checks of $100,000 or more must be manually signed by two authorized individuals.

Recommendation: The auditor recommended that the RTA exercise greater diligence in following its check signing procedures. Management concurred with the recommendation.

Current Status: No similar findings were noted in the 1998 audit.

KPMG

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

June 25, 1999

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, 1998, and have issued our report thereon dated June 25, 1999. 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. Appendix C contains management's response to the comments and recommendations which were summarized in Appendix A.

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 LLP

REGIONAL TRANSIT AUTHORITY

CURRENT YEAR COMMENTS

The Worker's Compensation area has made significant improvements in the current year regarding claims, particularly in the absence of a Third Party Administrator (TPA) whose contract was terminated in June 1998. We recommend the Authority continue their efforts to get the current TPA on-line and functioning. In addition, we recommend that the Management Information Systems Department continue to develop a modem connection for the Worker's Compensation department to connect to the TPA's files to enable the Authority to review the TPA's work.

In the current year, a temporary employee was hired to help process medical bills. At year-end, the process of paying medical bills was improved and medical bills were current. We commend the Authority for taking the measures to ensure proper payment of medical bills and recommend that the Authority keep the staffing level consistent with that at year-end in order to help process the flow of work.

Currently, all medical invoices greater than $500 must be signed by the supervisor of Worker's Compensation, the Director of Worker's Compensation, General Counsel, the Chief Financial Officer, the General Manager, and a Metro representative. We noted one instance during test work where the proper authorities had not approved a batch of payments greater than $500.

Due to the large volume of these medical invoices, we recommend the Authority reconsider its policy regarding the dollar limit for review of medical invoices and consider increasing the dollar limit for required review by the aforementioned individuals to $1,000 to help expedite the payment of medical invoices.

DISPOSITION OF PRIOR YEARS' MANAGEMENT LETTER COMMENTS

PRIOR YEARS' RECOMMENDATION	MANAGEMENT RESPONSE	STATUS	COMMENT DISPOSITION
Self-Insured Reserves			
As part of the current year financial statement audit, we noted the following:			
• *third-party administrator's report for* January was not complete, with significant changes occurring in February and March of 1998;	*Concur*	Resolved	• *This was an isolated* incident in 1998 which occurred because the Third Party Administrator made reserve changes without consulting RTA/TMSEL. This problem no longer exists.
• reporting inaccuracies that resulted in reporting issues for litigated claims, year-to-date activity and cumulative claim history,	Concur	Resolved	• This problem was corrected in 1998.
• signed copy of the contract with the workers' compensation third-party administrator could not be located, and	Concur	Resolved	• Presently, there is a signed contract with Creative Risk Controls.
• small claim payment documentation was not always present, such as signature on settlement forms, settlement check copies, signed releases, and reserve support documentation.	Concur	Resolved	• Management has in place a periodic review process to identify and correct these deficiencies.
In addition, with increased reserve setting authority, the Legal department should retain the final documentation on reserve support. These matters should be followed-up by management to ensure that the documentation procedures are being followed.	Concur	Resolved	Documentation for legal case reserves is kept in the master file in the Legal Department. Individual legal files also include reserve information.
In addition, we recommend that third-party administrator reserves be reviewed monthly to determine the completeness of reserves and investigate unusual changes and/or amounts.	Concur	In-Process	Reserves are reviewed periodically to ensure accuracy.

DISPOSITION OF PRIOR YEARS' MANAGEMENT LETTER COMMENTS

PRIOR YEARS' RECOMMENDATION	MANAGEMENT RESPONSE	STATUS	COMMENT DISPOSITION
Investments and Cash			
As noted in prior years, reconciliation of investment documentation to the general ledger is not occurring routinely during the year. We recommend the following:			
• receipt of all bank statements and trustee statements by the Accounting Department first, with copies being forwarded within a reasonable time period to the Treasurer;	Concur	Implemented	On a monthly basis, all bank and trustee statements are forwarded directly to the Accounting Department and required copies are provided to the Treasurer.
• receipt of all supporting bank notices by the Accounting Department for recording transactions on the general ledger;	Concur	Implemented	All supporting bank notices are forwarded to the Accounting Department for recordation of transactions in the general ledger.
• recording of accrued interest on a periodic basis during the year;	Concur	In-Process	The Treasury Department will provide Accounting with the required information to record accrued interest on a periodic basis during the year.
• review of all NSF and other bank charges on all bank accounts for cause of insufficient funds and develop procedures to reduce the incurrence of such charges;	Concur	In-Process	The Treasurer will review all NSF and other bank charges and develop procedures to reduce the incurrence of such charges.
• reconciliation of all TMSEL and RTA bank accounts within 30 days after month-end, and	Concur	Implemented	The Accounting Department has automated the reconciliation of TMSEL and RTA bank accounts and will complete reconciliations within 30 days after month-end. Furthermore, the Accounting Department has provided the Treasurer with copies of all bank reconciliations.

DISPOSITION OF PRIOR YEARS' MANAGEMENT LETTER COMMENTS

PRIOR YEARS' RECOMMENDATION	MANAGEMENT RESPONSE	STATUS	COMMENT DISPOSITION
• preparation of a monthly cash and investment report by Accounting to be submitted to the Treasurer for his review and approval. Because of the volume of activity in these accounts, we recommend that investments and all cash accounts be balanced monthly and the Internal Audit Department review the reconciliation process on a test-basis during the year.	Concur	In-Process	The Accounting and Treasury Departments will work closely with Internal Audit to review the reconciliation process.
Financial Statement Adjustments			
Over thirty adjustments were posted by RTA after trial balances were closed for December 31, 1997. To reduce this large volume of adjustments and to ensure more accurate financial information on a timely basis during the year, we recommend: • reconciliation of all balance sheet accounts to supporting documentation on a monthly basis; • review of reconciliations by supervisors on a timely basis; • providing for known and expected events on a monthly basis (e.g., pension accruals, unusual litigation changes, etc.), and • documented analytical review of balance sheets on a quarterly basis and of the income statements on a monthly basis. The recommendations should be considered by the Board and management and may require additional efforts and/or more experienced staff. However, these or similar changes would provide the Board and management with more accurate interim data.	Concur	Implemented	There were thirty-six adjustments posted to the RTA trial balance for 1997 after trial balances were closed, however there were only twelve adjustments posted for 1998 after trial balances were closed. Five of the additional postings for 1998 were adjustments resulting from information available after the trial balance was closed. Therefore, they will continue to be posted in this manner. There has been significant improvements by the Accounting staff to record as many known adjustments as possible so that the number of adjustments posted after the trial balance closes is very minimal.

DISPOSITION OF PRIOR YEARS' MANAGEMENT LETTER COMMENTS

PRIOR YEARS' RECOMMENDATION	MANAGEMENT RESPONSE	STATUS	COMMENT DISPOSITION
Internal Audit			
During 1997, Internal Audit issued several reports on various subjects including personnel, inventory, construction payments, grant compliance, claims documentation, investments, insurance matters and other excellent topics. These reports identified several corrective actions and numerous recommendations. These reports provided recommendations that are of benefit to RTA. We recommend that a monthly report be issued by the respective departments as to the status of their resolution of the issues identified with deadlines for 100% implementation. This report should be circulated to Internal Audit and the General Manager, with other management members receiving the status reports as needed.	Concur	Implemented	In 1998, the Internal Audit Department performed follow-up actions on internal audits and external audits. A Status Summary Form was created and circulated to all departments to document the status and actions taken to correct or improve deficiencies noted. These reports were issued to the General Manager, the respective Deputy General Managers and the Chief Financial Officer. However, due to the staffing level of Internal Audit, departments will be required to submit status reports on a quarterly basis. Upon receipt of reports, Internal Audit will verify the corrective actions taken to determine comment status.

DISPOSITION OF PRIOR YEARS' MANAGEMENT LETTER COMMENTS

PRIOR YEARS' RECOMMENDATION	MANAGEMENT RESPONSE	STATUS	COMMENT DISPOSITION
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.	Concur	In-Process	The RTA has updated its list of computer software and hardware; communications hardware and software; identified the purpose of its hardware and software; and assessed the readiness for the Year 2000. Confirmed with hardware and software vendors the status of their products regarding Year 2000. Identified all hardware and software systems that require updating or replacement for Year 2000 compliance, developed implementation schedules, and determined costs. Prepared a document for the FTA describing seven (7) hardware/software Year 2000 projects which will require funding of approximately $1,700,000.
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	Concur	In-Process	Plans for deficit reduction in 1998 were only partially successful. Two major initiatives were obtaining federal funding for lease maintenance and instituting new medical insurance plans. Federal funding for leased

DISPOSITION OF PRIOR YEARS' MANAGEMENT LETTER COMMENTS

PRIOR YEARS' RECOMMENDATION	MANAGEMENT RESPONSE	STATUS	COMMENT DISPOSITION
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.			maintenance was obtained, however, late bus deliveries resulted in only partial implementation of funding. Funding was tied to a preventive maintenance program on new vehicles. With regard to medical insurance, solicitation of proposals from new vendors took more time than was originally projected. Therefore, medical insurance savings are only expected to be achieved in 1999. A cash flow forecast for 1999 is nearly complete. The interim 1999 budget is balanced and includes a fare increase as well as cost cutting initiatives. The fare increase requires approval of the New Orleans City Council. Efforts are underway to obtain that approval. A national accounting firm has been engaged by RTA's Management to assist in the development of a deficit reduction plan and to assist in the implementation of the plan. The plan horizon will be five years. Included in the plan will be all budgetary requirements including revenue, operating expense, capital and debt service.

DISPOSITION OF PRIOR YEARS' MANAGEMENT LETTER COMMENTS

PRIOR YEARS' RECOMMENDATION	MANAGEMENT RESPONSE	STATUS	COMMENT DISPOSITION
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.	Concur	In-Process	On July 15, 1998, the RTA submitted its response to the Federal Transit Administration's (FTA) Financial Oversight follow-up review that was conducted in October 1997 by the firm Mitchell & Titus. The FTA requested clarification to responses submitted by the RTA on July 15, 1998. The RTA provided clarification to responses before December 31, 1998.
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	Both the proposed and interim RTA budgets for 1999 provide for an allocation of sales tax revenues among categories of usage.

DISPOSITION OF PRIOR YEARS' MANAGEMENT LETTER COMMENTS

PRIOR YEARS' RECOMMENDATION	MANAGEMENT RESPONSE	STATUS	COMMENT DISPOSITION
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, and 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 support additional revenue sources. Cash flow is a significant issue for the RTA and needs to be addressed in the near term.	Concur	In-Process	In 1998, preliminary results indicate continuing deficit amounts. Programs which were expected to reduce the deficit in 1998 did not start on their expected dates. In 1999, a balanced budget has been submitted and progress continues on programs such as federally funded lease and preventive maintenance; and reductions in medical insurance cost which are expected to reduce the deficit.

DISPOSITION OF PRIOR YEARS' MANAGEMENT LETTER COMMENTS

PRIOR YEARS' RECOMMENDATION	MANAGEMENT RESPONSE	STATUS	COMMENT DISPOSITION
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	In-process	Increased emphasis has been placed on gathering statistical data necessary to generate a performance based budget. Required federal reporting currently completed on an annual basis contains many of the statistical amounts necessary. In order to accomplish reporting on an interim basis, the statistically based process used for federal reporting must be adapted for interim reporting. This must be considered a long-term project.
Investments			
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-Process	The Treasurer will implement a process that will provide for monthly reconciliation with the general ledger for all transfers and investment transfers.

MANAGEMENT'S RESPONSE TO CURRENT AND OPEN PRIOR YEAR COMMENTS

Worker's Compensation

The Worker's Compensation area has made significant improvements in the current year regarding claims particularly in the absence of a Third Party Administrator (TPA) whose contract was terminated in June 1998. We recommend the Authority continue their efforts to get the current TPA on-line and functioning. In addition, we recommend that the Management Information Systems Department continue to develop a modem connection for the Worker's Compensation Department to connect to the TPA's files to enable the Authority to review the TPA's work.

In the current year, a temporary employee was hired to help process medical bills. At year-end, the process of paying medical bills was improved and medical bills were current. We commend the Authority for taking the measures to ensure proper payment of medical bills and recommend that the Authority keep the staffing level consistent with that at year-end in order to help process the flow of work.

Currently, all medical invoices greater than $500 must be signed by the supervisor of Worker's Compensation, the Director of Worker's Compensation, General Counsel, the Chief Financial Officer, the General Manager, and a Metro representative. We noted one instance during test work where the proper authorities had not approved a batch of payments greater than $500.

Due to the large volume of these medical invoices, we recommend the Authority reconsider its policy regarding the dollar limit for review of medical invoices and consider increasing the dollar limit for required review by the aforementioned individuals to $1,000 to help expedite the payment of medical invoices.

RTA's Response

In order to better manage medical invoices, signature authority has been delegated to the Director of Worker's Compensation for all medical invoices up to $1,000. All invoices in excess of $1,000 will require the signatures of the Supervisor of Worker's Compensation, the Director of Worker's Compensation, General Counsel, the CFO, the General Manager and Metro.