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REGIONAL TRANSIT AUTHORITY

Financial Statements and Schedules

December 31, 2003 and 2002

With Independent Auditors' Report Thereon

REGIONAL TRANSIT AUTHORITY

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P&N
Postlethwaite & Netterville
A Professional Accounting Corporation
Associated Offices in Principal Cities of the United States
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Independent Auditors' Report

Board of Commissioners
Regional Transit Authority:

We have audited the accompanying statements of net assets of Regional Transit Authority (RTA) as of December 31, 2003 and 2002, and the related statements of revenues, expenses and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of 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 auditing standards generally accepted in the United States of America 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 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 RTA as of December 31, 2003 and 2002, and the respective changes in financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 3 through 12 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated May 11, 2004 on our consideration of RTA's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

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Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. 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.

Postlethwaite & Netterville

May 11, 2004

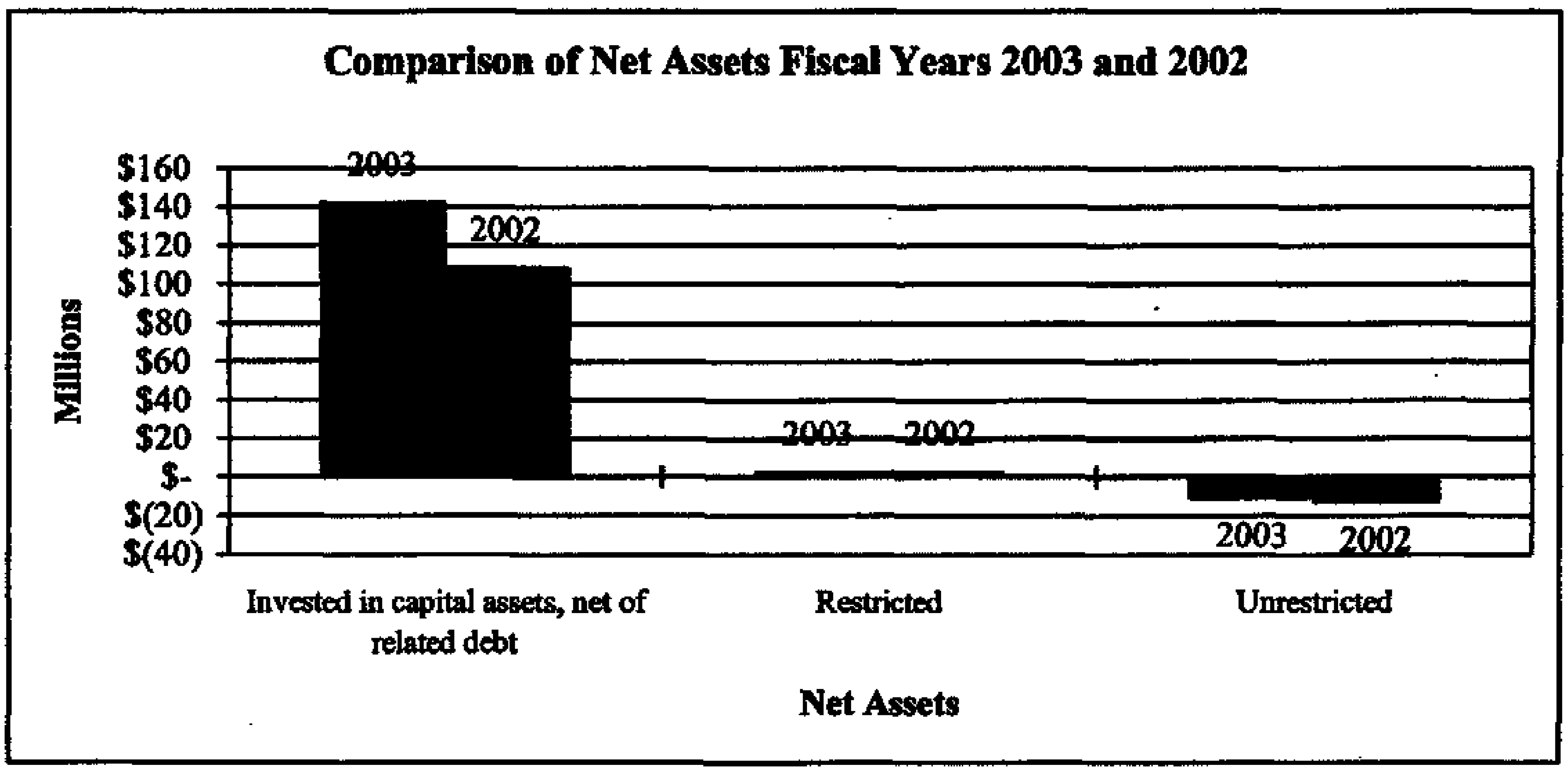
Regional Transit Authority
Management's Discussion and Analysis
Year Ended December 31, 2003

This section of the RTA's annual financial report presents a discussion and analysis of the RTA's financial performance during the fiscal year that ended December 31, 2003. Please read it in conjunction with the RTA's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

2003

The RTA continued its construction for the Canal Street Streetcar Line and preliminary engineering for the Desire Street Streetcar Line during 2003. The RTA opened the Canal Street Streetcar Line for revenue service on April 18, 2004. Construction expenditures during 2003 totaled $56.4 million. The Hotel/Motel tax collected by RTA generated $4.3 million of revenues in 2003. Capital grants for the construction and acquisition of property and equipment increased by 38.8% to $51.4 million.



2002

The RTA continued its construction for the Canal Street Streetcar Line and preliminary engineering for the Desire Street Streetcar Line during 2002. Construction expenditures during 2002 totaled $49.7 million. The Hotel/Motel tax collected by RTA generated $4.6 million of revenues in 2002. Capital grants for the construction and acquisition of property and equipment increased by 101.5% to $37.0 million.

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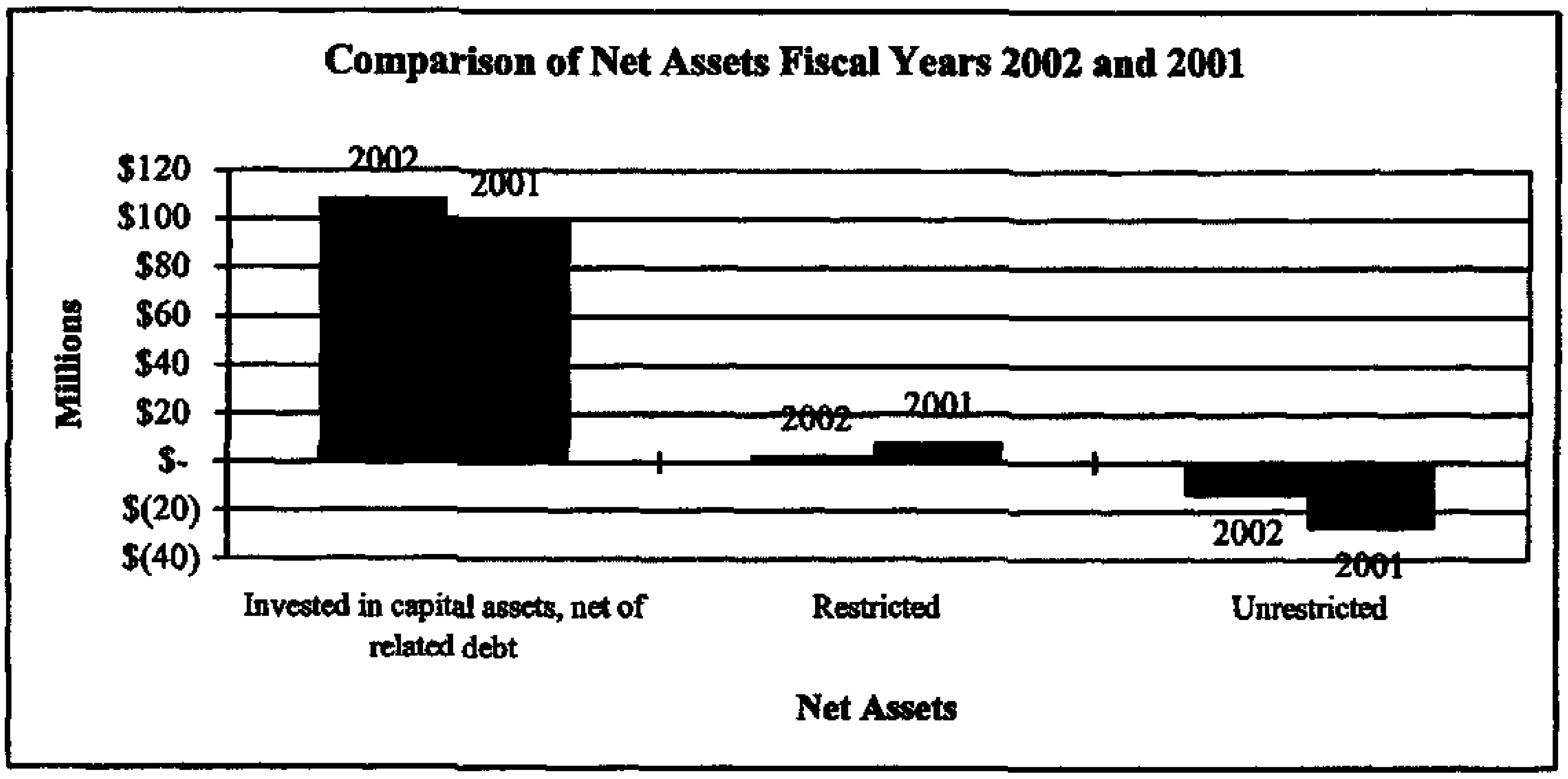

OVERVIEW OF THE FINANCIAL STATEMENTS

This financial report consists of four parts: management's discussion and analysis (this section), the basic financial statements, the notes to the financial statements, and other supplementary information.

The financial statements provide both long-term and short-term information about the RTA's overall financial status. The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of other supplementary information that further explains and supports the information in the financial statements.

The RTA's financial statements are prepared on an accrual basis in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. Under this basis of accounting, revenues are recognized in the period in which they are earned, expenses are recognized in the period in which they are incurred, and depreciation of assets is recognized in the Statements of Revenues, Expenses, and Changes in Net Assets. All assets and liabilities associated with the operation of the Authority are included in the Statements of Net Assets.

The Statement of Net Assets reports the RTA's net assets. Net assets, the difference between the RTA's assets and liabilities, are one way to measure the RTA's financial health or position. The increase in the RTA's net assets during 2003 and 2002 is an indicator of its positive financial health.

(Continued)

FINANCIAL ANALYSIS OF THE RTA

2003 Net Assets

The RTA's total net assets at December 31, 2003 reached approximately $133.8 million, a 37.1% increase over December 31, 2002 (See Table A-1). Total assets increased 12.6% to $326.7 million, and total liabilities increased 0.2% to $192.9 million.

Table A-1
Regional Transit Authority's Net Assets
(in thousands of dollars)

	2003	2002	Increase (Decrease)
Current assets	$ 51,900	$ 57,387	(9.6)%
Restricted assets	2,434	2,356	3.3%
Capital assets	268,296	226,330	18.5%
Long-term assets	4,049	4,089	(1.0)%
Total assets	326,679	290,192	12.6%
Current liabilities	43,282	47,316	(8.5)%
Long-term liabilities	149,629	145,287	3.0%
Total liabilities	192,911	192,603	0.2%
Net assets:			
Invested in capital assets, net of related debt	141,955	108,119	31.3%
Restricted	2,434	2,356	3.3%
Unrestricted (deficit)	(10,621)	(12,916)	(17.8)%
Total net assets	133,768	97,559	37.1%
Total liabilities and net assets	$326,679	$290,162	12.6%

(Continued)

2002 Net Assets

The RTA's total net assets at December 31, 2002 reached approximately $97.6 million, a 22.3% increase over December 31, 2001 (See Table A-2). Total assets increased 22.2% to $290.2 million, and total liabilities increased 22.1% to $192.6 million.

Table A-2
Regional Transit Authority's Net Assets
(in thousands of dollars)

	2002	2001	Increase (Decrease)
Current assets	$ 57,387	$ 34,995	64.0%
Restricted assets	2,356	7,794	(69.8)%
Capital assets	226,330	191,719	18.1%
Deferred charges	4,089	2,937	39.2%
Total assets	**290,192**	**237,445**	**22.2%**
Current liabilities	47,316	37,181	27.3%
Long-term liabilities	145,287	120,518	20.6%
Total liabilities	**192,603**	**157,699**	**22.1%**
Net assets:			
Invested in capital assets, net of related debt	108,119	98,359	9.9%
Restricted	2,356	7,794	(69.8)%
Unrestricted (deficit)	(12,916)	(26,407)	(51.1)%
Total net assets	**97,559**	**79,746**	**22.3%**
Total liabilities and net assets	**$290,162**	**$237,445**	**22.2%**

2003 Changes in Net Assets

The change in net assets at December 31, 2003 was approximately $36.2 million or 103.3% more than at December 31, 2002. The RTA's total operating revenues decreased by 3.6% to approximately $36.1 million, and total operating expenses increased by 1.6% to approximately $120.5 million. The changes in net assets are detailed in Table A-3, and operating expenses are detailed in Table A-4.

Net assets invested in capital assets, net of related debt consists of capital assets net of accumulated depreciation and reduced by the amount of outstanding indebtedness attributable to the acquisition, construction, or improvement of those assets. When there are significant unspent related bond proceeds, the portion of the debt attributable to the unspent proceeds are included in the calculation of this item. Instead, that portion of the debt should be included in the net assets component restricted for construction as an offset to the related bond proceeds outstanding.

Table A-3
Regional Transit Authority's Changes in Net Assets
(in thousands of dollars)

	2003	2002	Increase (Decrease)
Operating Revenues:			
Passenger fares	$ 34,941	$ 35,794	(2.4)%
Other	1,123	1,628	(31.0)%
Total operating revenues	**36,064**	**37,422**	**(3.6)%**
Operating Expenses:			
Operating expenses	103,070	101,086	2.0%
Depreciation and amortization	17,382	17,415	(0.2)%
Total operating expenses	**120,452**	**118,501**	**1.6%**
Operating loss	(84,388)	(81,079)	4.1%
Non-operating revenues, net	69,172	61,843	11.9%
Capital contributions	51,425	37,047	38.8%
Change in net assets	**36,209**	**17,813**	**103.3%**
Total net assets, beginning of the year	**97,559**	**79,746**	**22.3%**
Total net assets, end of the year	**$133,768**	**$97,559**	**37.1%**

Operating revenues declined by 3.6% to $36.1 million. The decrease in revenue resulted from a decline in regular passenger ridership and student ridership. The decline in passenger fares was accompanied by a decrease in other operating revenues, which decreased by 31.0% to $1.1 million.

Non-operating revenues increased by 11.9% to $69.2 million. Federal and State of Louisiana grants and subsidies increased $2.0 million or 13.7%. Sales tax revenue increased $6.2 million or 12.9% and Hotel/Motel tax decreased $0.3 million or 6.1%.

Capital contributions increased by 38.8% to $51.4 million due to the grants earned on construction of the Canal Street Streetcar project and preliminary engineering of the Desire Street Streetcar project.

(Continued)

Table A-4
Regional Transit Authority's Operating Expenses
(in thousands of dollars)

	2003	2002	Increase (Decrease)
Labor and fringe benefits	$68,191	$61,743	10.4%
Depreciation	17,382	17,415	(0.2)%
Contract services	14,497	14,210	2.0%
Insurance and self-insured costs	7,848	12,702	(38.2)%
Materials, fuel, and supplies	7,863	7,228	8.8%
Utilities	1,614	1,390	16.1%
Purchased transportation	1,771	1,868	(5.2)%
Taxes, other than payroll	747	810	(7.8)%
Rent	169	199	(15.1)%
Miscellaneous	370	936	(60.5)%
Total operating expenses	**$120,452**	**$118,501**	**1.6%**

Labor and fringe benefits increased by 10.4% from 2002 to $68.2 million due to an increase in the pension plan actuarial minimum contribution, increases in medical insurance and workers' compensation, the hiring of 53 additional operators and contractual wage increases.

Insurance and self-insured costs decreased by 38.2% to $7.8 million due to a cap on the self-insurance reserve obtained during 2002 and several large payments made on settlement agreements during 2003.

Materials, fuel and supplies expense increased by 8.8% to $7.9 million due to increases in the price of fuel for revenue and non-revenue vehicles and an increase in revenue vehicle parts needed for an aging fleet.

Utilities expense increased by 16.1% to $1.6 million due to an increase in fuel costs.

Miscellaneous expenses decreased by 60.5% to $0.4 million primarily due to decreases in dues and subscriptions, travel and meeting expenses, and advertising expenses as a result of better control over these miscellaneous expenses.

2002 Changes in Net Assets

The change in net assets at December 31, 2002 was approximately $17.8 million or 835.6% more than at December 31, 2001. The RTA's total operating revenues decreased by 4.9% to approximately $37.4 million, and total operating expenses were comparable to 2001 at $118.5 million. The changes in net assets are detailed in Table A-5, operating expenses are detailed in Table A-6.

The 69.8% decrease in net assets restricted for debt service and other purposes is due to the release of restricted capital lease reserve funds in conjunction with the refinancing of the capital lease. The new lease does not require a reserve fund.

Net assets invested in capital assets, net of related debt consists of capital assets net of accumulated depreciation and reduced by the amount of outstanding indebtedness attributable to the acquisition, construction, or improvement of those assets. When there are significant unspent related bond proceeds, the portion of the debt attributable to the unspent proceeds are included in the calculation of this item. Instead, that portion of the debt should be included in the net assets component restricted for construction as an offset to the related bond proceeds outstanding.

(Continued)

Table A-5
Regional Transit Authority's Changes in Net Assets
(in thousands of dollars)

	2002	2001	Increase (Decrease)
Operating Revenues:			
Passenger fares	$ 35,794	$ 37,820	(5.4)%
Other	1,628	1,524	6.8%
Total operating revenues	**37,422**	**39,344**	**(4.9)%**
Operating Expenses:			
Operating expenses	101,086	101,121	(0.0)%
Depreciation and amortization	17,415	17,197	1.3%
Total operating expenses	**118,501**	**118,318**	**0.2%**
Operating loss	(81,079)	(78,974)	2.7%
Non-operating revenues-net	61,843	62,492	(1.0)%
Capital contributions	37,047	18,386	101.5%
Change in net assets	**17,813**	**1,904**	**835.6%**
Total net assets, beginning of the year	**79,746**	**77,842**	**2.5%**
Total net assets, end of the year	**$97,559**	**$79,746**	**22.5%**

Operating revenues declined by 4.9% to $37.4 million. The decrease in revenue resulted from a decline in regular passenger ridership and student ridership. The decline in passenger fares was partially offset by increase in other operating revenues which increased by 6.8% to $1.6 million.

Non-operating revenues decreased by 1.0% to $61.8 million. Federal and State of Louisiana grants and subsidies increased $2.6 million or 21.9%. Sales tax revenue decreased $3.4 million or 6.6% and Hotel/Motel tax increased $0.3 million or 7.7%.

Capital contributions increased by 101.5% to $37.0 million due to the grants earned on construction of the Canal Street Streetcar project and preliminary engineering of the Desire Street Streetcar project.

(Continued)

Table A-6 Regional Transit Authority's Operating Expenses (in thousands of dollars)			
	2002	**2001**	**Increase (Decrease)**
Labor and fringe benefits	$61,743	$ 62,030	(0.5)%
Depreciation	17,415	17,197	1.3%
Contract services	14,210	14,173	0.3%
Insurance and self-insured costs	12,702	13,781	(7.8)%
Materials, fuel, and supplies	7,228	6,252	15.6%
Utilities	1,390	1,723	(19.3)%
Purchased transportation	1,868	1,674	11.6%
Taxes, other than payroll	810	748	8.3%
Rent	199	213	(6.6)%
Miscellaneous	936	527	77.6%
Total operating expenses	**$118,501**	**$118,318**	**0.2%**

Labor and fringe benefits declined slightly from 2001 to $61.7 million.

Insurance and self-insured costs decreased by 7.8% to $12.7 million due to a substantial increase in the provision for legal claims in 2001 offset by additional insurance coverage for revenue vehicles and a cap on the self-insurance reserve obtained during 2002. The increase in 2001 resulted from a number of large settlements and judgments which were adverse to the RTA during 2001.

Materials, fuel and supplies expense increased by 15.6% to $7.2 million due to a write off of non-vouchered receipts in 2001 involving amounts prior to 2001.

Utilities expense decreased by 19.3% to $1.4 million due to a decline in fuel costs and the sale of the Arabella facility in 2001.

Purchased transportation increased by 11.6% to 1.9 million as a result of an increase in service hours provided by contracted van and sedan services.

CAPITAL ASSETS AND DEBT ADMINISTRATION

2003 Capital Assets

As of December 31, 2003, the RTA had invested approximately $422.2 million in capital assets. Net of accumulated depreciation, the RTA's net capital assets at December 31, 2003 totaled approximately $268.3 million. This amount represents a net increase (including additions and disposals, net of depreciation) of approximately $42.0 million or 18.5% over December 31, 2002.

The approximate $56.2 million increase in construction work in progress is primarily the result of construction costs of the Canal Street Streetcar Line and preliminary engineering costs of the Desire Street Streetcar Line.

2002 Capital Assets

As of December 31, 2002, the RTA had invested approximately \$362.8 million in capital assets. Net of accumulated depreciation, the RTA's net capital assets at December 31, 2002 totaled approximately \$226.3 million. This amount represents a net increase (including additions and disposals, net of depreciation) of approximately \$34.6 million or 18.1% over December 31, 2001.

The approximate \$49.7 million increase in construction work in progress is primarily the result of construction costs of the Canal Street Streetcar Line and preliminary engineering costs of the Desire Street Streetcar Line.

2003 Debt Administration

The RTA continues to make its regularly scheduled payments on its 1998A Series Sales Tax Refunding Bonds and its 1991 Series Sales Tax Revenue Bonds. During 2003, \$2,405,000 in principal payments were made.

The RTA has a loan agreement with the Louisiana Local Government Environmental Facilities and Community Development Authority to borrow up to \$65.8 million to finance the local match portion of the Canal Street Streetcar and Desire Street Streetcar projects; approximately \$40.8 million has been borrowed against this facility. During 2003, \$33.1 million of loan repayments were made on the LCDA Revenue Bonds.

The RTA issued certificates of participation during 2002 to advance refund its capital lease for 175 Orion buses. A defeasance escrow was established with the net proceeds to make the minimum lease payments on the capital lease until it can be prepaid in May 2005 and the lease was removed from the financial statements. The RTA makes annual minimum payments of variable amounts including principal and interest.

All bond debt and lease covenants have been met.

2002 Debt Administration

The RTA continues to make its regularly scheduled payments on its 1998A Series Sales Tax Refunding Bonds and its 1991 Series Sales Tax Revenue Bonds. During 2002, \$2,245,000 in principal payments was made.

The RTA has a loan agreement with the Louisiana Local Government Environmental Facilities and Community Development Authority to borrow up to \$65.8 million to finance the local match portion of the Canal Street Streetcar and Desire Street Streetcar projects; approximately \$28.1 million has been borrowed against this facility. During 2002, \$187,100 of loan repayments were made on the LCDA Revenue Bonds.

The RTA issued certificates of participation during 2002 to advance refund its capital lease for 175 Orion buses. A defeasance escrow was established with the net proceeds to make the minimum lease payments on the capital lease until it can be prepaid in May 2005 and the lease was removed from the financial statements. The RTA makes annual minimum payments of variable amounts including principal and interest.

All bond debt and lease covenants have been met.

CONTACTING THE RTA'S FINANCIAL MANAGEMENT

This financial report is designed to provide our bondholders, patrons, and other interested parties with a general overview of the RTA's finances and to demonstrate the RTA's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Mark Major, Deputy General Manager of Finance/Administration, at (504) 248-3724.

REGIONAL TRANSIT AUTHORITY

Statements of Net Assets

December 31, 2003 and 2002

Assets	2003	2002
Current assets:		
Cash (note 2)	$ 8,289,111	8,325,468
Accounts receivable, net (note 3)	34,190,285	33,964,913
Due from City of New Orleans, current	134,616	-
Investments, unrestricted (note 2)	6,867,158	13,593,996
Inventories	1,407,529	1,144,874
Prepaid expenses and other assets	1,010,873	357,501
Total current assets	51,899,572	57,386,752
Restricted assets, cash and investments (note 2):		
1991 series bond trustee accounts (note 5)	661,416	659,904
1998 series bond trustee accounts (note 5)	255,256	258,423
2000 and 2000A series bond trustee accounts (note 5)	99,549	31,039
Self-insurance (note 10)	1,217,025	1,207,275
Capital lease escrow (note 9)	200,200	199,015
Total restricted assets	2,433,446	2,355,656
Due from City of New Orleans, less current portion	673,076	-
Deferred charges - bond issue costs (note 5)	3,376,549	4,089,357
Property, buildings and equipment, net (note 4)	268,295,944	226,330,503
	$ 326,678,587	290,162,268

Liabilities and Net Assets	2003	2002
Current liabilities (payable from current assets):		
Accounts payable, accrued expenses, and deferred credits	$ 18,757,204	21,807,845
Current portion of legal and small claims (note 10)	2,721,949	4,884,683
Current portion of amounts due to Transit Management of Southeast Louisiana, Inc. (TMSEL)	12,830,037	12,918,803
Current portion of capital lease (note 9)	4,905,000	3,795,000
	39,214,190	43,406,331
Current liabilities (payable from restricted assets):		
Current portion of accrued bond interest	558,024	524,835
Current portion of bonds payable (note 5)	3,509,900	3,065,100
	4,067,924	3,589,935
Total current liabilities	43,282,114	46,996,266
Long-term liabilities:		
Employee benefits payable (note 8)	7,330,000	7,330,000
Accrued bond interest, less current portion	10,413,307	9,178,726
Legal and small claims, less current portion (note 10)	24,568,746	26,414,160
Amounts due to TMSEL, less current portion	362,006	320,000
Bonds payable, less current portion (note 5)	74,263,721	64,575,627
Capital lease payable, less current portion (note 9)	32,691,210	37,071,665
Deferred revenue	-	717,000
Total long-term liabilities	149,628,990	145,607,178
Total liabilities	192,911,104	192,603,444
Net assets:		
Invested in capital assets, net of related debt	141,954,782	108,119,550
Restricted	2,433,446	2,355,656
Unrestricted (deficit)	(10,620,745)	(12,916,382)
Total net assets	133,767,483	97,558,824
Commitments and contingencies (notes 8, 9, 10 and 11)	-	-
	$ 326,678,587	290,162,268

See accompanying notes to financial statements.

REGIONAL TRANSIT AUTHORITY

Statements of Revenues, Expenses and Changes in Net Assets

For the years ended December 31, 2003 and 2002

	2003	2002
Operating revenues:		
Passenger fares	$ 34,940,831	35,793,957
Other	1,123,228	1,628,209
Total operating revenues	36,064,059	37,422,166
Operating expenses:		
Labor and fringe benefits (note 1(a))	68,191,048	61,743,359
Depreciation	17,382,308	17,415,105
Contract services	14,497,240	14,209,563
Insurance and self-insured costs	7,847,994	12,701,603
Materials, fuel and supplies	7,862,708	7,227,554
Utilities	1,614,020	1,390,320
Purchased transportation	1,771,282	1,868,359
Taxes, other than payroll	746,899	810,513
Rent	168,772	198,938
Miscellaneous	369,705	935,520
Total operating expenses	120,451,976	118,500,834
Loss from operations	(84,387,917)	(81,078,668)
Nonoperating revenues (expenses):		
Tax revenues:		
Sales tax	53,785,535	47,633,194
Hotel/Motel tax	4,316,794	4,595,653
Government operating grants:		
Federal subsidy	14,258,560	11,752,040
State Department of Transportation	1,862,563	1,990,789
Planning and technical study grants	173,986	595,064
Loss on sale of assets	-	(187,300)
Investment income	335,665	389,220
Interest expense	(5,561,169)	(4,924,335)
Total nonoperating revenues	69,171,934	61,844,325
Net loss before capital revenues	(15,215,983)	(19,234,343)
Capital contributions	51,424,642	37,047,259
Increase in net assets	36,208,659	17,812,916
Net assets:		
Balance, beginning of year	97,558,824	79,745,908
Balance, end of year	$ 133,767,483	97,558,824

See accompanying notes to financial statements.

REGIONAL TRANSIT AUTHORITY

Statements of Cash Flows

For the years ended December 31, 2003 and 2002

		2003	2002
Cash flows from operating activities:			
Cash received from operations	$	34,975,477	33,984,411
Cash received from other sources		235,409	888,432
Cash paid to employees and for related expenses		(68,237,808)	(62,492,916)
Cash paid to suppliers		(26,885,083)	(26,298,183)
Cash paid for insurance, legal claims and related costs		(12,663,834)	(9,119,150)
Net cash used in operating activities		(72,575,839)	(63,037,406)
Cash flows from noncapital financing activities:			
Cash received from sales tax		50,136,164	51,349,707
Cash received from hotel/motel tax		3,431,098	4,535,621
Operating subsidies received from other governments		16,287,206	14,402,587
Net cash provided by noncapital financing activities		69,854,468	70,287,915
Cash flows from capital and related financing activities:			
Acquisition and construction of capital assets		(62,734,478)	(44,604,770)
Capital revenues from federal grants		55,865,739	19,245,707
Interest paid		(4,107,987)	(3,791,565)
Repayment of bonds		(35,499,000)	(2,432,100)
Repayment of capital lease obligation		(3,795,000)	(1,586,767)
Proceeds from bond sale		45,971,027	26,142,456
Bond issuance costs		-	(1,476,096)
Proceeds from sale of assets		-	30,718
Proceeds from refinancing of capital lease		-	45,388,493
Payment on defeasance of capital lease		-	(43,794,000)
Net cash used for capital and related financing activities		(4,299,699)	(6,877,924)
Cash flows from investing activities:			
Purchases of investment securities		(14,720,403)	(5,815,187)
Proceeds from sale and maturities of investment securities		21,369,451	7,956,370
Interest payments received		335,665	389,220
Net cash provided by investing activities		6,984,713	2,530,403
Net increase in cash and cash equivalents		(36,357)	2,902,988
Cash and cash equivalents at beginning of year		8,325,468	5,422,480
Cash and cash equivalents at end of year	$	8,289,111	8,325,468

(Continued)

REGIONAL TRANSIT AUTHORITY

Statements of Cash Flows

For the years ended December 31, 2003 and 2002

		2003	2002
Reconciliation of loss from operations to net cash used in operating activities:			
Loss from operations	$	(84,387,917)	(81,078,668)
Adjustments to reconcile loss from operations to net cash used in operating activities:			
Depreciation		17,382,308	17,415,105
Amortization of bond issue costs		712,808	323,514
Increase in allowance for doubtful accounts		12,674	10,342
Increase in accounts receivable		(136,173)	(1,422,222)
Increase in due from City of New Orleans		(807,692)	-
Increase in prepaid assets		(653,372)	(168,341)
Increase in inventory		(262,655)	(530,403)
Increase in accounts payable and accrued expenses		336,088	1,383,434
Decrease in deferred revenue		(717,000)	(873,500)
Decrease in amounts due to TMSEL		(46,760)	(1,425,519)
Increase (decrease) in the provision for legal and small claims liability		(4,008,148)	3,328,852
Net cash used in operating activities	$	(72,575,839)	(63,037,406)

See accompanying notes to financial statements.

REGIONAL TRANSIT AUTHORITY

Notes to Financial Statements

December 31, 2003 and 2002

(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 area 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, 2003 and 2002, 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. Prior to December 2002, the RTA conducted 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). Effective December 17, 2002, the contract with METRO was terminated, but the contract as to TMSEL continued with no disruption in transit service. The contract with METRO provided for a payout of $504,000 which is unaccrued pending final settlement. The labor, fringe benefits and other similar costs reflected in the statements of revenues, expenses and changes in net assets 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) Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The accounting policies of the RTA conform to accounting principles generally accepted in the United States of America as applicable to governments. The basic financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses, excluding depreciation and amortization, are recorded when a liability is incurred, regardless of the timing of related cash flows. The RTA has no government or fiduciary funds. The RTA uses fund accounting to report its financial position and results of operations. The RTA's accounts are organized into a single proprietary fund. The enterprise fund (a proprietary 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 changes in net assets is appropriate for capital maintenance.

The RTA's principal operating revenues are the fares charged to passengers for service.

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 state regulations or contractual terms, under certain conditions.

(d) *Investments*

Investments are stated at fair value and generally consist of U.S. Government and Agency securities 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.

(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	20-30 years
Furniture and fixtures	3-10 years
Leasehold improvements	3-5 years

(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, and lease maintenance services. Unrestricted operating grants and grants restricted as to purpose, but not contingent on the actual expenditures of funds, are recognized at that point in time when the right to the funds becomes irrevocable. Where the expenditure of funds is the prime factor for determining the eligibility for the grant proceeds, the grant is recognized at the time when the expense is incurred.

(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, 2003 and 2002, included in current liabilities, was approximately $3.3 million and $2.9 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 accounting principles generally accepted in the United States of America. 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 the 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 and Refundings***

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. Actual losses may differ significantly from RTA's estimates. Incurred but not reported claims have been considered in determining the accrued liability.

(m) ***Deferred Revenue***

Revenue collected more than one year in advance for interior and exterior bus and streetcar advertising is deferred.

(n) ***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 accounting principles generally accepted in the United States of America. Actual results could differ from those estimates.

(o) ***Reclassification of Prior Year Balances***

Certain amounts in the 2002 financial statements have been reclassified to conform to the 2003 presentation.

(2) Cash and Investments

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

	December 31, 2003		December 31, 2002	
	Restricted	Unrestricted	Restricted	Unrestricted
Cash and money market	$ 1,216,421	8,289,111	1,148,381	8,325,468
Investments, at fair value:				
U.S. Government Treasury and Agency securities	1,217,025	6,513,445	1,207,275	13,242,546
Certificates of deposit	-	353,713	-	351,450
	1,217,025	6,867,158	1,207,275	13,593,996
	$ 2,433,446	15,156,269	2,355,656	21,919,464

Actual cash in banks and certificates of deposit as of December 31, 2003 and 2002, for restricted and unrestricted bank accounts, before outstanding checks and reconciling items, was $6,876,559 and $4,578,700, respectively. Of the total bank balances at December 31, 2003 and 2002, all amounts were covered by federal depository insurance ($301,935 and $301,935, respectively) or by collateral held in the RTA's name by its agent ($6,823,215 and $5,468,388 respectively), except for amounts at one bank in which deposits in excess of federal depository insurance and collateral held in the RTA's name by its agent amounted to $93,406 as of December 31, 2003. Actual cash in money market accounts was $8,171,652 and $8,090,578, respectively, and is included in cash and money market above. These money market balances are uncategorized.

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.

As of December 31, 2003 and 2002, approximately $1,217,000 and $1,207,000, respectively, of restricted assets was pledged as collateral to the Louisiana Office of Workman's Compensation to maintain RTA/TMSEL's self-insurance certificate.

(3) Accounts Receivable

Accounts receivable consist of the following as of December 31:

		2003	2002
Sales tax	$	9,159,656	5,510,285
Hotel/motel tax		1,897,475	1,011,778
Federal capital grants		20,029,788	24,409,987
State operating subsidy		120,241	173,237
Passenger (transpass and visitour)		972,581	946,994
Orleans Parish School Board		2,097,246	2,157,479
Kenner operating subsidy		148,465	102,630
Other		206,843	81,859
		34,632,295	34,394,249
Less allowance for uncollectible amounts		(442,010)	(429,336)
	$	34,190,285	33,964,913

(4) Property, Buildings and Equipment

A summary of changes in fixed assets follows:

		January 1, 2003	Additions	Deletions	December 31, 2003
Land	$	6,988,812	-	-	6,988,812
Buildings		85,212,221	35,062	-	85,247,283
Equipment, primarily transportation vehicles		164,437,421	1,231,230	-	165,668,651
Furniture and fixtures		23,670,522	1,914,116	-	25,584,638
Construction in progress		82,537,968	56,374,029	(206,688)	138,705,309
		362,846,944	59,554,437	(206,688)	422,194,693
Accumulated depreciation and amortization		(136,516,441)	(17,382,308)	-	(153,898,749)
	$	226,330,503			268,295,944

	January 1, 2002	Additions	Deletions	December 31, 2002
Land	$ 6,988,812	-	-	6,988,812
Buildings	85,167,718	44,503	-	85,212,221
Equipment, primarily transportation vehicles	163,243,567	2,062,622	(868,768)	164,437,421
Furniture and fixtures	23,538,851	454,208	(322,537)	23,670,522
Construction in progress	32,839,780	49,698,188	-	82,537,968
	311,778,728	52,259,521	(1,191,305)	362,846,944
Accumulated depreciation and amortization	(120,060,108)	(17,415,104)	958,771	(136,516,441)
	$ 191,718,620			226,330,503

At December 31, 2003 and 2002, equipment includes transportation vehicles under capital lease with a net book value of $23,043,343 and $26,969,729, respectively. During 2003 and 2002, interest capitalized was $1,224,131 and $719,897, respectively. Construction in progress is composed of the following as of December 31, 2003:

Canal Street Streetcar Line	$ 128,701,405
Desire Streetcar Line	6,740,642
Other	3,263,262
Total construction in progress	$ 138,705,309

(5) Long-term Debt

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

		2003	2002
1998A Series, Sales Tax Refunding Bonds, interest rates between 6.8% and 8%, due in annual principal debt service requirements ranging from $1,130,000 to $2,815,000, final payment due December 2013	$	20,405,000	21,710,000
1991 Series, Sales Tax Revenue Bonds, interest rates between 5.5% and 6.5% on 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, final payment due December 2021		14,620,733	15,720,733
2000 Series, LCDA Revenue Bonds, variable interest rate of 2.83% as of December 31, 2003, due in annual principal debt service requirements ranging from $155,100 to $2,372,500, final payment due February 2025		30,208,313	25,987,356
2000A Series, LCDA Revenue Bonds, variable interest rate of 2.81% as of December 31, 2003, due in annual principal debt service requirements ranging from $181,700 to $695,700, final payment due November 2029		10,603,181	1,947,111
		75,837,227	65,365,200
Plus unamortized premium		1,936,394	2,275,527
Less current maturities		3,509,900	3,065,100
Long-term debt less current maturities	$	74,263,721	64,575,627

1998A 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, the 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 $1,936,394 and $2,275,527 at December 31, 2003 and 2002, respectively.

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. Bond issuance costs of $624,197 were recorded in August 2000 upon the release of debt service reserves for the 1991 Bond Series. These costs will be amortized over the remaining life of the bonds.

The current interest and capital appreciation bonds are secured by a pledge and lien upon a portion of the RTA's sales tax revenue (one-half of one percent upon the items and services subject to the sales tax). The interest on the current interest bonds is due and payable on June 1 and December 1 of each year through December 1, 2004. The interest for the capital appreciation bonds is due and payable in series in 2012, 2015 and 2021. Bond issuance 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, 2003 and 2002.

2000 Series and 2000A Series – LCDA Revenue Bonds

Under agreements with the Louisiana Local Government Environmental Facilities and Community Development Authority (LCDA), RTA may borrow up to $65,820,000 in funds to finance the local match portion of the costs expected to be incurred in the construction of the Canal Street Streetcar and Desire Street Streetcar Projects. The funds are provided from a portion of the proceeds of a Master Indenture Agreement and the sale of revenue bonds by LCDA. For the 2000 Series, the amount drawn down under this agreement as of December 31, 2003 and 2002 was $30,208,313 and $26,142,456, respectively. The principal balance as of December 31, 2003 and 2002 is $30,208,313 and $25,987,356, respectively, of which $753,200 is due in 2004. For the 2000A Series, the amount drawn down under this agreement as of December 31, 2003 and 2002 was $43,126,081 and $1,999,611, respectively. In addition to scheduled monthly payments, a prepayment of $32,194,000 was made by RTA during December 2003. The principal balance as of December 31, 2003 and 2002 is $10,603,181 and $1,947,111, respectively, of which $181,700 is due in 2004. Total bond issuance costs of $160,787 were financed in 2001 and monthly payments are required. These costs will be amortized over the remaining life of the agreement. Subsequent to December 31, 2003, RTA drew down an additional $4,730,800 under the 2000A Series.

REGIONAL TRANSIT AUTHORITY

Notes to Financial Statements

December 31, 2003 and 2002

Debt Service Requirements

The following represents the debt service requirements for the bond issues as of December 31, 2003:

		1991 and 1998A Bonds Principal	1991 and 1998A Bonds Interest	2000 and 2000A Bonds Principal	2000 and 2000A Bonds Interest	Total Principal	Total Interest
2004	$	2,575,000	2,059,613	934,900	1,141,068	3,509,900	3,200,681
2005		2,760,000	1,873,417	1,006,500	1,113,521	3,766,500	2,986,938
2006		2,965,000	1,671,217	1,064,300	1,084,340	4,029,300	2,755,557
2007		3,180,000	1,453,818	1,126,300	1,053,467	4,306,300	2,507,285
2008		3,415,000	1,220,493	1,191,600	1,020,799	4,606,600	2,241,292
2009-2013		14,169,439	8,999,611	7,077,100	4,543,829	21,246,539	13,543,440
2014-2018		4,110,848	19,065,663	9,381,900	3,391,322	13,492,748	22,456,985
2019-2023		1,850,446	12,055,416	12,435,900	1,863,632	14,286,346	13,919,048
2024-2026		-	-	5,922,613	377,841	5,922,613	377,841
2029		-	-	670,381	9,488	670,381	9,488
	$	35,025,733	48,399,248	40,811,494	15,599,307	75,837,227	63,998,555

Changes in long-term debt

Long-term debt activity for the year ended December 31, 2003 and 2002 is as follows:

		January 1, 2003	Additions	Payments	December 31, 2003	Due Within One Year
1998A Series, Sales Tax Refunding Bonds	$	21,710,000	-	(1,305,000)	20,405,000	1,410,000
1991 Series, Sales Tax Revenue Bonds		15,720,733	-	(1,100,000)	14,620,733	1,165,000
2000 Series, LCDA Revenue Bonds		25,987,356	4,884,557	(663,600)	30,208,313	753,200
2000A Series, LCDA Revenue Bonds		1,947,111	41,086,470	(32,430,400)	10,603,181	181,700
	$	65,365,200	45,971,027	(35,499,000)	75,837,227	3,509,900

		January 1, 2002	Additions	Payments	December 31, 2002
1998A Series, Sales Tax Refunding Bonds	$	22,920,000	-	(1,210,000)	21,710,000
1991 Series, Sales Tax Revenue Bonds		16,755,733	-	(1,035,000)	15,720,733
2000 Series, LCDA Revenue Bonds		-	26,142,456	(155,100)	25,987,356
2000A Series, LCDA Revenue Bonds		1,979,111	-	(32,000)	1,947,111
	$	41,654,844	26,142,456	(2,432,100)	65,365,200

(6) 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 the amount equal to 1.5 (multiplier) percent (unless otherwise specified in the plan) 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 (ATU) 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 eligible age from 25 to 21 for those employees hired prior to January 1, 1985. Effective January 1, 1999, the multiplier was increased from 1.8% to 1.9%. Prior to February 2, 1990, members of ATU Division 1560 contributed 0.77% of their weekly earnings to the Plan. To Fund the "30 and Out" pension service, the members of ATU Division 1560 began contributing an additional 2.23%. To fund the increase in the multiplier from 1.6% to 1.8% and to change the participation eligible age from 25 to 21, members of ATU Division 1560 contributed an additional 0.77%. To fund the increase in the multiplier from 1.8% to 1.9%, members of ATU Division 1560 began contributing an additional 1.38%. Effective January 1, 2001, to fund twenty percent (20%) of the increase in the multiplier from 1.5% to 1.8% and to change the participation eligible age from 25 to 21 and one hundred percent (100%) of the increase in multiplier from 1.8% to 1.9% for members of ATU 1611, members of ATU 1560 began contributing an additional 0.03%.

Effective April 18, 1996, members of Amalgamated Transit Union (ATU) 1611 received a "30 and Out" Pension Service and contributed 2.45% of gross wages. On January 18, 2001, the Plan was amended to increase the multiplier from 1.5% to 1.8% for members of ATU 1611, and to change the participation eligibility age from 25 to 21 for those employees hired prior to January 1, 1985, effective January 1, 2001 with TMSEL paying 80% of the cost and the members of the Unions (ATU Division 1560 and ATU Division 1611) paying 20% of the cost. The Plan was further amended increasing the multiplier form 1.8% to 1.9% with the members of Unions paying 100% of the cost. (These changes were the result of the Collective Bargaining Agreement, whereas the ATU Division 1611's membership was combined with ATU Division 1560).

Effective October 1, 2001, ATU Division 1611 merged with ATU Division 1560 into the surviving division, ATU Division 1560. On November 15, 2001, the Plan was amended to increase the multiplier from 1.9% to 2.0% effective retroactively to October 1, 2001 for members of this surviving division. The Plan was also amended to increase the multiplier from 2.0% to 2.1% effective July 1, 2003 for members of ATU Division 1560. As of January 1, 2001, the total amount the Union contributes to the Plan is 5.18% of total salary.

Members of International Brotherhood of Electrical Workers (IBEW) Local 1700-4, effective March 21, 1996, received a "30 and Out" Pension Service and contribute 2.45% of gross wages. Effective July 1, 1998, the Plan was amended, changing the 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 1700-4 contribute 1.27% of gross wages. Since July 1, 1998, the total amount the Members of IBEW Local 1700-4 contribute to the Plan is 3.72%, which represents the contribution of 2.45% of gross wages for the "30 and Out" Pension Service, plus the 1.27% of gross wages for changing the participation age in the Plan from 25 to 21. Effective January 18, 2001, the Plan was amended to increase the multiplier from 1.6% to 1.8%, with TMSEL paying 80% of the cost and the members of IBEW Local 1700-4 paying 20% of the cost effective February 28, 2001. The Plan was further amended to increase the multiplier from 1.8% to 1.9% with members of IBEW Local 1700-4 paying 100% of the cost. To fund this benefit, members of IBEW Local 1700-4 contribute an additional 1.83% of gross wages. On November 15, 2001, the Plan was also amended to increase the multiplier from 1.9% to 2.0% effective January 1, 2002. The Plan was further amended to increase the multiplier from 2.0% to 2.1% effective July 1, 2003. As of November 15, 2001, the total amount members of IBEW Local 1700-4 contribute to the Plan is 5.55% of total salary, which represents the 2.45% of gross wages for the 30 & Out Pension Service, the 1.27% of gross wages for changing the participation age in the plan from 25 to 21, and the 1.83% of gross wages for the increase in the multiplier from 1.8% to 1.9%.

On March 13, 2003, the Internal Revenue Service issued a favorable determination letter for the Plan granting approval of a new optional form of payment. The Reduced Annuity Lump Sum (RAWLS) provides a portion of the retirement benefit in a lump sum, plus a reduced monthly benefit. Members of ATU Division 1560 and IBEW 1700-4 are eligible for this form of benefit which is effective retroactively to January 1, 2002.

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

		2003	2002
Actuarial present value of benefit obligation:			
Vested benefit obligation	$	133,908,971	118,247,028
Nonvested benefit obligation		17,154,708	15,942,392
Accumulated benefit obligation		151,063,679	134,189,420
Projected future compensation levels effect		24,353,848	24,725,791
Projected benefit obligation for service rendered to date		175,417,527	158,915,211
Plan assets at fair value		113,435,806	95,719,124
Deficiency in plan assets over projected benefit obligation		(61,981,721)	(63,196,087)
Unrecognized prior service cost		13,936,511	12,023,386
Unrecognized net loss from past experience different from that assumed		(210,775)	(294,750)
Unrecognized net liability		41,449,399	42,705,710
Accrued pension cost	$	(6,806,586)	(8,761,741)

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

		2003	2002
Service cost - benefits earned during the period	$	2,918,251	2,488,745
Interest cost on projected benefit Obligation		10,519,515	10,060,701
Actual return on plan assets		(12,648,649)	5,538,370
Net amortization and deferral		8,826,561	(11,346,960)
Net periodic pension cost prior to change in estimate	$	9,615,678	6,740,856

The most recent projected pension benefit obligation was computed based on the actuarial valuation performed as of January 1, 2003. Significant actuarial assumptions used in the valuation include (a) a rate of return on the investment of present and future assets of 8.00% per year compounded annually, (b) a discount rate of 6.75%, and (c) projected salary increases including an inflation component of 2.75%.

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 $8,370,679 and $6,339,725 in 2003 and 2002, 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.

On May 7, 2003, the Internal Revenue Service approved a change in funding method for the TMSEL Retirement Plan which is effective retroactively to January 1, 2002. Under the new funding method, the actuarial value of assets is determined using a method with a smoothing period of five years.

As of December 31, 2003 and 2002, the ERISA funding requirement of approximately $8,188,809 and $6,568,693, respectively, is included in amounts due to TMSEL on the statements of net assets.

(7) 401(K) Plan

TMSEL employees participate in a 401(K) profit sharing and savings plan (the Plan) sponsored by TMSEL. Employees who have elected to participate, and have 1000 hours of service and are 21 years of age or older, or were employed as of the effective date of the Plan of April 1, 2002 are eligible to participate. The Plan is subject to the provisions of the Employee Retirement Security Act of 1974 (ERISA). The Plan provides for discretionary matching contributions in an amount determined by TMSEL on an annual basis. The Plan also provides for annual profit-sharing contributions if approved by the sponsor. Matching contributions are allocated only to participants who defer compensation under the Plan. Profit sharing contributions are allocated to each participant in the ratio that such participant's compensation bears to the compensation of all participants. TMSEL did not make any matching or profit sharing contributions in 2003 or 2002.

(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 2003 and 2002, total TMSEL expense relating to the above plan for retirees was $1,754,104 and $1,225,636, respectively. As of December 31, 2003, no actuarial evaluation of the plan has been performed.

(8) Commitments and Contingencies

(a) Operating Leases

The RTA is obligated under various operating leases for radio communications antenna space, record storage space, and copy machines. The operating leases contain renewal options for varying periods at equal or increased annual rentals. Future operating lease payments for the remaining lives of the leases following December 31, 2003 are as follows:

2004	$ 185,784
2005	108,964
2006	93,600
2007	93,600
2008	93,600

Total lease and rental payments for the years ended December 31, 2003 and 2002 were $168,772 and $198,937, respectively.

(b) Capital Leases

The RTA entered into a lease agreement to acquire 175 buses. As of December 31, 1999, the RTA received the 175 buses. RTA issued $43,205,000 of certificates of participation in 2002 with stated interest rates ranging from 3.0% to 5.0% to advance refund the capital lease. The amount of the certificates is net of premium of $2,183,493, which is being amortized over the life of the new debt. The lease is due May 1, 2010; however, it can be prepaid beginning May 1, 2005. The certificates of participation were issued at par and, after paying issuance costs of $1,594,493, the net proceeds were $43,794,000. The net proceeds from the issuance of the certificates of participation were used to purchase U.S. government securities and those securities were deposited in an irrevocable trust with an escrow agent to provide debt service payments until the lease can be prepaid on May 1, 2005. The advance refunding met the requirements of an in-substance debt defeasance and the lease was removed from the RTA's financial statements. The reacquisition price exceeded the net carrying amount of the old lease by $4,844,338. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt, which is equal to the life of the new debt issued. This advance refunding was undertaken to reduce total debt service payments over the next 8 years by $605,529 and resulted in an economic gain of $547,089. The RTA is reimbursed for 80% of its lease payments by federal grants from the Federal Transit Administration. The reimbursements are included as federal subsidy revenue to the extent of 80% of the interest expense on the capitalized lease; the remainder is credited to capital contributions.

REGIONAL TRANSIT AUTHORITY

Notes to Financial Statements

December 31, 2003 and 2002

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, 2003:

		Present value of minimum lease payments	Interest	Total minimum lease payments
2004	$	4,905,000	1,687,995	6,592,995
2005		5,100,000	1,450,145	6,550,145
2006		5,355,000	1,186,114	6,541,114
2007		5,625,000	908,801	6,533,801
2008		5,905,000	684,558	6,589,558
2009-2010		12,520,000	503,333	13,023,333
		39,410,000	6,420,946	45,830,946
Plus unamortized premium		1,488,398		
Less unamortized refunding loss		3,302,188		
Less current portion		4,905,000		
Long-term portion	$	32,691,210		

(c) ***Contingencies***

The RTA receives financial assistance directly from Federal agencies, which is 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, 2003 and 2002, the RTA is committed to funding 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, 2003 and 2002 totals approximately $94,000,000 and $143,200,000, respectively, and requires commitments of local matching funds totaling approximately $24,400,000 and $36,000,000, respectively. These amounts include amounts outstanding from the full funding grant agreement for the Canal Street Streetcar Line, which were approved in March 2003 and are pending authorization during 2004.

(9) Self-Insurance and Legal Claims

The RTA is, from time to time, involved in lawsuits arising in the ordinary course of its business. Management provides for a provision for claims when such amounts are known or can be estimated. The RTA is also 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, $2,000,000 through January 25, 2002, and $500,000 thereafter; commercial insurance for general liability covers annual 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. As of April 15, 2004, the RTA is self-insured for general liability claims. 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, 2003 and 2002, $27,290,695 and $31,298,843, respectively, of accrued general liability and small claim estimates were recorded to cover such claims. The long-term portion of these accruals at December 31, 2003 and 2002, were $24,568,746 and $26,414,160, respectively. 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, 2003 and 2002.

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
2001	$	18,384,673	12,363,697	(2,778,379)	27,969,991
2002	$	27,969,991	8,331,160	(5,002,308)	31,298,843
2003	$	31,298,843	2,710,976	(6,719,124)	27,290,695

TMSEL's self-insured reserves for workers' compensation and health benefits are included in amounts due to TMSEL on the statements of net assets and total $2,412,121 and $2,210,728 as of December 31, 2003 and 2002, respectively. As of December 31, 2003 and 2002, approximately $1,217,000 and $1,207,000, respectively, of restricted assets was pledged as collateral to the Louisiana Office of Workman's Compensation to maintain RTA/TMSEL's self-insurance certificate.

(10) Management Fees and Other Reimbursed Expenditures

For the first nine months of 2001, the RTA, METRO, and TMSEL were operating under a five-year contract dated November 1, 1997, under which METRO was to provide management and supervision of the transit system's operations and TMSEL was to operate the system. A new contract among the RTA, METRO, and TMSEL provided for similar services beginning October 1, 2001. Management fees, reimbursement of expenses and expenses, including professional consulting services, expensed under these contracts with METRO for the year ended December 31, 2002 were $758,874. A portion of the 2002 expenditures related to capital items are capitalized. On December 17, 2002, the contract with METRO was terminated, but the contract as to TMSEL continued with no disruption in transit service. The October 1, 2001 METRO management services agreement provided for a payout to METRO of $504,000, which is disputed by RTA and is unaccrued pending final settlement. In addition, the RTA is disputing $675,000 in charges by METRO, which is also unaccrued. During essentially all of the time during which the RTA had a contract with METRO and TMSEL, METRO was the sole shareholder of TMSEL. On December 16, 2002, the RTA designated Interregional Transit, Inc., a Louisiana non-profit corporation, to purchase the stock of TMSEL under a 1990 Buy-Out Agreement between METRO and RTA for the amount of $25. There were no expenses under these contracts with METRO and Interregional Transit, Inc. for the year ended December 31, 2003.

(11) 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 and other services provided by the City against state parish transportation fund proceeds appropriated by the State of Louisiana in 2003 and 2002.

The members of the Board of Commissioners who were paid a per diem for the attendance at board meetings in calendar years 2003 and 2002 and were also reimbursed for out-of-pocket expenses resulting from their participation in RTA activities as listed below.

The amounts received by each commissioner for the years ended December 31, 2003 and 2002 were as follows:

		Per Diem	Expense Reimbursement	Total
2003:				
Daniel Alfortish	$	900	-	900
Charlotte Burnell		675	240	915
Walter Campbell		900	-	900
Barbara Major		675	-	675
Earline Roth		900	-	900
Connie Goodly		-	-	-
James Reiss, Jr.		-	109	109
	$	4,050	349	4,399

		Per Diem	Expense Reimbursement	Total
2002:				
Daniel Alfortish	$	900	-	900
Charlotte Burnell		900	-	900
Walter Campbell		225	-	225
Barbara Major		300	-	300
Earline Roth		975	-	975
Dana Pecorara		675	-	675
James Reiss, Jr.		-	-	-
Robert Tucker		-	-	-
	$	3,975	-	3,975

(12) Rate Increase and Memorandum of Understanding

Effective September 19, 1999, the RTA and the City Council of the City of New Orleans entered into a Memorandum of Understanding whereby the Council granted a $.25 rate increase in the basic fares of the RTA and the RTA implemented a service and cost reduction plan. During 2000, the rate increase became permanent. As of December 31, 2003, the base fare for buses and streetcars is $1.25 per one-way ride.

REGIONAL TRANSIT AUTHORITY

Schedule of Changes in Restricted Asset Bond Accounts

For the years ended December 31, 2003 and 2002

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

	Capital Projects and Contingency	Capital	Debt Service	Reserve	Total
Beginning balance - January 1, 2002	$ 542,984	111,999	320,896	4,998	980,877
Cash receipts:					
Transfer for principal and interest	415,328	-	1,464,068	-	1,879,396
Gain/Loss	-	(5,957)	-	(13)	(5,970)
Investment income	6,577	1,560	10,519	40	18,696
Total cash receipts	421,905	(4,397)	1,474,587	27	1,892,122
Cash disbursements:					
Principal and interest payments	(544,085)	(2,469)	(1,654,930)	(5,025)	(2,206,509)
Expense payments	(2,244)	(539)	(3,803)	-	(6,586)
Total disbursements	(546,329)	(3,008)	(1,658,733)	(5,025)	(2,213,095)
Beginning balance - January 1, 2003	418,560	104,594	136,750	-	659,904
Cash receipts:					
Transfer for principal and interest			1,597,562	-	1,597,562
Investment income	2,868	717	4,418	-	8,003
Total cash receipts	2,868	717	1,601,980	-	1,605,565
Cash disbursements:					
Principal and interest payments			(1,597,919)	-	(1,597,919)
Expense payments	(2,095)	(524)	(3,515)	-	(6,134)
Total disbursements	(2,095)	(524)	(1,601,434)	-	(1,604,053)
Ending balance - December 31, 2003	$ 419,333	104,787	137,296	-	661,416

(Continued)

REGIONAL TRANSIT AUTHORITY

Schedule of Changes in Restricted Asset Bond Accounts

For the years ended December 31, 2003 and 2002

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

	Sales Tax Bond	Sales Tax Capital	Sales Facility	Other Accounts	Total
Beginning balance - January 1, 2002	$ 1,919	314,728	2,629	388	319,664
Cash receipts:					
Investment income (loss)	15	14,685	21	-	14,721
Transfer for principal and interest	-	2,971,352	-	-	2,971,352
Total cash receipts	15	2,986,037	21	-	2,986,073
Cash disbursements:					
Principal and interest payments	-	(3,037,350)	-	-	(3,037,350)
Expense payments	(1,934)	(5,380)	(2,650)	-	(9,964)
Total disbursements	(1,934)	(3,042,730)	(2,650)	-	(3,047,314)
Beginning balance - January 1, 2003	-	258,035	-	388	258,423
Cash receipts:					
Investment income (loss)		7,245			7,245
Transfer for principal and interest		3,035,657			3,035,657
Total cash receipts	-	3,042,902	-	-	3,042,902
Cash disbursements:					
Principal and interest payments		(3,040,392)			(3,040,392)
Expense payments		(5,677)			(5,677)
Total disbursements	-	(3,046,069)	-	-	(3,046,069)
Ending balance - December 31, 2003	$ -	254,868	-	388	255,256

See accompanying independent auditors' report.

REGIONAL TRANSIT AUTHORITY

Single Audit Reports

December 31, 2003

REGIONAL TRANSIT AUTHORITY
New Orleans, Louisiana

Single Audit Reports

December 31, 2003

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

To the Board of Commissioners
Regional Transit Authority:

We have audited the financial statements of the Regional Transit Authority (the RTA) as of and for the year ended December 31, 2003, and have issued our report thereon dated May 11, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 RTA's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards.*

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the RTA'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.

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This report is intended solely for the information of the RTA, the RTA's management, the State of Louisiana, the Legislative Auditor's Office, federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties. However, under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Postlethwaite & Netterville

May 11, 2004

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO THE MAJOR PROGRAM, ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 AND THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

To the Board of Commissioners
Regional Transit Authority:

Compliance

We have audited the compliance of the Regional Transit Authority (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 its major federal program for the year ended December 31, 2003. The RTA's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the RTA's management. Our responsibility is to express an opinion on the RTA's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; 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 we 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 we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the RTA's compliance with those requirements.

In our opinion, the RTA complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2003. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 03-1, 03-2, and 03-3.

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Internal Control Over Compliance

The management of the RTA is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we 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 our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our 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. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the RTA as of and for the year ended December 31, 2003, and have issued our report thereon dated May 11, 2004. Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

This report is intended solely for the information of the RTA, the RTA's management, the State of Louisiana, the Legislative Auditor's Office, federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties. However, under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Postlethwaite & Netterville

May 11, 2004

REGIONAL TRANSIT AUTHORITY
New Orleans, Louisiana

Schedule of Expenditures of Federal Awards

For the year ended December 31, 2003

Federal Grantor/Program Title	CFDA Number		Expenditures
Federal Transit Administration – Federal Transit cluster:			
Capital Investment Grants	20.500	$	50,510,349
Formula Grants	20.507		15,119,580
Total Federal Awards		$	65,629,929

See accompanying notes to Schedule of Expenditures of Federal Awards.

REGIONAL TRANSIT AUTHORITY
New Orleans, Louisiana

Notes to Schedule of Expenditures of Federal Awards

December 31, 2003

(1) General

The accompanying Schedule of Expenditures of Federal Awards presents the activity of the federal awards of the Regional Transit Authority (RTA). RTA's reporting entity is defined in note 1 to the financial statements for the year ended December 31, 2003. All federal awards received from federal agencies are included on the schedule.

(2) Basis of Accounting

The accompanying Schedule of Expenditures of Federal Awards is presented using the accrual basis of accounting, which is described in note 1 to RTA's financial statements for the year ended December 31, 2003.

(3) Relationship to Financial Statements

Federal awards are included in statement of revenues, expenses and changes in net assets as follows:

Nonoperating revenues (expenses):	
Government operating grants:	
Federal subsidy	$14,258,560
Planning and technical study grants	173,986
Capital contributions	51,424,642
Less: State capital contributions	(227,259)
	$65,629,929

REGIONAL TRANSIT AUTHORITY
New Orleans, Louisiana

Schedule of Findings and Questioned Costs

Year ended December 31, 2003

(1) Summary of Auditors' Results

(a) The type of report issued on the basic financial statements: unqualified opinion

(b) Reportable conditions in internal control were disclosed by the audit of the financial statements: none reported; Material weaknesses: no

(c) Noncompliance which is material to the financial statements: no

(d) Reportable conditions in internal control over major programs: no; Material weaknesses: no

(e) The type of report issued on compliance for major programs: unqualified opinion

(f) Any audit findings which are required to be reported under Section 510(a) of OMB Circular A-133: yes

(g) Major program:

Federal Transit Administration – Federal Transit cluster:	
Capital Investment Grants	20.500
Formula Grants	20.507

(h) Dollar threshold used to distinguish between Type A and Type B programs: $1,991,995

(i) Auditee qualified as a low-risk auditee under Section 530 of OMB Circular A-133: no

(2) Findings Relating to the Financial Statements Reported in accordance with *Government Auditing Standards*: None

(3) Findings and Questioned Costs relating to Federal Awards: Listed as follows.

INSTANCES OF NONCOMPLIANCE

03-1 REQUIRED ANNUAL PHYSICAL INVENTORY

Condition: The RTA did conduct the required annual physical inventory during 2003, however, the results were not reconciled with equipment records.

Criteria: As required by the FTA Circular, a physical inventory of equipment must be taken and the results reconciled with equipment records at least once every two years. Any differences must be investigated to determine the cause of the difference.

Effect: The RTA is in violation of FTA requirements.

Cause: The RTA Accounting Department was understaffed during 2003 and did not have the resources to complete the reconciliation.

Recommendation: The RTA should reconcile its physical inventory of equipment to its equipment records on a timely basis. An investigation of any differences should be performed to determine the cause of the difference and adjustments should be made to the property ledger and general ledger as necessary.

RTA Response: The reconciliation of fixed assets to the general ledger was not performed in a timely manner due to a lack of staffing. However, the Accounting Department is presently seeking assistance and other resources to get this task completed. Upon completion, the Accounting Department will immediately adjust the general ledger and property ledger accordingly.

03-2 PROPERTY LOCATIONS AND TAGGING

Condition: Of the thirty-three (33) items sampled by the Internal Audit Department for physical existence and appropriate safeguarding and maintenance, three (3) items could not be located, the location where four (4) items were found did not agree to the property ledger, four (4) items found could not be traced to the property ledger, nine (9) items were not properly tagged or tag numbers did not agree to the property ledger, and the asset cost was not included on the property ledger for two (2) items. In addition, multiple instances were noted where the property ledger descriptions were not adequate to properly identify the assets. Exceptions generally relate to smaller moveable equipment.

Criteria: OMB Circular A-102 Common Rule requires an appropriate control system shall be used to safeguard equipment.

Effect: RTA cannot ensure that its equipment is appropriately safeguarded.

Cause: While the RTA has procedures for equipment tagging and recording on the property ledger, the procedures were not effective for the items tested.

Recommendation: The Accounting Department should ensure that (1) all items acquired have been appropriately tagged and (2) adjustments as a result of a physical inventory are made and followed-up timely.

RTA Response: The Accounting Department makes every effort to properly safeguard RTA's assets against fraud, theft and misuse in conformance to OMB Circular A-102 Common Rule. Although the property accountants' position has been vacant since July 2003, the above findings resulted due to management's lack of cooperation and failure to adhere to RTA's policy regarding the movement of property. The Accounting Department will once again educate department heads/managers, etc. on the rules governing RTA's property, as well as perform an up-to-date physical inventory. This will allow us to correct these findings and to adjust the fixed asset system accordingly.

03-3 PROCUREMENT COST/PRICE ANALYSIS

Condition: Of the six (6) contracts tested, the bid tabulation and cost/price analysis was not included in the file to support the procurement action for one (1) contract.

Criteria: OMB Circular A-102 Common Rule requires an appropriate cost or price analysis to be performed in connection with procurement actions and that the analysis supports the procurement action.

Effect: RTA is in violation of the requirements of A-102 Common Rule.

Cause: While RTA has procedures for the performance of a cost/price analysis for every contract, the procedures were not effective for the contract tested.

Recommendation: The Procurement Department should ensure that an appropriate cost or price analysis is performed for every contract and include the analysis in the contract procurement file.

RTA Response: The contract file cited for lacking documentation to support a cost/price analysis was awarded in January 2003. Subsequently, procedures have been implemented to ensure that a cost/price analysis is prepared for all procurements awarded.

OTHER REPORTS

RTA received a final report dated May 15, 2003 from the Federal Transit Administration regarding a Financial Management Oversight Review of the effectiveness of internal control over RTA's financial management system. This report noted several findings and recommendations. RTA is in the process of addressing this report.

RTA received a final report dated June 19, 2003 from the Federal Transit Administration regarding a Procurement Systems Review. This report noted several deficiencies and required corrective actions. RTA is in the process of addressing this report.

RTA received a final report dated October 7, 2003 from the Federal Transit Administration regarding the FY03 Triennial Review. This report noted several deficiencies and required corrective actions. RTA is in the process of addressing this report.

REGIONAL TRANSIT AUTHORITY
New Orleans, Louisiana

Summary Schedule of Prior Audit Findings

01-1 REQUIRED ANNUAL PHYSICAL INVENTORY

Condition: The RTA did conduct the required annual physical inventory during 2001, however, the results were not reconciled with equipment records.

Current Status: Resolved.

02-1 DAVIS-BACON CONTRACTOR CERTIFICATIONS

Condition: Of the eight (8) contractor payroll periods sampled by the Internal Audit department for compliance with the Davis-Bacon Act, one contractor payroll certification submitted did not include the payroll supervisor' signature. In addition, discrepancies were noted in (1) the positions of employees sampled to supporting documentation provided to RTA by the contractor and (2) prevailing wages paid to contractor employees.

Current Status: In the future, the Internal Audit Department will take all measures to ensure that the user departments comply with the Federal monitoring requirements for construction contracts issued over $2,000.00. Internal Audit will provide guidance to the user departments at the time of solicitation to make sure that monitoring procedures are in place upon awarding the contract.

02-2 LIABILITY FOR DISPOSITION OF DESTROYED BUSES

Condition: Two buses destroyed in 2000 which were purchased with Federal funds were not disposed of on the general ledger, and the related amount due to the Federal Transit Administration was not recorded as a liability, until December 2002.

Current Status: The unrecorded liability prior to December 2002 was the result of executive management's unclear decision to purchase replacement buses. The RTA Board of Commissioners awarded a contract to Orion Bus Industries in March 2003 to purchase replacement buses. Three buses have been ordered and are expected to be delivered during 2004. FTA will not be receiving a reimbursement and the liability will offset the expenses incurred toward the purchase of the replacement buses.

02-3 PROPERTY LOCATIONS AND TAGGING

Condition: Of the thirty-three (33) items sampled by the Internal Audit Department for physical existence and appropriate safeguarding and maintenance, three (3) items could not be located, the location where six (6) items were found did not agree to the property ledger, six (6) items found could not be traced to the property ledger, and nineteen (19) items were not properly tagged or tag numbers did not agree to the property ledger. In addition, the results of the physical observation taken in 2001 have not been incorporated into property records.

REGIONAL TRANSIT AUTHORITY
New Orleans, Louisiana

Summary Schedule of Prior Audit Findings, Continued

Current Status: Subsequent to the sampling performed by Internal Audit, the items that could not be confirmed have since been located. Also, the location information and description was corrected for the items that could not be traced and now the physical location matches the property ledger. Finally, the items that were not properly tagged or the tag number did not agree to the property ledger have since been corrected.

02-4 FINANCIAL STATUS REPORTS

Condition: Of the three Financial Status Reports traced to supporting documentation, two of the amounts on one report did not agree to supporting documentation due to a clerical input error that we detected by management. In addition, of the eight (8) requests for funds tested, two charges were underreported due to a clerical error in a calculation that was not detected by management.

Current Status: Resolved

02-5 GRANT PAYROLL

Condition: Of the forty grant payroll charges traced to supporting timesheets, three of the charges did not agree to the timesheets due to clerical error.

Current Status: Resolved

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Postlethwaite & Netterville

A Professional Accounting Corporation
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May 11, 2004

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, 2003, and have issued our report thereon dated May 11, 2004. 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, is intended to improve internal control or result in other operating efficiencies and is summarized in Appendix A. Appendix B contains a list of the status of prior year comments. Appendix C contains management's response (management's corrective action plan) to the comment and recommendation which was 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,

Postlethwaite & Netterville

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Appendix A

CURRENT YEAR MANAGEMENT LETTER COMMENTS

There are no current year management letter comments.

Appendix B

DISPOSITION OF PRIOR YEAR'S MANAGEMENT LETTER COMMENTS

PRIOR YEARS' RECOMMENDATION	MANAGEMENT RESPONSE	STATUS	COMMENT DISPOSITION
Expense Reimbursements			
We noted that certain materials and supplies were required by employees were in excess of the RTA's $500 procurement amount, which would require bids. We recommend that the RTA's procurement procedures be followed for all acquisitions of materials and supplies in excess of the $500 authorized limit. We also recommend employee's reimbursement for material and supplies be restricted to unusual or emergency circumstances.	Concur	Implemented	Current management has implemented procurement procedures that will require bids for all acquisitions of material and supplies in excess of $500.00. Employee reimbursement has been limited to travel, unusual or emergency circumstances.
Reconciliation of Claims Payment			
The total settlement and judgment amounts for 2001 closed cases did not agree to the amount of claims payments activity for the year. The Claims Department should reconcile the actual claims payments by claims year to data in its data processing system and submit this reconciliation to the Accounting Department on a monthly basis. In assess its case management software as it is becoming unsupported and a new software should be selected and implemented.	Concur	Partially Implemented	The Legal Department began preparing a payout schedule in January 2004. This document will be reviewed for adequacy to perform the reconciliation to the general ledger.

DISPOSITION OF PRIOR YEAR'S MANAGEMENT LETTER COMMENTS

PRIOR YEARS' RECOMMENDATION	MANAGEMENT RESPONSE	STATUS	COMMENT DISPOSITION
Insurance Payroll Deduction			
We noted during our tests that employee deductions for life and health insurance were incorrect for 16 of our 40 sample selections. We recommend that procedures be developed to monitor the accuracy of these deductions, including periodic testing of actual payrolls, testing of the employee's data base, and monitoring by human resources.	Concur	Implemented	Procedures have been developed to maintain both the life and health insurance deduction. Once the employee has opted to enroll in the health insurance plan, the information is input in JDE based on coverage level and start date. The effective date determines when the deductions should take place. It is then validated and the info is filed. Employees electing contributory life insurance are set up in JDE with an effective date for withholdings to commence. Communication when the employee master file is updated coincides with when life insurance rates are updated. Once this is done, both salary and life insurance tables are updated simultaneously.
Cash Counting Room			
The RTA's procedures require daily reconciliations of the revenue. During our testing of fare revenue we noted seven cash deposits which were not reconciled with Cash Counting room reports on a timely basis. Some differences were not reconciled for several months. We recommend that procedures requiring daily reconciliation be performed timely and that any exceptions to the daily reconciliation be reported to appropriate senior management for review and follow-up. Exceptions to the daily reconciliation procedures should be rare.	Concur	Implemented	A new procedures manual was developed by the Treasurer with assistance from the Director of Scheduling/Transit Data and the Director of Accounting to improve the reconciliation process. The accounting Department continues to reconcile cash counting room reports to the general ledger and is current with resolving discrepancies.

DISPOSITION OF PRIOR YEAR'S MANAGEMENT LETTER COMMENTS

PRIOR YEARS' RECOMMENDATION	MANAGEMENT RESPONSE	STATUS	COMMENT DISPOSITION
Accrued Sick Leave			
The RTA adjusts its sick liability once a year. We recommend that procedures be put in operation to adjust sick leave amounts on a monthly or quarterly basis.	Concur	Implemented	The process has been implemented whereby the sick leave liability is adjusted when actual payments are made to retirees. At every year-end, the liability account is then analyzed and updated to include in the accrual any additions deemed necessary resulting from an operator's change in status regarding the potential to retire.
Pension Benefits			
The tests for pension revealed two participants whose benefits were continued after they were deceased. We recommend that periodic testing of participant benefits be performed to determine if the beneficiary is deceased.	Concur	Implemented	The Pension Department has located RootsWeb.com (an up-to-date Social Security Death Index), which is a search engine that will allow performance of periodic (monthly) testing to determine if a participant/beneficiary is deceased. Additionally, the two (2) deceased individuals' pension payments were recouped through: (1) bank retrieval of funds from the participant's account and (2) return of the pension check by a family member.

DISPOSITION OF PRIOR YEAR'S MANAGEMENT LETTER COMMENTS

PRIOR YEARS' RECOMMENDATION	MANAGEMENT RESPONSE	STATUS	COMMENT DISPOSITION
Public Bid Laws and Policies			
In accordance with State Laws and Federal Transportation Department requirements of goods or services. During our testing of compliance with the public bid laws and procurement policies, we noted several exceptions to the procurement procedures including completeness of files, number of prices quotes, and sufficiency of advertising. We recommend that the RTA's policies and procedures be adhered to and that the completeness of files be regularly reviewed.	Concur	Implemented	In response to these files, specifically the Debra Gould file. This was a <$10,000.00 solicitation for the EEO department. The EEO department wanted to award this contract to a DBE so the Procurement Department solicited the two known local DBEs that could provide this service. Based on the two proposals RTA received the EEO office selected Debra Gould & Assoc. to provide this service. Because of the dollar value this project did not require advertisement. Regarding the Stewart & Stevenson contract. This was for award of bus parts carried in inventory for a period of five years. Because the JD Edwards system and ELKE systems do not communicate at our level the following procedures are the only way we know that these types of contracts can be coordinated. The contracts department handles the solicitation and award of the contract. At that point, the small purchases section is notified that a contract has been awarded, the parts included, the unit prices to be paid, and the expiration date of the contract. This information is recorded on the purchasing cards in small purchases. Then whenever that part is needed a requisition is initiated and the Buyer pulls the purchasing card and orders the item requested in the quantity approved from the vendor and at the price specified on the card. The Buyer issues an ELKE purchase order for the parts. The parts are received against the ELKE purchase order and in the ELKE system. At some point after this occurs the ELKE system notifies the JD Edwards system of the transaction. This solicitation was advertised and was awarded pursuant to the Invitation for Bids process contained in the RTA procurement manual.

Appendix C

MANAGEMENT'S RESPONSE AND CORRECTIVE ACTION PLAN TO CURRENT YEAR COMMENTS

There are no current year management letter comments.