5798

TRANSIT MANAGEMENT OF SOUTHEAST LOUISIANA, INC.

FINANCIAL STATEMENTS

TOGETHER WITH

INDEPENDENT AUDITORS' REPORT

FOR THE YEAR ENDED DECEMBER 31, 1996

Bruno & Tervalon
CERTIFIED PUBLIC ACCOUNTANTS

TABLE OF CONTENTS

Bruno & Tervalon CERTIFIED PUBLIC ACCOUNTANTS
MICHAEL B. BRUNO, CPA
ALCIDE J. TERVALON, JR., CPA
WALDO J. MORET, JR., CPA

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and
Stockholders
Transit Management of Southeast Louisiana, Inc.

We have audited the accompanying balance sheet of **Transit Management of Southeast Louisiana, Inc. (TMSEL)** (a Louisiana corporation) as of December 31, 1996, and the related statements of income and expenses, changes in stockholders' equity, and cash flows for the year then ended. These financial statements are the responsibility of **TMSEL's** management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **Transit Management of Southeast Louisiana, Inc.** as of December 31, 1996, and the results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting principles.

Bruno & Tervalon

BRUNO & TERVALON
CERTIFIED PUBLIC ACCOUNTANTS

April 11, 1997

650 S. PIERCE ST./SUITE 203, NEW ORLEANS, LA 70119 (504) 482-8733 FAX (504) 486-8296

TRANSIT MANAGEMENT OF SOUTHEAST LOUISIANA, INC.

BALANCE SHEET
DECEMBER 31, 1996

ASSETS

Assets	
Cash	$ 24,038
Amounts due from Regional Transit Authority (NOTES 2 and 7)	10,636,856
Total assets	$10,660,894

LIABILITIES AND STOCKHOLDERS' EQUITY

Liabilities	
Bank overdrafts	$ 325,402
Accounts payable	141,205
Accrued wages payable	645,617
Accrued payroll taxes and benefits	546,336
Employees compensation for future absences (NOTE 1)	2,476,361
Contributory insurance payable	1,823,693
Pension plan contribution (NOTE 3)	1,196,655
Workman's compensation claims (NOTE 5)	3,312,826
Other liabilities	192,774
Total liabilities	10,660,869
CONTINGENCIES (NOTES 5 AND 8)	
Stockholders' Equity	
Common stock, no par value, 1,000 shares authorized; 1,000 issued and outstanding	25
Total stockholders' equity	25
Total liabilities and stockholders' equity	$10,660,894

The accompanying notes are an integral part of these financial statements.

TRANSIT MANAGEMENT OF SOUTHEAST LOUISIANA, INC.

STATEMENT OF INCOME AND EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 1996

Revenues	
Reimbursements-Regional Transit Authority (NOTE 7)	$57,393,126
Total revenue	57,393,126
Expenses	
Salaries and wages	$41,522,847
FICA and Medicare	3,323,258
Pension Plan (NOTE 3)	3,586,713
Health insurance	4,371,178
Dental	264,972
Life insurance	647,525
Unemployment	113,747
Workman's compensation (NOTES 5)	2,248,555
Uniforms	267,646
Contract services	459,430
Long-term disability	425,107
Other	162,148
Total expenses	57,393,126
Net income	$ -0-

The accompanying notes are an integral part of these financial statements.

TRANSIT MANAGEMENT OF SOUTHEAST LOUISIANA, INC.

STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEAR ENDED DECEMBER 31, 1996

	COMMON STOCK	
	Shares	Amount
Balance - January 1, 1996	1,000	$ 25
Balance - December 31, 1996	1,000	$ 25

The accompanying notes are an integral part of these financial statements.

TRANSIT MANAGEMENT OF SOUTHEAST LOUISIANA, INC.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 1996

Cash flows from Operating Activities:	
Increase in amounts due from Regional Transit Authority	$ (205,278)
Increase in Bank overdrafts	325,402
Decrease in accounts payable and accrued payroll related expenses	(941,843)
Net cash used in operating activities	(821,719)
Cash and cash equivalents - beginning of year	845,757
Cash and cash equivalents - end of year	$ 24,038
Interest paid	$ 9,645

The accompanying notes are an integral part of these financial statements.

NOTE 1 - Summary of Significant Accounting Policies:

Background and General Information

Transit Management of Southeast Louisiana, Inc. (TMSEL) is a Louisiana corporation, incorporated on December 28, 1982. **TMSEL**, pursuant to the management contract between **TMSEL**, the Regional Transit Authority (RTA), (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 for the Greater New Orleans area) and Metro New Orleans Transit, conducts substantially all of RTA's transit and related operations. The labor, fringe benefits and other similar costs reflected in the statement of revenues and expenses are reimbursed by RTA pursuant to that management contract.

TMSEL is governed by a three-member Board of Directors elected by the shareholders of the Corporation. The Board of Directors possess all corporate powers of the Corporation to administer all **TMSEL** operations and activities.

Basis of Accounting

The accompanying financial statements of **TMSEL** have been prepared in conformity generally accepted accounting principles. Accordingly, **TMSEL** maintains its records on the accrual basis of accounting. Reimbursements due from RTA are recorded when earned. Expenses of providing services are accrued when incurred.

Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles requires the use of management's estimates. Accordingly, actual results could differ from those estimates.

NOTE 1 - Summary of Significant Accounting Policies, Continued:

Income Taxes

Income taxes are recognized during the year in which transactions enter into the determination of financial statement income, with deferred taxes being provided for temporary differences between amounts of assets and liabilities for financial reporting purposes and such amounts as measured by tax laws. No provision for income taxes exist as **TMSEL** earns revenues only to the extent of expenses incurred.

Compensated Absences

Employees of the **TMSEL** are entitled to paid vacation, paid sick days and personal days off, depending on job classification, length of service, and other factors. Employees are represented by a number of labor unions and each contract contains different provisions for such employee-compensated absences. In addition, management and other nonunion employees also have contracts or agreements with the company that provide for compensated absences.

The liability for compensated absences has been computed in accordance with **TMSEL's** general personnel policy or certain **TMSEL** union agreements. The total liability for accrued vacation at December 31, 1996 is $2,476,361.

Cash and Cash Equivalents

TMSEL considers all highly liquid investments with a maturity of three month or less to be cash equivalents.

NOTE 2 - Amounts Due from Regional Transit Authority (RTA):

Pursuant to the management contract between **TMSEL**, RTA, and Metro, RTA is obligated to reimburse **TMSEL** for the cost of all of its transit and related operations. At December 31, 1996 amounts due from RTA of $10,636,856 represents labor, fringe benefits and other similar cost incurred by **TMSEL** in its transit and related operations due from RTA.

NOTE 3 - TMSEL Pension Plan:

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

All **TMSEL** or former NOPSI employees over the age of 21 are eligible to participate in the plan. Benefits vest after five years of service. Employees, except for transit operators, who retire at age 65, are entitled to annual retirement benefits for life in an amount equal to 1.5 percent of their five year average of compensation times years of service. As a result of a new contract effective in 1995, transit operators who retire at age 65 are entitled to annual retirement benefits for life in an amount equal to 1.6 percent of their five year average of compensation times years of service. The plan also provides early retirement, postponed retirement, disability and death benefits.

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

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

NOTE 3 - TMSEL Pension Plan, Continued:

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

The following table sets forth the plan's funded status and amounts recognized in TMSEL's balance sheet as of December 31, 1996:

Actuarial present value of benefit obligation:	
Vested benefit obligation	$59,773,001
Nonvested benefit obligation	3,980,394
Accumulated benefit obligation	63,753,395
Effect of projected future compensation levels	20,147,594
Projected benefit obligation for service rendered to date	83,900,989
Plan assets at fair value	82,724,960
Deficiency in plan assets over projected benefit obligation	(1,176,029)
Unrecognized prior service cost	1,198,530
Unrecognized net loss (gain) from past experience different from that assumed	(420,556)
Unrecognized net asset	(798,600)
Accrued pension cost	$(1,196,655)

NOTE 3 - TMSEL Pension Plan, Continued:

Net periodic pension cost included the following components for the year ended December 31, 1996:

Service cost - benefits earned during the period	$ 2,611,845
Interest cost on projected benefit obligation	5,544,680
Actual return on plan assets	(8,157,503)
Net amortization and deferral	2,549,759
Net periodic pension cost	$ 2,548,781

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

TMSEL funds actuarially determined pension costs when accrued. Any unfunded actuarial accrued liability is amortized over twenty-five years. Pension expense was $3,586,713 in 1996. The significant actuarial assumptions used to compute the actuarially determined contribution requirements are the same as those used to compute the projected pension benefit obligation as described above.

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

NOTE 4 - Other Post Employment Retirement Benefits:

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

NOTE 5 - Workman's Compensation Claim:

Pursuant to the **TMSEL** management contract, RTA reimburses **TMSEL**, its employees' injury and workers' compensation claims. Claim expenses and liabilities are reported when it is probable that the loss has occurred and the amount of the loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported.

At December 31, 1996, $3,312,826 of accrued liabilities were recorded to cover such claims. The accruals, which are based upon experience with previous claims, the advice of counsel, and actuarial evaluation are, in the opinion of management, sufficient to provide for all probable and reasonably estimable claims liabilities at December 31, 1996.

NOTE 5 - Workman's Compensation Claim, Continued:

Changes in workman's compensation claims liabilities during the year ended December 31, 1996 were as follows:

Beginning of year liability	$ 2,688,466
Current year claims and changes in estimates	2,248,555
Claim payments	(1,624,195)
Balance at end of year	$ 3,312,826

NOTE 6 - Financial Instruments:

The fair value of TMSEL's financial instruments approximate their carrying value.

NOTE 7 - Related Parties:

The Corporation receives substantially all of its revenues from the Regional Transit Authority (RTA). During 1996 revenues from RTA aggregated $57,393,126. At December 31, 1996 amounts due from RTA was $10,636,856.

In a Buy-Out Agreement dated November 1, 1990, Metro purchased the capital shares of TMSEL with Metro being the sole shareholder. At that date Metro assigned to TMSEL its interest in, as well as its obligations arising by virtue of the management services contract between Metro and the RTA. The assignment of that agreement by Metro does not relieve Metro from responsibility for performance in the event TMSEL does not perform all terms, stipulations and conditions of that agreement.

NOTE 8 - Contingencies:

Pursuant to the management contract the RTA is responsible for risks of loss related to torts, damage to and destruction of assets, errors and omissions and natural disasters. At December 31, 1996 the RTA has accrued $20,513,911 to cover such claims. The accruals, which are based upon experience with previous claims and the advice of counsel are in the opinion of management, sufficient to provide for all probable and reasonably estimate claims liabilities at December 31, 1996.

NOTE 9 - Concentration of Credit Risks:

Financial instruments which potentially subject the Corporation to concentration of credit risks consist primarily of cash and amounts due from the Regional Transit Authority. At times cash balances held at financial institutions were in excess of FDIC insurance limits. The Corporation places its cash with high credit quality financial institutions. The Corporation believes no significant concentration of credit risk exist with respect to those cash investments.

At December 31, 1996 amounts due from RTA was $10,636,856. If the financial condition and operations of the RTA deteriorate below critical levels, TMSEL's operating results could be adversely affected.

Bruno & Tervalon
CERTIFIED PUBLIC ACCOUNTANTS
MICHAEL B. BRUNO, CPA
ALCIDE J. TERVALON, JR., CPA
WALDO J. MORET, JR., CPA

INDEPENDENT AUDITORS' COMMENTS TO MANAGEMENT

To the Board of Directors and Shareholders
Transit Management of Southeast Louisiana

In planning and performing our audit of the financial statements of **Transit Management of Southeast Louisiana (TMSEL)** for the year ended December 31, 1996, we considered **TMSEL's** internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not provide assurance on the internal control structure.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. The comments and suggestions regarding those matters are as follows:

INCOME TAXES

In accordance with Internal Revenue Service Regulations, unless exempt under section 501, all domestic corporations (including corporations in bankruptcy) must file a tax return whether or not they have taxable income. Domestic corporations must file Form 1120, or if they qualify Form 1120-A.

Our discussion with management personnel indicated that to the best of their knowledge income tax returns for **TMSEL** for the year ended December 31, 1996 and previous years have not been filed.

650 S. PIERCE ST./SUITE 203, NEW ORLEANS, LA 70119 (504) 482-8733 FAX (504) 486-8296

INCOME TAXES, CONTINUED

Recommendation

We recommend that the appropriate federal and state income tax returns, as applicable, be filed in order to comply with federal and state tax code regulations.

BANK RECONCILIATIONS

During the course of the audit, we noted that bank reconciliations are not being prepared on a timely basis resulting in untimely disposition of any unreconciled differences noted in the preparation of those bank reconciliations.

Recommendation

We recommend that all bank accounts maintained be reconciled on a timely basis and any unreconciled items timely investigated and resolved.

PAYROLL DEDUCTIONS

We noted during the course of the audit that employee authorization for various miscellaneous payroll deductions are not updated and maintained on a current basis.

Recommendation

We recommend that employee authorizations for all payroll related deductions be updated on a current basis and that this authorization be maintained on file in the respective employee personnel files.

INDEPENDENT AUDITORS' COMMENTS TO MANAGEMENT
(CONTINUED)

****

This letter does not affect our report dated April 11, 1997 on the financial statements of **TMSEL**.

We will review the status of these comments during our next engagement. We have already discussed many of these comments and suggestions with various **TMSEL** personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Bruno & Tervalon

BRUNO & TERVALON
CERTIFIED PUBLIC ACCOUNTANTS

April 11, 1997