4210

REGIONAL TRANSIT AUTHORITY

Financial Statements and Schedules

December 31, 2001 and 2000

With Independent Auditors' Report Thereon

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

Release Date 8/14/02

REGIONAL TRANSIT AUTHORITY

Table of Contents

P&N

Postlethwaite & Netterville

A Professional Accounting Corporation
Associated Offices in Principal Cities of the United States
www.pncpa.com

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, 2001 and 2000, 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 *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, 2001 and 2000, and the results of its operations and its cash flows for the years then ended in conformity with auditing standards generally accepted in the United States of America.

As discussed in note 1 to the financial statements, RTA adopted the provisions of Governmental Accounting Standards Board Statement No. 34 -- *Basic Financial Statements – and Management's Discussion and Analysis – for the State and Local Governments*, in 2001.

The Management's Discussion and Analysis on pages 3 through 7 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 13, 2002 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.

30th Floor - Energy Centre • 1100 Poydras Street • New Orleans, LA 70163-3000 • Tel: 504.569.2978
2324 Severn Avenue, Suite A • Metairie, LA 70001 • Tel: 504.837.5990 • Fax: 504.834.3609

Our audits were made for the purpose of forming an opinion on the 2001 and 2000 basic financial statements. 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.

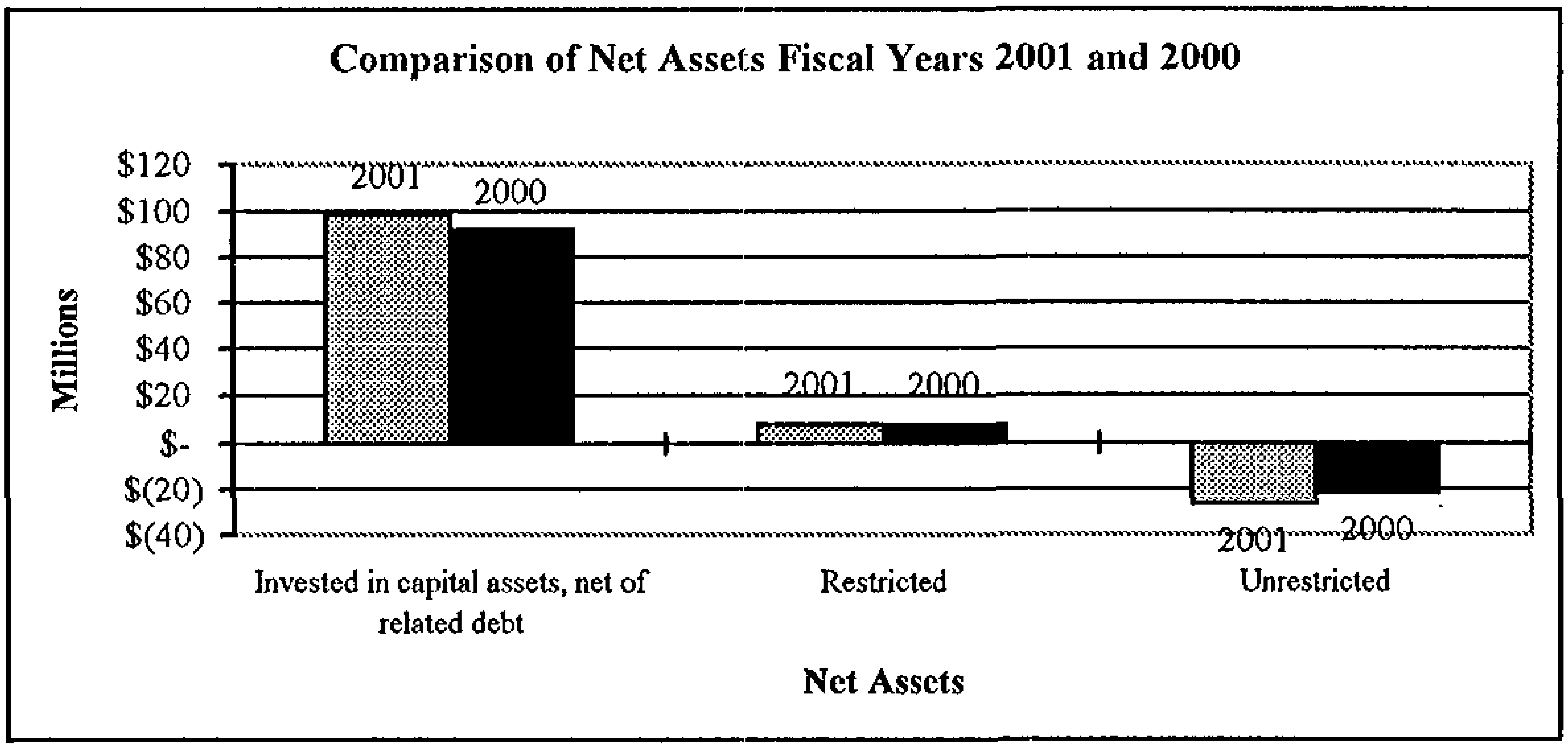
Postlethwaite & Netterville

May 13, 2002

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, 2001. Please read it in conjunction with the RTA's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

The RTA continued its construction and engineering for its Canal Street Car Line and the Desire Street Corridor during 2001. Construction expenditures during 2001 totaled $15.1 million. The Hotel/Motel tax collected by RTA generated $4.3 million of revenues in 2001, the first full year the tax was collected. Capital grants for the construction and acquisition of property and equipment increased by 137.7% to $18.4 million.



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 2001 is an indicator of its positive financial health.

FINANCIAL ANALYSIS OF THE RTA

Net Assets

The RTA's total net assets at December 31, 2001 reached approximately $79.7 million, a 2.4% increase over December 31, 2000 (See Table A-1). Total assets increased 5.7% to $237.4 million, and total liabilities increased 7.4% to $157.7 million.

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

	2001	2000	Increase (Decrease)
Current assets	$ 34,995	$ 25,971	34.7%
Restricted assets	7,794	7,560	3.1%
Capital assets	191,719	187,988	2.0%
Deferred charges	2,937	3,095	(5.1)%
Total assets	237,445	224,615	5.7%
Current liabilities	37,181	32,687	13.6%
Long-term liabilities	120,518	114,086	5.6%
Total liabilities	157,699	146,773	7.4%
Net assets:			
Invested in capital assets, net of related debt	98,307	91,977	6.9%
Restricted	7,794	7,560	3.1%
Unrestricted (deficit)	(26,355)	(21,695)	(21.5)%
Total net assets	79,746	77,842	2.4%
Total liabilities and net assets	$237,445	$224,615	5.7%

Changes in Net Assets

The change in net assets at December 31, 2001 was approximately $1.9 million or 38.4% less than at December 31, 2000. The RTA's total operating revenues decreased by 3.9% to approximately $39.3 million, and total operating expenses increased 9.8% to approximately $118.3 million. The changes in net assets are detailed in Table A-2, operating expenses are detailed in Table A-3.

The 3.1% increase in net assets restricted for debt service and other purposes is due to the required payments into the capital lease escrow funds.

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

	2001	2000	Increase (Decrease)
Operating Revenues:			
Passenger fares	$ 37,820	$ 39,755	(4.9)%
Other	1,524	1,181	29.0%
Total operating revenues	39,344	40,936	**(3.9)%**
Operating Expenses:			
Operating expenses	101,121	91,000	11.1%
Depreciation and amortization	17,197	16,720	2.9%
Total operating expenses	**118,318**	**107,720**	**9.8%**
Operating loss	(78,974)	(66,785)	18.3%
Non-operating revenues-net	62,492	62,139	0.6%
Capital revenue from federal grants	18,386	7,735	137.7%
Change in net assets	**1,904**	**3,090**	**(38.4)%**
Total net assets, beginning of the year	**77,842**	**74,752**	**4.1%**
Total net assets, end of the year	**$79,746**	**$77,842**	**2.4%**

Operating revenues declined by 3.9% to $37.8 million. The decrease in revenue resulted from a decline in regular passenger fares and student fares. The fares declined as a result of reduced ridership. The decline in passenger fares was partially offset by increase in other operating revenues which increased by 29.0% to $1.5 million.

Non-operating revenues declined by 0.6% to $62.5 million. Federal and State of Louisiana grants and subsidies declined $1.8 million or 13.7%. Sales tax revenue declined $0.9 million or 1.7%. The declines in these non-operating revenues were partially offset by an increase of $2.6 million or 150.6% in the Hotel/Motel tax. 2001 was the first full year for the collection of the Hotel/Motel tax; during 2000 the tax was collected for five months.

Capital revenue from federal grants increased by 137.7% to $18.4 million due to the grants earned on construction and engineering of the Canal Street and Desire Street projects.

(Continued)

Table A-3
Regional Transit Authority's Operating Expenses
(in thousands of dollars)

	2001	2000	Increase (Decrease)
Labor and fringe benefits	$ 62,030	$ 58,076	6.8%
Materials, fuel, supplies	6,252	7,656	(18.3)%
Contract services	14,173	13,845	2.4%
Insurance and self-insurance	13,781	5,678	142.7%
Utilities	1,723	1,557	10.7%
Taxes, other than payroll	748	773	(3.2)%
Rent	213	181	17.7%
Purchased Transportation	1,674	2,566	(34.8)%
Miscellaneous	527	667	(21.0)%
Depreciation and amortization	17,197	16,721	2.8%
Total operating expenses	**$118,318**	**$107,720**	**9.8%**

Labor and fringe benefits increased by 6.8% to $62.0 million primarily due to 20 additional employees which were added in late 2000 when the RTA assumed responsibilities for certain paratransit transportation operations which were previously contracted with a private provider. In addition, the RTA granted an increase in wages to its operators and maintenance personnel.

Materials, fuel and supplies expense decreased by 18.3% to $6.3 million due to a decline in diesel fuel costs, parts usage and leased tires expense.

Insurance and self insurances expense increased by 142.7% to $13.8 million due to the substantial increase in the provision for legal claims. The increase resulted from a number of large settlements and judgments which were adverse to the RTA during 2001.

Purchased transportation declined by 34.8% to 1.7 million as a result of the termination of a contract with a private provider for dispatch, administration and operator services; the expenses were reduced by $0.8 million. The responsibility for these functions were assumed by the RTA and resulted in increased labor and fringe benefit costs as previously described.

Depreciation expense increased by 2.8% to $17.2 million as a result of additional property and equipment placed in service in 2001 and 2000.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

As of December 31, 2001, the RTA had invested approximately $311 million in capital assets. Net of accumulated depreciation, the RTA's net capital assets at December 31, 2001 totaled approximately $191 million. This amount represents a net increase (including additions and disposals, net of depreciation) of approximately $3.7 million or 2.0% over December 31, 2000.

The approximate $15 million increase in construction work in progress is primarily the result of the construction and engineering costs of the Canal Street Car Line and the Desire Street Corridor.

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 2001, $2,105,000 in principal payments were made.

Under the terms of its capital leases for 175 Orion buses the RTA makes annual minimum lease payments of $6.0 million including principal and interest.

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 and Desire Street projects; $2.0 million has been borrowed against this facility.

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 the Regional Transit Authority at (504) 248-3888.

REGIONAL TRANSIT AUTHORITY

Statements of Net Assets

December 31, 2001 and 2000

Assets	2001	2000
Current assets:		
Cash (note 2)	$ 5,422,480	3,277,263
Accounts receivable, net (note 3)	18,472,656	17,319,360
Investments, unrestricted (note 2)	10,296,440	4,270,974
Inventories	614,471	1,055,834
Prepaid expenses and other assets	189,160	47,853
Total current assets	34,995,207	25,971,284
Restricted assets, cash and investments (note 2):		
1998 Series bond trustee accounts (note 5)	319,664	294,207
1991 series bond trustee accounts (note 5)	980,877	1,026,160
Self-insurance (note 9)	*1,193,622*	*1,148,466*
Capital lease escrow (note 8)	5,300,232	5,091,386
Total restricted assets	7,794,395	7,560,219
Deferred charges - bond issue costs (note 5)	2,936,775	3,094,847
Property, buildings and equipment, net (note 4)	191,718,620	187,988,207
	$ 237,444,997	224,614,557

Liabilities and Net Assets	2001	2000
Current liabilities (payable from current assets):		
Accounts payable, accrued expenses, and deferred credits	$ 12,784,175	10,522,918
Current portion of legal and small claims (note 9)	4,200,000	4,775,694
Current portion of amounts due to Transit Management of Southeast Louisiana, Inc. (TMSEL)	14,173,255	11,550,819
Current portion of capital lease (note 8)	3,238,608	3,015,025
	34,396,038	29,864,456
Current liabilities (payable from restricted assets):		
Current portion of accrued bond interest	508,084	717,058
Current portion of bonds (note 5)	2,277,000	2,105,000
	2,785,084	2,822,058
Total current liabilities	37,181,122	32,686,514
Long-term liabilities:		
Employee benefits payable (note 7)	7,330,000	7,330,000
Accrued bond interest, less current portion	8,026,962	6,952,539
Legal and small claims, less current portion (note 9)	23,769,991	13,608,979
Amounts due to TMSEL, less current portion	491,067	533,233
Bonds payable, less current portion (note 5)	42,011,625	42,685,614
Capital lease payable, less current portion (note 8)	37,297,822	40,536,430
Deferred revenue	1,590,500	2,439,500
Total long-term liabilities	120,517,967	114,086,295
Total liabilities	157,699,089	146,772,809
Net assets:		
Invested in capital assets, net of related debt	98,358,519	91,976,541
Restricted	7,794,395	7,560,219
Unrestricted (deficit)	(26,407,006)	(21,695,012)
Total net assets	79,745,908	77,841,748
Commitments and contingencies (notes 7, 8 and 9)	-	-
	$ 237,444,997	224,614,557

See accompanying notes to financial statements.

REGIONAL TRANSIT AUTHORITY

Statements of Revenues, Expenses and Changes in Net Assets

For the years ended December 31, 2001 and 2000

	2001	2000
Operating revenues:		
Passenger fares	$ 37,820,257	39,755,115
Other	1,523,768	1,180,643
Total operating revenues	39,344,025	40,935,758
Operating expenses:		
Labor and fringe benefits (note 1(a))	62,030,477	58,076,129
Depreciation	17,196,574	16,720,813
Contract services	14,173,008	13,844,667
Insurance and self-insured costs	13,780,591	5,678,368
Materials, fuel and supplies	6,252,345	7,656,323
Utilities	1,722,555	1,557,426
Purchased transportation	1,674,341	2,566,309
Taxes, other than payroll	747,928	772,622
Rent	213,159	181,060
Miscellaneous	527,135	666,853
Total operating expenses	118,318,113	107,720,570
Loss from operations	(78,974,088)	(66,784,812)
Nonoperating revenues (expenses):		
Tax revenues:		
Sales tax	51,002,378	51,885,145
Hotel/Motel tax	4,265,692	1,701,999
Government operating grants:		
Federal subsidy	9,292,396	10,093,362
State Department of Transportation	1,703,646	2,319,722
Planning and technical study grants	767,110	1,207,872
Gain on sale of assets	704,208	48,828
Investment income	630,445	1,442,472
Interest expense	(5,873,974)	(6,560,289)
Total nonoperating revenues	62,491,901	62,139,111
Net loss before capital revenues	(16,482,187)	(4,645,701)
Capital revenue from federal grants	18,386,347	7,735,569
Increase in net assets	1,904,160	3,089,868
Net assets:		
Balance, beginning of year	77,841,748	74,751,880
Balance, end of year	$ 79,745,908	77,841,748

See accompanying notes to financial statements.

REGIONAL TRANSIT AUTHORITY

Statements of Cash Flows

For the years ended December 31, 2001 and 2000

		2001	2000
Cash flows from operating activities:			
Cash received from operations	$	37,862,445	40,023,680
Cash received from other sources		684,089	699,442
Cash paid to employees and for related expenses		(59,450,207)	(63,007,987)
Cash paid to suppliers		(22,515,715)	(25,414,242)
Cash paid for legal claims		(4,213,479)	(6,591,565)
Net cash provided by (used in) operating activities		(47,632,867)	(54,290,672)
Cash flows from noncapital financing activities:			
Cash received from sales tax		51,384,150	51,039,179
Cash received from hotel/motel tax		4,463,156	552,788
Payment on sales tax anticipation note		-	(5,000,000)
Operating subsidies received from other governments		11,825,089	13,731,559
Net cash provided by noncapital financing activities		67,672,395	60,323,526
Cash flows from capital and related financing activities:			
Acquisition and construction of capital assets		(22,958,243)	(6,674,509)
Capital revenues from federal grants		16,482,712	6,602,036
Interest paid		(5,384,625)	(5,998,617)
Repayment of bonds		(2,125,500)	(1,970,000)
Repayment of capital lease obligation		(3,015,025)	(2,815,373)
Bond issue costs		(160,787)	(624,197)
Proceeds from sale of assets		2,948,452	48,828
Proceeds from bond sale		1,999,611	-
Net cash used for capital and related financing activities		(12,213,405)	(11,431,832)
Cash flows from investing activities:			
Purchases of investment securities		(11,285,260)	(2,805,912)
Proceeds from sale and maturities of investment securities		5,025,618	5,546,766
Interest payments received		630,445	1,457,472
Net cash (used for) provided by investing activities		(5,629,197)	4,198,326
Net increase (decrease) in cash and cash equivalents		2,196,926	(1,200,652)
Cash and cash equivalents at beginning of year		3,277,263	4,477,915
Cash and cash equivalents at end of year	$	5,474,189	3,277,263

(Continued)

REGIONAL TRANSIT AUTHORITY

Statements of Cash Flows

For the years ended December 31, 2001 and 2000

		2001	2000
Reconciliation of loss from operations to net cash provided by (used in) operating activities:			
Loss from operations	$	(78,974,088)	(66,784,812)
Adjustments to reconcile loss from operations to net cash provided by (used in) operating activities:			
Depreciation		17,196,574	16,720,813
Amortization of bond issue costs		318,859	276,615
Increase in allowance for doubtful accounts		103,555	95,420
(Increase) decrease in accounts receivable		5,611	261,108
(Increase) decrease in prepaid assets		(141,307)	14,977
Decrease in inventory		441,363	722,410
Increase in accounts payable and accrued expenses		2,099,978	1,033,198
Increase in deferred revenue		(849,000)	(852,500)
(Decrease) increase in amounts due to TMSEL		2,580,270	(4,931,858)
(Decrease) increase in the provision for legal and small claims liability		9,585,318	(846,043)
Net cash provided by (used in) operating activities	$	(47,632,867)	(54,290,672)

See accompanying notes to financial statements.

(1) Summary of Significant Accounting Policies

(a) Organization and Reporting Entity

The Regional Transit Authority (RTA) is an independent political subdivision of the State of Louisiana created in 1979 by Act 439 of the Louisiana Legislature in order to provide mass transportation within its jurisdiction, which comprises the Greater New Orleans area. Effective July 1, 1983 under a transfer agreement among the RTA, the City of New Orleans (the City) and New Orleans Public Service, Inc. (NOPSI), the RTA assumed responsibility for all mass transit operations in Orleans Parish and acquired transit-related assets and assumed certain transit-related liabilities of NOPSI and of the City through purchase, funded by federal and local government grants, and through contributions from the City. Subsequently, the RTA has also assumed responsibility for mass transit operations of the City of Kenner. The RTA's 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, 2001 and 2000, two positions and one position, respectively, on the Commission were vacant.

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

The RTA adopted the provisions of Governmental Accounting Standards Board Statement No. 34 – *Basic Financial Statements – and Management's Discussion and Analysis – for the State and Local Governments* (Statement 34), in 2001, effective January 1, 2000. Statement 34 establishes financial reporting standards for all state and local governments and related entities. Statement 34 primarily relates to presentation and disclosure requirements and had no impact on net assets. The impact was on the presentation of net assets and the inclusion of management's discussion and analysis.

(c) 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 government-wide and proprietary fund 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.

(d) ***Restricted Assets***

Certain assets, principally consisting of cash and investments, are segregated and classified as restricted assets, which may not be used except in accordance with contractual terms, under certain conditions, or for specific board-designated purposes.

(e) ***Investments***

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

(f) ***Inventories***

Inventories, principally repair parts and supplies, are stated at cost, which approximates market. Cost is determined by the average cost method.

(g) ***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

(h) Federal and State Grants

Federal and state grants are made available to the RTA for the acquisition of public transit facilities, planning studies, buses and other transit equipment. Unrestricted operating grants and grants restricted as to purpose, but not contingent on the actual expenditures of funds, are 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.

(i) 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, 2001 and 2000, included in current liabilities, was approximately $2.7 million and $2.6 million, respectively.

(j) 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.

(k) 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.

(l) Bond Issuance Costs

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

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

(m) 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.

(Continued)

(n) Deferred Revenue

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

(o) 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.

(p) Reclassification of Prior Year Balances

Certain amounts in the 2000 financial statements have been reclassified to conform to the 2001 presentation.

(2) Cash and Investments

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

	December 31, 2001		December 31, 2000	
	Restricted	Unrestricted	Restricted	Unrestricted
Cash and money market	$ 1,305,700	5,422,480	1,324,815	3,277,263
Investments, at fair value:				
U.S. Government Treasury and Agency securities	6,488,695	9,948,304	6,235,404	3,795,376
Certificates of deposit	-	348,136	-	475,598
	6,488,695	10,296,440	6,235,404	4,270,974
	$ 7,794,395	15,718,920	7,560,219	7,548,237

Actual cash in banks and certificates of deposit as of December 31, 2001 and 2000, for restricted and unrestricted bank accounts, before outstanding checks and reconciling items, was $9,488,897 and $6,043,961, respectively. Of the total bank balances at December 31, 2001 and 2000, all amounts were covered by federal depository insurance ($301,932) or by collateral held in the RTA's name by its agent ($10,615,535).

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, 2001 and 2000, approximately $1,194,000 and $1,148,000, respectively, of restricted assets was pledged as collateral to the Louisiana Office of Workman's Compensation to maintain RTA/TMSEL's self-insurance certificate.

(Continued)

(3) Accounts Receivable

Accounts receivable consist of the following as of December 31:

	2001	2000
Sales tax	$ 9,226,798	9,608,570
Hotel/motel tax	951,747	1,149,211
Federal capital grants	6,608,434	4,704,799
State operating subsidy	237,931	299,868
Passenger (transpass and visitour)	669,482	657,415
Property damage	253,601	235,395
Orleans Parish School Board	625,445	679,700
Kenner operating subsidy	37,578	134,176
Due from lease escrow	25,000	25,000
Other	255,634	168,357
	18,891,650	17,662,491
Less allowance for uncollectible amounts	(418,994)	(343,131)
	$ 18,472,656	17,319,360

(4) Property, Buildings and Equipment

A summary of changes in fixed assets follows:

	January 1, 2001	Additions	Deletions	December 31, 2001
Land	$ 9,188,812	-	(2,200,000)	6,988,812
Buildings	85,713,595	6,498	(552,375)	85,167,718
Equipment, primarily transportation vehicles	160,819,255	4,094,331	(1,670,019)	163,243,567
Furniture and fixtures	22,846,809	5,102,400	(4,410,358)	23,538,851
Construction in progress	17,705,625	15,347,241	(213,086)	32,839,780
	296,274,096	24,550,470	(9,045,838)	311,778,728
Accumulated depreciation and amortization	(108,285,889)	(17,196,574)	5,422,355	(120,060,108)
	$ 187,988,207			191,718,620

(Continued)

	January 1, 2000	Additions	Deletions	December 31, 2000
Land	$ 9,220,312	-	(31,500)	9,188,812
Buildings	85,693,645	19,950	-	85,713,595
Equipment, primarily transportation vehicles	160,380,067	1,430,753	(991,565)	160,819,255
Furniture and fixtures	22,643,859	394,862	(191,912)	22,846,809
Construction in progress	11,919,201	6,394,105	(607,681)	17,705,625
	289,857,084	8,239,670	(1,822,658)	296,274,096
Accumulated depreciation and amortization	(92,782,305)	(16,720,813)	1,217,229	(108,285,889)
	$ 197,074,779			187,988,207

At December 31, 2001 and 2000, equipment includes transportation vehicles under capital lease with a net book value of $30,896,115 and $34,822,502. Interest capitalized during 2001 was $374,032. No interest was capitalized in 2000. Construction in progress is composed of the following as of December 31, 2001:

Canal Street Corridor	$ 27,766,722
Desire Corridor	3,126,681
Other	1,946,377
Total construction in progress	$ 32,839,780

(5) Long-term Debt

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

	2001	2000
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	$ 22,920,000	24,050,000
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	16,755,733	17,730,733
	39,675,733	41,780,733

		2001	2000
Subtotal carry forward from previous page	$	39,675,733	41,780,733
2000A Series, LCDA Revenue Bonds, variable interest rate of 3.26% as of December 31, 2001, due in annual principal debt service requirements ranging from $32,000 to $120,911, final payment due November 2029		1,979,111	-
		41,654,844	41,780,733
Plus unamortized premium		2,633,781	3,009,881
Less current maturities		2,277,000	2,105,000
Long-term debt less current maturities	$	42,011,625	42,685,614

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 $2,633,781 and $3,009,881 at December 31, 2001 and 2000, 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, 2001 and 2000.

2000 and 2000A Bond Series - Capital Projects and Equipment Acquisition Program

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 Corridor and Desire Street Corridor 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 2000A bond series, the amount drawn down under this agreement as of December 31, 2001 was $1,999,611. The principal balance as of December 31, 2001 is $1,979,111 of which $32,000 is due in 2002. For the 2000 bond series, no amount was drawn down in 2001. No amount was drawn down for either bond series in 2000. Total bond issuance costs of $160,787 were incurred in 2001. These costs will be amortized over the remaining life of the agreement. Subsequent to December 31, 2001, RTA drew down an additional $3,055,000 under the 2000 Bond Series for capital project match.

Debt Service Requirements

The following represents the debt service requirements for the bond issues as of December 31, 2001:

	1991 and 1998A Bonds Principal	1991 and 1998A Bonds Interest	2000A Bonds Principal	2000A Bonds Interest	Total Principal	Total Interest
	$					
2002	2,245,000	2,389,443	32,000	64,045	2,277,000	2,453,488
2003	2,405,000	2,233,313	34,000	62,972	2,439,000	2,296,285
2004	2,575,000	2,059,613	35,600	61,840	2,610,600	2,121,453
2005	2,760,000	1,873,417	37,600	60,649	2,797,600	1,934,066
2006	2,965,000	1,671,217	39,500	59,397	3,004,500	1,730,614
2007-2011	14,617,950	8,556,225	232,400	275,670	14,850,350	8,831,895
2012-2016	8,790,360	14,381,240	301,500	232,508	9,091,860	14,613,748
2017-2021	3,317,423	19,857,535	392,200	176,400	3,709,623	20,033,935
2022-2026	-	-	509,200	103,518	509,200	103,518
2027-2029	-	-	365,111	18,303	365,111	18,303
	$ 39,675,733	53,022,003	1,979,111	1,115,302	41,654,844	54,137,305

Changes in long-term debt

Long-term debt activity for the year ended December 31, 2001 and 2000 are as follows:

	January 1, 2001	Additions	Payments	December 31, 2001	Due Within One Year
1998 Series, Sales Tax Refunding Bonds	$ 24,050,000	-	(1,130,000)	22,920,000	1,210,000
1991 Series, Sales Tax Revenue Bonds	17,730,733	-	(975,000)	16,755,733	1,035,000
2000A Series, LCDA Revenue Bonds	-	1,999,610	(20,500)	1,979,110	32,000
	$ 41,780,733	1,999,610	(2,125,500)	41,654,843	2,277,000

	January 1, 2000	Additions	Payments	December 31, 2000
1998 Series, Sales Tax Refunding Bonds	$ 25,100,000	-	(1,050,000)	24,050,000
1991 Series, Sales Tax Revenue Bonds	18,650,733	-	(920,000)	17,730,733
	$ 43,750,733	-	(1,970,000)	41,780,733

(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, 1999, the TMSEL Pension Plan was amended to increase the multiplier from 1.60% to 1.80% 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 1.80% to 1.90%. To fund these benefits, the Members of ATU Division 1560 began contributing 3.00% of their bi-weekly gross wages. As of January 1, 1999, the total amount the operators contribute to the Plan is 5.15% of total salary, which reflects the original 3.00% plus the impact of the changes in the multiplier and change in the age of participation. On November 15, 2001, the Plan was amended to increase the multiplier from 1.90% to 2.0% effective retroactively to October 1, 2001 for members of ATU Division 1560.

Effective April 18, 1996, Members of Amalgamated Transit Union 1611 received "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 1.80% to 1.90% 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). As of January 1, 2001 the total amount the Unions contribute 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 Union 1700-4 contribute 1.27% of gross wages. Since July 1, 1998, the total amount the Members of IBEW Local Union 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 1.60% to 1.80, with TMSEL paying 80% of the cost and the members of IBEW 1700-4 paying 20% of the cost effective February 28, 2001. The Plan was further amended to increase the multiplier from 1.80% to 1.90% with members of IBEW 1700-4 paying 100% of the cost. To fund this benefit, members of IBEW 1700-4 contribute an additional 1.83% of gross wages. As of February 28, 2001, members IBEW 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 1.80% to 1.90%.

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:

	2001	2000
Actuarial present value of benefit obligation:		
Vested benefit obligation	$ 105,639,243	94,241,366
Nonvested benefit obligation	11,036,087	10,373,148
Accumulated benefit obligation	116,675,330	104,614,514
Projected future compensation levels effect	17,969,755	18,496,172
Projected benefit obligation for service rendered to date	134,645,085	123,110,686
Plan assets at fair value	100,891,000	106,335,056
Deficiency in plan assets over projected benefit obligation	(33,754,085)	(16,775,630)

	2001	2000
Deficiency in plan assets over projected benefit obligation, carry forward from previous page	(33,754,085)	(16,775,630)
Unrecognized prior service cost	10,444,933	11,768,424
Unrecognized net loss from past experience different from that assumed	(378,725)	(462,700)
Unrecognized net liability	17,436,559	328,402
Accrued pension cost	$ (6,251,318)	(5,141,504)

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

	2001	2000
Service cost - benefits earned during the period	$ 2,366,619	2,264,218
Interest cost on projected benefit obligation	9,070,770	8,683,397
Actual return on plan assets	5,073,340	(4,324,896)
Net amortization and deferral	(12,298,632)	(2,619,050)
Net periodic pension cost prior to change in estimate	$ 4,212,097	4,003,669

The most recent projected pension benefit obligation was computed based on the actuarial valuation performed as of January 1, 2001. Significant actuarial assumptions used in the valuation include (a) a *rate of return on the investment of present and future assets of 8.0% per year compounded annually,* (b) a discount rate of 7.50%, and (c) projected salary increases including an inflation component of 3.50%.

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 $4,716,603 and $3,064,357 in 2001 and 2000, respectively. The significant actuarial assumptions used to compute the actuarially determined contribution requirements are the same as those used to compute the projected pension benefit obligation as described above.

As of December 31, 2001 and 2000, the ERISA funding requirement of approximately $4,036,000 and $2,890,000 is included in amounts due to TMSEL on the statements of nets assets.

(7) Other Post Employment Retirement Benefits

<u>NOPSI Retiree Employees</u>

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 2001 and 2000, total TMSEL expense relating to the above plan for retirees was $1,733,698 and $1,370,061, respectively. As of December 31, 2001, 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 office and storage space. The operating leases contain renewal options for varying periods at equal or increased annual rentals.

Future operating lease payments for the five years following December 31, 2001 are as follows:

2002	$ 160,692
2003	160,692
2004	160,692
2005	78,163

Total lease and rental payments for the years ended December 31, 2001 and 2000 were $213,159 and $181,060, respectively.

(b) Capital Leases

The RTA has entered into a lease agreement to acquire 175 buses. As of December 31, 1999, the RTA has received the 175 buses. The term of the lease is 12 years. The lease is recorded at the present value of the future minimum lease payments as of the date of inception. The lease is payable over 12 years, with the last payment due on May 1, 2010. Semiannual payments are $2,999,462 with a balloon payment of $7,554,336 due on May 1, 2010. The RTA is reimbursed for 80% of its 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 contributed capital. The interest rate on the capital lease is 6.97%.

The following is a schedule of future minimum lease payments under the capital lease and the present value of the net minimum lease payments as of December 31, 2001:

	Present value of minimum lease payments	Interest	Total minimum lease payments
2002	$ 3,238,608	2,760,316	5,998,924
2003	3,457,805	2,541,119	5,998,924
2004	3,703,013	2,295,911	5,998,924
2005	3,965,611	2,033,313	5,998,924
2006	4,246,830	1,752,094	5,998,924
2007-2010	21,924,563	3,626,545	25,551,108
	40,536,430	15,009,298	55,545,728
Less current portion	3,238,608		
Long-term portion	$ 37,297,822		

(c) *Contingencies*

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

(d) *Grant Commitments*

As of December 31, 2001 and 2000, the RTA is committed to using earnings and debt proceeds to fund local matching requirements under grants for which a contractual obligation existed at the end of each year. The outstanding federal share of grants at December 31, 2001 and 2000 totals approximately $77,400,000 and $87,000,000, respectively, and requires commitments of local matching funds totaling approximately $19,300,000 and $21,800,000, respectively.

(9) Self-insurance and Legal Claims

The RTA is exposed to various risks of loss related to torts, damage to and destruction of assets, errors and omissions, injuries to TMSEL employees and natural disasters. The RTA is self-insured for general liability claims up to $1,000,000 prior to April 1, 1996 and $2,000,000 thereafter; commercial insurance for general liability covers 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. 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, 2001 and 2000, $27,969,991 and $18,384,673, 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, 2001 and 2000, were $23,769,991 and $13,608,979, 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, 2001 and 2000.

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
1999	$	17,423,442	7,529,305	(5,722,031)	19,230,716
2000		19,230,716	5,053,332	(5,899,375)	18,384,673
2001		18,384,673	12,363,697	(2,778,379)	27,969,991

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 $4,421,460 and $4,757,524 as of December 31, 2001 and 2000, respectively. As of December 31, 2001 and 2000, approximately $1,194,000 and $1,148,000, 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

Through the competitive procurement process, a new five-year contract between the RTA and METRO became effective November 1, 1997. METRO is to provide management and supervision of the transit system's operations. Management fees, reimbursement of expenses and expenses including professional consulting services paid under the current contract to METRO for the years ended December 31, 2001 and 2000 were $1,210,436 and $1,271,492, respectively. A portion of the 2001 and 2000 expenditures related to capital items are capitalized.

(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 2001 and 2000.

The members of the Board of Commissioners who were paid a per diem for the attendance at board meetings in calendar years 2001 and 2000 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, 2001 and 2000 were as follows:

		Per Diem	Expense Reimbursement	Total
2001:				
Daniel Alfortish	$	900	-	900
Charlotte Burnell		900	2,291	3,191
Ronald Gardner		600	2,941	3,541
Earline Roth		900	2,441	3,341
Dana Pecorara		675	2,006	2,681
	$	3,975	9,679	13,654

		Per Diem	Expense Reimbursement	Total
2000:				
Daniel Alfortish	$	825	2,622	3,447
Charlotte Burnell		675	2,901	3,576
Ronald Gardner		600	2,335	2,935
Earline Roth		900	5,052	5,952
Dana Pecorara		675	2,319	2,994
Robert Tucker		-	6,338	6,338
Connie Goodly		-	740	740
	$	3,675	22,307	25,982

(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, 2001, 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, 2001 and 2000

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

	Sales Tax Bond	Sales Tax Capital	Sales Tax Contingency	Sales Facility	Other Accounts	Total
Beginning balance - January 1, 2000	$ 1,765	269,895	120,886	2,418	50,817	445,781
Cash receipts:						
Investment income (loss)	100	62,077	(5,946)	125	223	56,579
Transfer for principal and interest	-	3,008,108	(39,993)	-	-	2,968,115
Total cash receipts	100	3,070,185	(45,939)	125	223	3,024,694
Cash disbursements:						
Principal and interest payments	-	(3,051,511)	(68,356)	-	(50,652)	(3,170,519)
Transfer for debt service	-	-	-	-	-	-
Expense payments	(9)	(5,448)	(292)	-	-	(5,749)
Total disbursements	(9)	(3,056,959)	(68,648)	-	(50,652)	(3,176,268)
Beginning balance - January 1, 2001	1,856	283,121	6,299	2,543	388	294,207
Cash receipts:						
Investment income (loss)	73	37,686	95	99	-	37,953
Transfer for principal and interest	-	3,041,706	-	-	-	3,041,706
Total cash receipts	73	3,079,392	95	99	-	3,079,659
Cash disbursements:						
Principal and interest payments	-	(3,042,103)	-	-	-	(3,042,103)
Transfer for debt service	-	-		-	-	
Expense payments	(10)	(5,682)	(6,394)	(13)	-	(12,099)
Total disbursements	(10)	(3,047,785)	(6,394)	(13)	-	(3,054,202)
Ending balance - December 31, 2001	$ 1,919	314,728	-	2,629	388	319,664

See accompanying independent auditors' report.

REGIONAL TRANSIT AUTHORITY

Schedule of Changes in Restricted Asset Bond Accounts

For the years ended December 31, 2001 and 2000

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, 2000	$ -	121,735	367,190	3,171,263	3,660,188
Cash receipts:					
Transfer for principal and interest	604,174	-	1,343,287	-	1,947,461
Gain/Loss	-	-	-	193,822	193,822
Investment income		6,147	50,166	77,051	133,364
Total cash receipts	604,174	6,147	1,393,453	270,873	2,274,647
Cash disbursements:					
Transfer for debt service	-	(7,526)	(1,463,848)	(3,437,302)	(4,908,676)
Total disbursements	-	(7,526)	(1,463,848)	(3,437,302)	(4,908,676)
Beginning balance - January 1, 2001	604,174	120,356	296,795	4,834	1,026,159
Cash receipts:					
Transfer for principal and interest	-	-	1,620,667	-	1,620,667
Gain/Loss	-	-		-	-
Investment income	27,341	4,543	28,277	189	60,350
Total cash receipts	27,341	4,543	1,648,944	189	1,681,017
Cash disbursements:					
Transfer for debt service	(88,531)	(12,900)	(1,624,843)	(25)	(1,726,299)
Capital acquisitions and construction cost	-	-	-	-	-
Total disbursements	(88,531)	(12,900)	(1,624,843)	(25)	(1,637,768)
Ending balance - December 31, 2001	$ 542,984	111,999	320,896	4,998	980,877

See accompanying independent auditors' report.

REGIONAL TRANSIT AUTHORITY

Single Audit Reports

December 31, 2001

REGIONAL TRANSIT AUTHORITY
New Orleans, Louisiana

Single Audit Reports

December 31, 2001

Table of Contents

P&N

Postlethwaite & Netterville
A Professional Accounting Corporation
Associated Offices in Principal Cities of the United States
www.pncpa.com

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, 2001, and have issued our report thereon dated May 13, 2002 which included an explanatory paragraph noting the adoption of Governmental Accounting Standards Board Statement No. 34. 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. However, we noted other matters involving the internal control over financial reporting, which we have reported to management of the RTA in a separate letter dated May 13, 2002.

30th Floor - Energy Centre • 1100 Poydras Street • New Orleans, LA 70163-3000 • Tel: 504.569.2978
2324 Severn Avenue, Suite A • Metairie, LA 70001 • Tel: 504.837.5990 • Fax: 504.834.3609

This report is intended solely for the information of the RTA, the RTA's management and federal awarding agencies and pass-through entities, such as the State of Louisiana and Legislative Auditor's Office, and is not intended to be and should not be used by anyone other than these specified parties.

Postlethwaite & Netterville

May 13, 2002

P&N

Postlethwaite & Netterville

A Professional Accounting Corporation
Associated Offices in Principal Cities of the United States
www.pncpa.com

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, 2001. 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, 2001. 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 01-1, 01-2 and 01-3.

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.

30th Floor - Energy Centre • 1100 Poydras Street • New Orleans, LA 70163-3000 • Tel: 504.569.2978
2324 Severn Avenue, Suite A • Metairie, LA 70001 • Tel: 504.837.5990 • Fax: 504.834.3609

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the RTA's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. A reportable condition is described in the accompanying schedule of findings and questioned costs as item 01-4.

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. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions, and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the RTA as of and for the year ended December 31, 2001, and have issued our report thereon dated May 13, 2002 which included an explanatory paragraph noting the adoption of Governmental Accounting Standards Board Statement No. 34. 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 State and 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 and federal awarding agencies and pass-through entities, such as the State of Louisiana and Legislative Auditor's Office, and is not intended to be and should not be used by anyone other than these specified parties.

Postlethwaite & Netterville

May 13, 2002

REGIONAL TRANSIT AUTHORITY
New Orleans, Louisiana

Schedule of Expenditures of Federal Awards

For the year ended December 31, 2001

Federal Grantor/Program Title	CFDA Number		Expenditures
Federal Transit Administration – Federal Transit cluster:			
Capital Investment Grants	20.500	$	12,884,796
Formula Grants	20.507		15,561,057
Total Federal Awards		$	28,445,853

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, 2001

(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, 2001. 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, 2001.

(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	$ 9,292,396
Planning and technical study grants	767,110
Capital revenue from federal grants	18,386,347
	$28,445,853

REGIONAL TRANSIT AUTHORITY
New Orleans, Louisiana

Schedule of Findings and Questioned Costs

Year ended December 31, 2001

(1) Summary of Auditors' Results

(a) The type of report issued on the general purpose 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: yes; 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: $853,376

(i) Auditee qualified as a low-risk auditee under Section 530 of OMB Circular A-133: yes

(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

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.

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 purchased new furniture and fixtures during 2001 that replaced many of the items included in the physical inventory. The property accountant stated that it was not effective to perform the reconciliation because of the replacement of the inventory.

Recommendation: An investigation of any differences should be performed to determine the cause of the difference.

RTA Response: A reconciliation of the fixed asset inventory was performed using the fixed asset file to the general ledger. However, the physical reconciliation to the general ledger was not performed. It was mainly due to the recent furniture acquisition which took place during the time physical counts would have been performed. A lack of manpower and other factors contributed to the failure to reconcile actual record count to actual physical count. The process used to reconcile the actual fixed inventory to the general ledger will be reassessed. Future changes will consist of implementing a new bar coding system for asset identification and easy count control. A request will be made to hire an additional employee to handle physical counts and the everyday maintenance required. We will also request assistance from the Information Technology Department in an effort to obtain intranet access for the existing fixed asset file maintenance form (FAFM). We will work in conjunction with the Internal Audit Department to redesign the policies and procedures manual for property management.

01-2 FINANCIAL STATUS REPORTS

Condition: Of the four Financial Status Reports traced to supporting documentation, one of the amounts on one report did not agree to supporting documentation due to a clerical input error.

Criteria: Reports should agree with accounting records.

Effect: Reports may be filed incorrectly.

Cause: While the RTA has a procedure for checking the reports before filing, the procedure was not effective for the report selected. The error was corrected in the subsequent report.

Recommendation: Personnel performing the reviews of reports filed should be reminded of the importance of the accuracy of the report.

RTA Response: Grants Administration concurs with this finding that due to a clerical error, the amount reported in the third quarter did not agree with the supporting documentation. To ensure that this isolated incident does not occur again, the Senior Grants Specialist and Department Manager, now intensely scrutinize the reports for accuracy before submitting them to the Federal Transit Administration.

01-3 INDIRECT COST PLAN

Condition: The RTA did not prepare the indirect cost plans for 1998, 1999, and 2000 until December 2001, which were then submitted to the FTA.

Criteria: As required by FTA Circular 5010.1C, once the FTA has accepted a grantee's cost allocation plan or indirect cost rate proposal, the grantee must update it annually. The update should be retained and made available for review at the time of the grantee's organization-wide audit.

Effect: The RTA may not have charged the correct indirect cost rates during 2001.

Cause: There is no process in place to ensure that an indirect cost plan is prepared upon conclusion of the annual financial statement audit.

Recommendation: Procedures should be established to ensure that an indirect cost plan is prepared and submitted upon conclusion of the annual financial statement audit.

RTA Response: The RTA prepared a preliminary indirect cost plan for 2001. Upon completion of the audit we will prepare a final cost plan.

01-4 DAVIS-BACON ACT

Condition: While the provisions are included in construction contracts for Davis-Bacon prevailing wages and for reporting by contractors, the RTA does not test compliance with the requirements of the Davis-Bacon Act of individual contractors.

Criteria: As required by the Davis-Bacon Act, all laborers and mechanics employed by contractors or subcontractors to work on construction contracts in excess of $2,000 financed by Federal assistance funds must be paid wages not less than those established for the locality of the project (prevailing wage rates) by the DOL.

Effect: The RTA cannot provide reasonable assurance that individual construction contractors are complying with the requirements of the Davis-Bacon Act.

Cause: There are currently no procedures established to monitor compliance of individual contractors other than the reporting requirement.

Recommendation: Procedures should be established to ensure that the actual compliance with the requirements of the Davis-Bacon Act are tested.

RTA Response: The Internal Audit Plan for 2002 has budgeted hours to determine compliance with the requirements of the Davis Bacon Act. In addition, the Construction Manager for the project will also perform monitoring to ensure compliance with this provision.

REGIONAL TRANSIT AUTHORITY
New Orleans, Louisiana

Summary Schedule of Prior Audit Findings

Finding 00-1:

Condition: The third quarter FTA Quarterly Status Report was not timely filed.

Current Status: **This was an isolated instance. At times the Team System used to electronically file reports is not properly working therefore will cause reports to be submitted in an untimely manner.**

Finding 00-2:

Condition: Of the seven (7) contract files reviewed, one contained no documentation that a cost/price analysis was performed.

Current Status: **Presently all capital projects have both of the above performed. The depth of these activities is dependent upon the particular project.**

Finding 00-3:

Condition: The RTA awarded a $300,000 contract when only a single bid was received without obtaining FTA approval.

Current Status: **Resolved.**

P&N

Postlethwaite & Netterville

A Professional Accounting Corporation
Associated Offices in Principal Cities of the United States
www.pncpa.com

May 13, 2002

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, 2001, and have issued our report thereon dated May 13, 2002 which included an explanatory paragraph noting the adoption of Governmental Accounting Standards Board Statement No. 34. 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

30th Floor - Energy Centre • 1100 Poydras Street • New Orleans, LA 70163-3000 • Tel: 504.569.2978
2324 Severn Avenue, Suite A • Metairie, LA 70001 • Tel: 504.837.5990 • Fax: 504.834.3609

Appendix A

CURRENT YEAR MANAGEMENT LETTER COMMENTS

Customer Relations Checking Account

Some customer relations disbursement checks have remained outstanding for more than a year. The RTA should implement a policy to initiate a letter to the payee after a check has been outstanding for over six months. If the payee cannot be located, a system should be in place to track the unclaimed funds and report them to the state in accordance with state escheat laws.

Cash Counting Room Reconciliation

Discrepancies between the Cash Counting Room records and the GFI Fare Box records are not being investigated timely by the Supervisor of Transit Data because only monthly reports (rather than daily) are forwarded by the Accounting Department. RTA should initiate a policy to prepare Cash Counting Room reports on a daily basis to the Supervisor of Transit Data in order that discrepancies between the fare box and actual counts can be investigated timely.

In addition, the general ledger amount recorded for deposits in transit did not agree with the supporting schedules. RTA should reconcile the general ledger activity with deposit data on a weekly basis to timely resolve any discrepancies.

Investments Reconciliation

Investments of RTA for which statements are not received are reconciled to the general ledger primarily at the end of the year. In order to ensure that transactions are properly recorded, RTA should reconcile all investments at least quarterly. The reconciliation should be reviewed by the Treasurer for his concurrence.

Travel Advance Receivables

Some travel advance receivables have remained outstanding for more than a year. The RTA should revise their policy to include commissioners in addition to employees. Current procedures should be adhered to and receivables for which proper documentation of expense is not received should be reimbursed from the person advanced or recorded to the appropriate expense account.

East New Orleans Facility Security Cameras

Upon inspection of the security camera monitor at the main guard shack of the East New Orleans Facility, the security camera displays were not clearly visible on the monitor. The RTA should periodically inspect the security equipment to ensure its proper operation. Supervisors and Internal Audit should coordinate the observation of security equipment with other site visits.

Reconciliation of Claims Payments

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 claim year to data in its data processing system and submit this reconciliation to the Accounting Department on a monthly basis. In addition, the Claims Department should assess its case management software as it is becoming unsupported and a new software should be selected and implemented.

Filing of Payroll Authorization Forms

The payroll authorization forms resulting from raises during the current year were not filed in the employee files upon the original request of the information. The forms were filed subsequently as observed in further follow-up. The Human Resources department is currently required to file all payroll authorization forms in the corresponding employee file in a timely manner. The RTA should consider hiring a file retention clerk to file all payroll authorization forms as well as all other employee related information in the corresponding employee file in a timely manner.

Central Filing of Benefit Election Documentation

During the audit, the Human Resource Department had difficulty in locating employee benefit election forms for third party insurance. The supporting documentation for enrollment and election of benefits is currently filed separately from the employee human resource files.

To ensure that the adequate documentation exists, the Human Resources Department should file all enrollment and election documentation in the employee file or in some other organized manner in order to better ensure that necessary documents are being adequately maintained.

Life Insurance Payroll Withholdings

The calculation of the employee contributed portion of the company life insurance did not include the most current pay rates. The tables used in the calculation were not updated at the time that raises were implemented. The impact of this miscalculation was that the employer incurred excess expenses.

All calculations dependent on current pay rates should be based on data that is centrally located and updated. These rates should be verified by Human Resources and Internal Audit. The internal audit recommended above should include a review of all benefit rate calculations.

Contingency for Power Outages

Currently, the computer systems have battery backup units that provide power for a limited number of hours. A lengthy power outage could result in the temperature of the server room rising to a level causing server shut down. The RTA should consider an emergency generator designed at maintaining adequate power for specific circuits in the main building for more than a few hours.

Perpetual Property System

During observation of existence of fixed assets on a sample basis, several items on the perpetual property listing could not be located. Upon further inquiry, it was discovered that the items were old and may have been disposed of and not recorded in the perpetual property system. Internal Audit should perform a review of the perpetual property system to determine whether older items have not been disposed of.

Appendix B

DISPOSITION OF PRIOR YEARS' MANAGEMENT LETTER COMMENTS

PRIOR YEARS' RECOMMENDATION	MANAGEMENT RESPONSE	STATUS	COMMENT DISPOSITION
Legal Reserve Reconciliation			
We recommend that procedures be developed whereby Accounting can adjust reserves as needed on at least a quarterly basis throughout the year.	Concur	Implemented	Quarterly reports are being produced regularly and appropriate adjustments made throughout the year.
Insurance Reserves			
Similar to investments, reserves for health, legal, small claims and workers' compensation are primarily recorded during the year-end close out process. We recommend that these reserves be analyzed and adjusted at least quarterly, because of the severity of fluctuation that may occur during the year.	Concur	Implemented	Quarterly reports are being produced regularly and appropriate adjustments made throughout the year. Small claims and workers' compensation have been outsourced to a third-party administrator. Reports are provided to Legal and Accounting as required and are reviewed accordingly.

Appendix C

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

Current Year Comments

Customer Relations Checking Account

Some customer relations disbursement checks have remained outstanding for more than a year. The RTA should implement a policy to initiate a letter to the payee after a check has been outstanding for over six months. If the payee cannot be located, a system should be in place to track the unclaimed funds and report them to the state in accordance with state escheat laws.

RTA Response

The Accounting Department will communicate with the Legal Department the status of stale dated checks. This process has taken place in the past, however it was verbally agreed upon to allow certain checks to remain open due to the possibility of them becoming a litigation case.

The outstanding checklist already identifies the unclaimed funds, however, we intend to design a plan to start submitting these funds to the state in accordance with state laws.

Cash Counting Room Reconciliation

Discrepancies between the Cash Counting Room records and the GFI Fare Box records are not being investigated timely by the Supervisor of Transit Data because only monthly reports (rather than daily) are forwarded by the Accounting Department. RTA should initiate a policy to prepare Cash Counting Room reports on a daily basis to the Supervisor of Transit Data in order that discrepancies between the fare box and actual counts can be investigated timely.

In addition, the general ledger amount recorded for deposits in transit did not agree with the supporting schedules. RTA should reconcile the general ledger activity with deposit data on a weekly basis to timely resolve any discrepancies.

RTA Response

Effective immediately, the Manager of Revenue Operations will provide to the Supervisor of Transit Data a detailed report of the previous day actual count of bus and streetcar revenue.

Investments Reconciliation

Investments of RTA for which statements are not received are reconciled to the general ledger primarily at the end of the year. In order to ensure that transactions are properly recorded, RTA should reconcile all investments at least quarterly. The reconciliation should be reviewed by the Treasurer for his concurrence.

<u>RTA Response</u>

The Accounting Department does not receive investment information to prepare quarterly reconciliation's. However, upon receipt of all the necessary information, this reconciliation will be performed quarterly.

The Treasury Department will instruct all financial institutions for which RTA investments are placed to forward directly to the Accounting Department monthly investment statements to allow for reconciliations. On a monthly basis the Treasurer will review these reconciliations with the Director of Accounting.

Travel Advance Receivables

Some travel advance receivables have remained outstanding for more than a year. The RTA should revise their policy to include commissioners in addition to employees. Current procedures should be adhered to and receivables for which proper documentation of expense is not received should be reimbursed from the person advanced or recorded to the appropriate expense account.

<u>RTA Response</u>

There are no exceptions to the RTA's travel policy, including travel for commissioners. Therefore, the procedures are applicable to any individual traveling on behalf of the RTA.

The Secretary to the Board is in the process of gathering the documentation to resolve any outstanding travel advance receivables.

East New Orleans Facility Security Cameras

Upon inspection of the security camera monitor at the main guard shack of the East New Orleans Facility, the security camera displays were not clearly visible on the monitor. The RTA should periodically inspect the security equipment to ensure its proper operation. Supervisors and Internal Audit should coordinate the observation of security equipment with other site visits.

<u>RTA Response</u>

The security camera monitor at the main guard shack at ENO had a problem with the contrast setting. The problem with the contrast setting has since been corrected. We are also in the process of upgrading the security equipment for the new guard shack which will be in place soon.

Reconciliation of Claims Payments

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 claim year to data in its data processing system and submit this reconciliation to the Accounting Department on a monthly basis. In addition, the Claims Department should assess its case management software as it is becoming unsupported and a new software should be selected and implemented.

RTA Response

The Accounting Department records actual settlement and judgment payments based on payment requests received from the Legal Department. All activity flowing through the settlement account in the general ledger is driven by these transactions. A claim payment reconciliation has not been received from the Legal Department for comparison to the general ledger. However, in the future, the Accounting Department will request this information on a monthly basis so that the general ledger comparison is performed.

The Legal Department will also test payment amounts against monthly conformance reports obtained from Budget. The Legal Department is currently evaluating new case management software and anticipates a new system will be implemented by the end of 2002.

Filing of Payroll Authorization Forms

The payroll authorization forms resulting from raises during the current year were not filed in the employee files upon the original request of the information. The forms were filed subsequently as observed in further follow-up. The Human Resources department is currently required to file all payroll authorization forms in the corresponding employee file in a timely manner. The RTA should consider hiring a file retention clerk to file all payroll authorization forms as well as all other employee related information in the corresponding employee file in a timely manner.

RTA Response

We concur. In addition to Internal Audit, we have requested the Finance Department work with us to re-engineer the department. We will request that the two departments coordinate their efforts as they perform their reviews.

The Department has also experienced a decrease in staffing level within the last few years. The last reduction in force eliminated the position of a Filing/Support Clerk whose duties included the filing of all employment documents within the personnel files.

Central Filing of Benefit Election Documentation

During the audit, the Human Resource Department had difficulty in locating employee benefit election forms for third party insurance. The supporting documentation for enrollment and election of benefits is currently filed separately from the employee human resource files.

To ensure that the adequate documentation exists, the Human Resources Department should file all enrollment and election documentation in the employee file or in some other organized manner in order to better ensure that necessary documents are being adequately maintained.

<u>RTA Response</u>

The Department has taken steps to more efficiently maintain its benefits records by hiring a Benefits Administrator to manage the daily activities of the benefits section. Benefits records are kept separate from personnel files due to the nature of confidential medical & personal data maintained within the benefits folders.

Life Insurance Payroll Withholdings

The calculation of the employee contributed portion of the company life insurance did not include the most current pay rates. The tables used in the calculation were not updated at the time that raises were implemented. The impact of this miscalculation was that the employer incurred excess expenses.

All calculations dependent on current pay rates should be based on data that is centrally located and updated. These rates should be verified by Human Resources and Internal Audit. The internal audit recommended above should include a review of all benefit rate calculations.

<u>RTA Response</u>

This error was corrected when discovered. The department is reviewing its processes to determine the error in updating the life insurance tables. Procedures and performance indicators will be developed to ensure accurate deductions for contributory life insurance.

Contingency for Power Outages

Currently, the computer systems have battery backup units that provide power for a limited number of hours. A lengthy power outage could result in the temperature of the server room rising to a level causing server shut down. The RTA should consider an emergency generator designed at maintaining adequate power for specific circuits in the main building for more than a few hours.

<u>RTA Response</u>

RTA's Plaza facility does not have a generator. IT will research the cost of a diesel powered generator for Plaza and present it to the Grant department for inclusion in RTA's CY2003 capital budget. Our current UPS units have 16KVA of alternate power. This is sufficient to power our systems for several hours enabling a normal shut down in the event power is not restored.

Perpetual Property System

During observation of existence of fixed assets on a sample basis, several items on the perpetual property listing could not be located. Upon further inquiry, it was discovered that the items were old and may have been disposed of and not recorded in the perpetual property system. Internal Audit should perform a review of the perpetual property system to determine whether older items have not been disposed of.

RTA Response

Some of the items listed on the property report did not exist because, at the time of construction at the Canal and ENO facilities, properties were demolished. As a consequence some property items were also destroyed. Due to lack of proper asset identification and authorization they could not be taken off the property records. Efforts will be made in conjunction with Internal Audit to identify destroyed items and record necessary disposals.