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REGIONAL TRANSIT AUTHORITY

Financial Statements and Schedules

December 31, 2004

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 7-13-05

REGIONAL TRANSIT AUTHORITY

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P&N

Postlethwaite & Netterville

A Professional Accounting Corporation
Associated Offices in Principal Cities of the United States
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Independent Auditors' Report

Board of Commissioners
Regional Transit Authority:

We have audited the accompanying statements of net assets of Regional Transit Authority (RTA) as of December 31, 2004 and 2003, and the related statements of revenues, expenses and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of RTA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of RTA as of December 31, 2004 and 2003, and the respective changes in financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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

In accordance with *Government Auditing Standards*, we have also issued a report dated June 23, 2005 on our consideration of RTA's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

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

Postlethwaite & Netterville

June 23, 2005

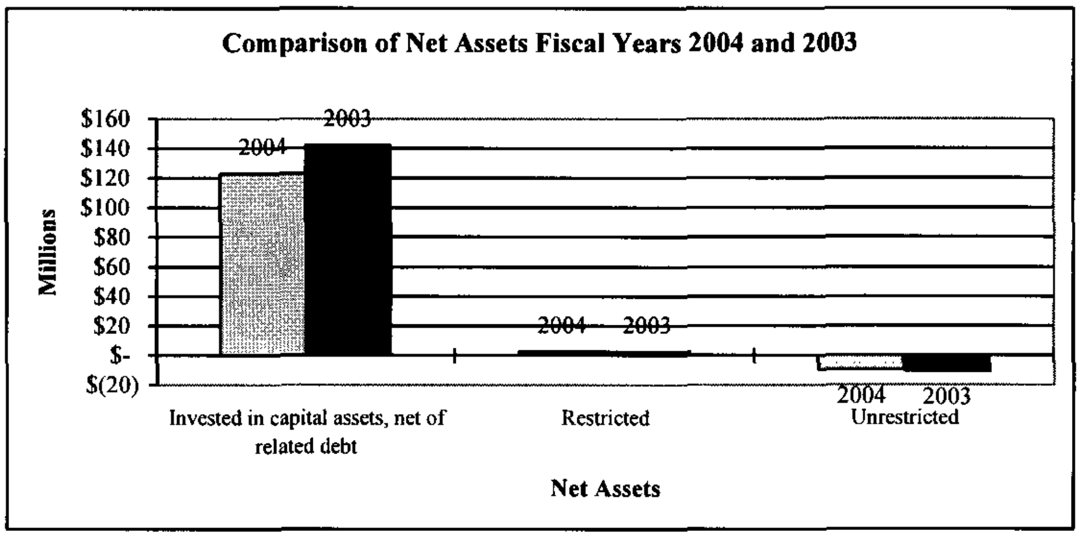
Regional Transit Authority
Management's Discussion and Analysis
Year Ended December 31, 2004

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, 2004. Please read it in conjunction with the RTA's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

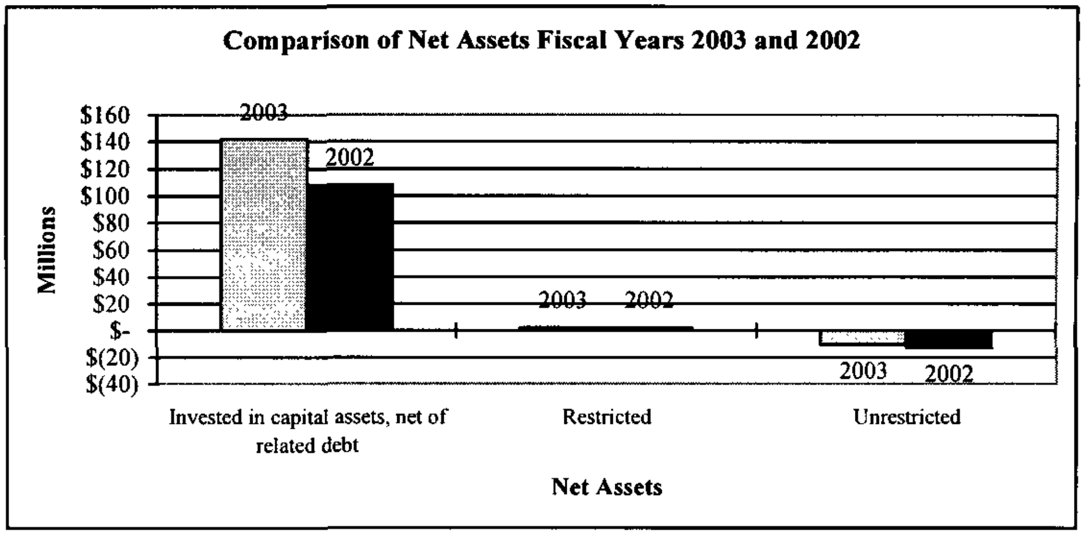
2004

The RTA continued its construction for the Canal Street Streetcar Line and preliminary engineering for the Desire Street Streetcar Line during 2004. The RTA opened the Canal Street Streetcar Line for revenue service on April 18, 2004. Construction expenditures during 2004 totaled $10.8 million. The Hotel/Motel tax collected by RTA generated $4.5 million of revenues in 2004. Capital grants for the construction and acquisition of property and equipment decreased by 46.6% to $27.5 million.



2003

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



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 decrease in the RTA's net assets during 2004 is an indicator of its financial health. The decrease is largely attributed to a decrease in capital contributions as a result of the completion of the Canal Street Streetcar project.

FINANCIAL ANALYSIS OF THE RTA

2004 Net Assets

The RTA's total net assets at December 31, 2004 reached approximately $115.6 million, a 13.6% decrease from December 31, 2003 (See Table A-1). Total assets decreased 1.8% to $320.9 million, and total liabilities increased 6.4% to $205.3 million.

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

	2004	2003	Increase (Decrease)
Current assets	$ 54,064	$ 51,900	4.2%
Restricted assets	2,475	2,434	1.7%
Capital assets	261,512	268,296	(2.5)%
Long-term assets	2,844	4,049	(29.8)%
Total assets	**320,895**	**326,679**	**(1.8)%**
Current liabilities	38,150	43,282	(11.9)%
Long-term liabilities	167,143	149,629	11.7%
Total liabilities	**205,293**	**192,911**	**6.4%**
Net assets:			
Invested in capital assets, net of related debt	123,042	141,955	(13.3)%
Restricted	2,475	2,434	1.7%
Unrestricted (deficit)	(9,915)	(10,621)	(6.6)%
Total net assets	**115,602**	**133,768**	**(13.6)%**
Total liabilities and net assets	**$ 320,895**	**$ 326,679**	**(1.8)%**

(Continued)

2003 Net Assets

The RTA's total net assets at December 31, 2003 reached approximately $133.8 million, a 37.1% increase over December 31, 2002 (See Table A-2). Total assets increased 12.6% to $326.7 million, and total liabilities increased 0.2% to $192.9 million.

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

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

2004 Changes in Net Assets

The change in net assets at December 31, 2004 was approximately $18.2 million or 150.2% less than at December 31, 2003. The RTA's total operating revenues decreased by 0.1% to approximately $36.0 million, and total operating expenses increased by 18.3% to approximately $142.4 million. The changes in net assets are detailed in Table A-3, and operating expenses are detailed in Table A-4.

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

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

	2004	2003	Increase (Decrease)
Operating Revenues:			
Passenger fares	$ 34,720	$ 34,941	(0.6)%
Other	1,316	1,123	17.2%
Total operating revenues	**36,036**	**36,064**	**(0.1)%**
Operating Expenses:			
Operating expenses	120,796	103,070	17.2%
Depreciation and amortization	21,653	17,382	24.6%
Total operating expenses	**142,449**	**120,452**	**18.3%**
Operating loss	(106,413)	(84,388)	26.1%
Non-operating revenues-net	60,768	69,172	(12.1)%
Capital contributions	27,479	51,425	(46.6)%
Change in net assets	**(18,166)**	**36,209**	**(150.2)%**
Total net assets, beginning of the year	**133,768**	**97,559**	**37.1%**
Total net assets, end of the year	**$115,602**	**$133,768**	**(13.6)%**

Operating revenues declined by 0.1% to $36.0 million. The decrease in revenue resulted from a decline in regular passenger ridership and student ridership offset by an increase in paratransit ridership. The decline in passenger fares was accompanied by an increase in other operating revenues which increased by 17.2% to $1.3 million.

Non-operating revenues decreased by 12.1% to $60.8 million. Federal and State of Louisiana grants and subsidies increased $0.9 million or 5.8%. Sales tax revenue decreased $8.8 million or 16.3% and Hotel/Motel tax increased $0.1 million or 3.3%.

Capital contributions decreased by 46.6% to $27.5 million due to the decrease in grants earned on construction of the Canal Street Streetcar project which was opened for revenue service in April 2004.

(Continued)

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

	2004	2003	Increase (Decrease)
Labor and fringe benefits	$ 77,169	$ 68,191	13.2%
Depreciation	21,653	17,382	24.6%
Contract services	15,108	14,497	4.2%
Insurance and self-insured costs	14,662	7,848	86.8%
Materials, fuel, and supplies	9,508	7,863	20.9%
Utilities	1,942	1,614	20.3%
Purchased transportation	1,122	1,771	(36.6)%
Taxes, other than payroll	770	747	3.1%
Rent	250	169	47.9%
Miscellaneous	265	370	(28.4)%
Total operating expenses	**$142,449**	**$120,452**	**18.3%**

Labor and fringe benefits increased by 13.2% from 2003 to $77.2 million due to an increase in the pension plan actuarial minimum contribution, increases in medical insurance and workers' compensation, the hiring of additional operators, and contractual wage increases.

Depreciation expenses increased by 24.6% to $21.7 million due to the Canal Street Streetcar Line being placed in service in April 2004.

Insurance and self-insured costs increased by 86.8% to $14.7 million due to current year claims and changes in estimates on previously existing claims.

Materials, fuel and supplies expense increased by 20.9% to $9.5 million due to increases in the price of fuel for revenue and non-revenue vehicles and an increase in revenue vehicle parts needed for an aging fleet. Utilities expense increased by 20.3% to $1.9 million due to an increase in fuel costs.

Purchased transportation decreased by 36.6% to $1.1 million due to a decrease in service hours provided by contracted van and sedan services. These service hours were assumed by in-house operations, including all lift van and sedan services.

2003 Changes in Net Assets

The change in net assets at December 31, 2003 was approximately $36.2 million or 103.3% more than at December 31, 2002. The RTA's total operating revenues decreased by 3.6% to approximately $36.1 million, and total operating expenses increased by 1.6% to approximately $120.5 million. The changes in net assets are detailed in Table A-5, and operating expenses are detailed in Table A-6.

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

(Continued)

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

	2003	2002	Increase (Decrease)
Operating Revenues:			
Passenger fares	$ 34,941	$ 35,794	(2.4)%
Other	1,123	1,628	(31.0)%
Total operating revenues	**36,064**	**37,422**	**(3.6)%**
Operating Expenses:			
Operating expenses	103,070	101,086	2.0%
Depreciation and amortization	17,382	17,415	(0.2)%
Total operating expenses	**120,452**	**118,501**	**1.6%**
Operating loss	(84,388)	(81,079)	4.1%
Non-operating revenues-net	69,172	61,845	11.9%
Capital contributions	51,425	37,047	38.8%
Change in net assets	**36,209**	**17,813**	**103.3%**
Total net assets, beginning of the year	**97,559**	**79,746**	**22.3%**
Total net assets, end of the year	**$133,768**	**$97,559**	**37.1%**

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

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

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

Table A-6
Regional Transit Authority's Operating Expenses
(in thousands of dollars)

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

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

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

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

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

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

2004 Capital Assets

As of December 31, 2004, the RTA had invested approximately $436.9 million in capital assets. Net of accumulated depreciation, the RTA's net capital assets at December 31, 2004 totaled approximately $261.5 million. This amount represents a net decrease (including additions and disposals, net of depreciation) of approximately $6.8 million or 2.5% under December 31, 2003.

The approximate $134.4 million decrease in construction work in progress is primarily the result of the Canal Street Streetcar Line being placed in service in April 2004.

2003 Capital Assets

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

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

2004 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 2004, $2,575,000 in principal payments were made.

The RTA has a loan agreement with the Louisiana Local Government Environmental Facilities and Community Development Authority to borrow up to $65.8 million to finance the local match portion of the Canal Street Streetcar and Desire Street Streetcar projects; approximately $59.0 million has been borrowed against this facility. During 2004, $1,076,500 of loan repayments were made on the LCDA Revenue Bonds.

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

All bond debt and lease covenants have been met.

2003 Debt Administration

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

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

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

All bond debt and lease covenants have been met.

CONTACTING THE RTA'S FINANCIAL MANAGEMENT

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

REGIONAL TRANSIT AUTHORITY

Statements of Net Assets

December 31, 2004 and 2003

Assets	2004	2003
Current assets:		
Cash (note 2)	$ 6,485,196	8,289,111
Accounts receivable, net (note 3)	40,093,492	34,190,285
Due from City of New Orleans, current	-	134,616
Investments, unrestricted (note 2)	5,157,983	6,867,158
Inventories	2,057,667	1,407,529
Prepaid expenses and other assets	269,804	1,010,873
Total current assets	54,064,142	51,899,572
Restricted assets, cash and investments (note 2):		
1991 series bond trustee accounts (note 6)	668,886	661,416
1998 series bond trustee accounts (note 6)	258,965	255,256
2000 and 2000A series bond trustee accounts (note 6)	146,793	99,549
Self-insurance (note 11)	1,218,484	1,217,025
Capital lease escrow (note 10)	181,830	200,200
Total restricted assets	2,474,958	2,433,446
Due from City of New Orleans, less current portion	-	673,076
Deferred charges - bond issue costs (note 6)	2,843,970	3,376,549
Property, buildings and equipment, net (note 4)	261,511,651	268,295,944
	$ 320,894,721	326,678,587

Liabilities and Net Assets	2004	2003
Current liabilities (payable from current assets):		
Accounts payable, accrued expenses, and deferred credits	$ 10,374,742	18,757,204
Current portion of legal and small claims (note 11)	4,717,094	2,721,949
Current portion of amounts due to Transit Management of Southeast Louisiana, Inc. (TMSEL)	11,600,732	12,830,037
Current portion of capital lease (note 10)	5,100,000	4,905,000
Due to City of New Orleans, current	1,683,194	-
	33,475,762	39,214,190
Current liabilities (payable from restricted assets):		
Current portion of accrued bond interest	525,325	558,024
Current portion of bonds payable (note 6)	4,148,600	3,509,900
	4,673,925	4,067,924
Total current liabilities	38,149,687	43,282,114
Long-term liabilities:		
Employee benefits payable (note 9)	7,330,000	7,330,000
Accrued bond interest, less current portion	11,736,649	10,413,307
Legal and small claims, less current portion (note 11)	26,860,816	24,568,746
Amounts due to TMSEL, less current portion	470,000	362,006
Bonds payable, less current portion (note 6)	88,899,989	74,263,721
Capital lease payable, less current portion (note 10)	28,058,908	32,691,210
Due to City of New Orleans, less current portion	3,787,185	-
Total long-term liabilities	167,143,547	149,628,990
Total liabilities	205,293,234	192,911,104
Net assets:		
Invested in capital assets, net of related debt	123,042,180	141,954,782
Restricted	2,474,958	2,433,446
Unrestricted (deficit)	(9,915,651)	(10,620,745)
Total net assets	115,601,487	133,767,483
Commitments and contingencies (notes 9, 10, 11 and 12)	-	-
	$ 320,894,721	326,678,587

See accompanying notes to financial statements.

REGIONAL TRANSIT AUTHORITY

Statements of Revenues, Expenses and Changes in Net Assets

For the years ended December 31, 2004 and 2003

		2004	2003
Operating revenues:			
Passenger fares	$	34,720,356	34,940,831
Other		1,315,940	1,123,228
Total operating revenues		36,036,296	36,064,059
Operating expenses:			
Labor and fringe benefits (note 1(a))		77,169,459	68,191,048
Depreciation		21,653,238	17,382,308
Contract services		15,108,051	14,497,240
Insurance and self-insured costs		14,661,851	7,847,994
Materials, fuel and supplies		9,508,119	7,862,708
Utilities		1,941,709	1,614,020
Purchased transportation		1,121,515	1,771,282
Taxes, other than payroll		769,940	746,899
Rent		250,212	168,772
Miscellaneous		265,280	369,705
Total operating expenses		142,449,374	120,451,976
Loss from operations		(106,413,078)	(84,387,917)
Nonoperating revenues (expenses):			
Tax revenues:			
Sales tax		45,015,180	53,785,535
Hotel/Motel tax		4,459,567	4,316,794
Government operating grants:			
Federal subsidy		13,925,831	14,258,560
State Department of Transportation		1,828,040	1,862,563
State training grant		526,347	-
Planning and technical study grants		961,532	173,986
Investment income		212,815	335,665
Interest expense		(6,161,659)	(5,561,169)
Total nonoperating revenues		60,767,653	69,171,934
Net loss before capital revenues		(45,645,425)	(15,215,983)
Capital contributions		27,479,429	51,424,642
Increase (decrease) in net assets		(18,165,996)	36,208,659
Net assets:			
Balance, beginning of year		133,767,483	97,558,824
Balance, end of year	$	115,601,487	133,767,483

See accompanying notes to financial statements.

REGIONAL TRANSIT AUTHORITY

Statements of Cash Flows

For the years ended December 31, 2004 and 2003

		2004	2003
Cash flows from operating activities:			
Cash received from operations	$	34,689,554	34,975,477
Cash received from other sources		1,122,297	235,409
Cash paid to employees and for related expenses		(78,290,770)	(68,237,808)
Cash paid to suppliers		(30,631,816)	(26,885,083)
Cash paid for insurance, legal claims and related costs		(10,374,636)	(12,663,834)
Net cash used in operating activities		(83,485,371)	(72,575,839)
Cash flows from noncapital financing activities:			
Cash received from sales tax		50,305,840	50,136,164
Cash received from hotel/motel tax		5,192,279	3,431,098
Operating subsidies received from other governments		16,932,106	16,287,206
Net cash provided by noncapital financing activities		72,430,225	69,854,468
Cash flows from capital and related financing activities:			
Acquisition and construction of capital assets		(20,570,897)	(62,734,478)
Capital revenues from federal grants		21,975,000	55,865,739
Interest paid		(4,721,825)	(4,107,987)
Repayment of bonds		(3,651,500)	(35,499,000)
Repayment of capital lease obligation		(4,905,000)	(3,795,000)
Proceeds from bond sale		19,244,975	45,971,027
Net cash provided by (used in) capital and related financing activities		7,370,753	(4,299,699)
Cash flows from investing activities:			
Purchases of investment securities		(11,352,017)	(14,720,403)
Proceeds from sale and maturities of investment securities		13,019,680	21,369,451
Interest payments received		212,815	335,665
Net cash provided by investing activities		1,880,478	6,984,713
Net decrease in cash and cash equivalents		(1,803,915)	(36,357)
Cash and cash equivalents at beginning of year		8,289,111	8,325,468
Cash and cash equivalents at end of year	$	6,485,196	8,289,111

(Continued)

REGIONAL TRANSIT AUTHORITY

Statements of Cash Flows

For the years ended December 31, 2004 and 2003

		2004	2003
Reconciliation of loss from operations to net cash used in operating activities:			
Loss from operations	$	(106,413,078)	(84,387,917)
Adjustments to reconcile loss from operations to net cash used in operating activities:			
Depreciation		21,653,238	17,382,308
Amortization of bond issue costs		532,579	712,808
Increase in allowance for doubtful accounts		95,455	12,674
Increase in accounts receivable		(221,873)	(136,173)
Increase in due from City of New Orleans		-	(807,692)
Decrease (increase) in prepaid assets		741,069	(653,372)
Increase in inventory		(650,138)	(262,655)
Increase (decrease) in accounts payable and accrued expenses		(2,388,527)	336,088
Decrease in deferred revenue		-	(717,000)
Decrease in amounts due to TMSEL		(1,121,311)	(46,760)
Increase (decrease) in the provision for legal and small claims liability		4,287,215	(4,008,148)
Net cash used in operating activities	$	(83,485,371)	(72,575,839)

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, 2004 and 2003, one position on the Commission was vacant.

The RTA holds title to substantially all assets and controls, or is entitled to, substantially all revenue and funds used to support its operations and is solely responsible for its fiscal affairs. The Board of Commissioners is authorized to issue bonds, incur short-term debt and levy taxes upon approval of the voters in one or more of the parishes or municipalities served by the RTA. Prior to December 2002, the RTA conducted substantially all of its transit and related operations through Transit Management of Southeast Louisiana, Inc. (TMSEL), pursuant to the management contract between RTA, TMSEL and Metro New Orleans Transit (METRO). Effective December 17, 2002, the contract with METRO was terminated, but the contract as to TMSEL continued with no disruption in transit service. The contract provided for a payout to METRO of $504,000, which was disputed by RTA and was unaccrued as of December 31, 2003 pending final settlement. In addition, the RTA disputed $675,000 in charges by METRO, which was also unaccrued as of December 31, 2003. During February 2005, a settlement was agreed to in the amount of $650,000, all of which is accrued as of December 31, 2004. The labor, fringe benefits and other similar costs reflected in the statements of revenues, expenses and changes in net assets are TMSEL expenses which are reimbursed by RTA pursuant to the management contract.

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

(b) Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The accounting policies of the RTA conform to accounting principles generally accepted in the United States of America as applicable to governments. The basic financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses, excluding depreciation and amortization, are recorded when a liability is incurred, regardless of the timing of related cash flows. The RTA has no government or fiduciary funds. The RTA uses fund accounting to report its financial position and results of operations. The RTA's accounts are organized into a single proprietary fund. The enterprise fund (a proprietary fund) is used to account for operations (a) that are operated in a manner similar to private business where the intent of the governing body is that the cost (expense, including deprecation) of providing goods and services to the general public is financed or recovered primarily through user charges or (b) where the governing body has decided that the periodic determination of revenues earned, expenses incurred and/or changes in net assets is appropriate for capital maintenance.

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

The RTA applies all applicable FASB pronouncements issued on or before November 30, 1989 in accounting for its operations unless those pronouncements conflict or contradict GASB pronouncements.

(c) Restricted Assets

Certain assets, principally consisting of cash and investments, are segregated and classified as restricted assets, which may not be used except in accordance with state regulations or contractual terms, under certain conditions.

(d) Investments

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

(e) Inventories

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

(f) Property, Buildings and Equipment

Property, buildings and equipment are recorded at cost. Depreciation and amortization is charged to expense over the estimated useful lives of the assets and is determined using the straight-line method. Expenditures for maintenance and repairs, which do not materially extend the useful life of the asset, are charged to expense as incurred. The estimated useful lives used in computing depreciation and amortization are:

Buildings	20 years
Buses and equipment	3-12 years
Streetcars, track system and related equipment	20-30 years
Furniture and fixtures	3-10 years
Leasehold improvements	3-5 years

(g) Federal and State Grants

Federal and state grants are made available to the RTA for the acquisition of public transit facilities, planning studies, buses and other transit equipment, and lease maintenance services.

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

(h) Compensated Absences

RTA is obligated to reimburse TMSEL for vacation when earned by TMSEL employees, either in accordance with TMSEL's general personnel policy or under certain TMSEL union agreements. The total liability for accrued vacation at December 31, 2004 and 2003, included in current liabilities, was approximately $3.4 million and $3.3 million, respectively.

(i) Cash Flows

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

(j) Budgets and Budgetary Accounting

In accordance with Act 186 of the Louisiana Legislature and under authority granted to the Board of Commissioners of the RTA within the Regional Transit Authority Act (Act 439), an annual budget of revenue, expenses and capital expenditures is prepared under the accrual basis of accounting, consistent with accounting principles generally accepted in the United States of America. The budget is adopted by resolution of the Board of Commissioners after public hearings are conducted and public input is received. The RTA, operating as an enterprise fund, utilizes the budget and related budgetary accounting to assure that: (1) service objectives are attained; (2) expenditures are properly controlled; and (3) adequate resources will be available to finance current operations, repay long-term liabilities and meet capital outlay requirements. A budget presentation is not required and has not been included in the financial statements.

(k) Bond Issuance Costs and Refundings

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

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

(l) Claims and Judgments

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

(m) Deferred Revenue

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

(n) Use of Estimates

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

(2) Cash and Investments

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

		December 31, 2004		December 31, 2003	
		Restricted	Unrestricted	Restricted	Unrestricted
Cash and money market	$	1,256,474	6,485,196	1,216,421	8,289,111
Investments, at fair value:					
U.S. Government Treasury and Agency securities		1,218,484	4,802,647	1,217,025	6,513,445
Certificates of deposit		-	355,336	-	353,713
		1,218,484	5,157,983	1,217,025	6,867,158
	$	2,474,958	11,643,179	2,433,446	15,156,269

Actual cash in banks and certificates of deposit as of December 31, 2004 and 2003, for restricted and unrestricted bank accounts, before outstanding checks and reconciling items, was $4,875,492 and $6,876,559, respectively. Of the total bank balances at December 31, 2004 and 2003, all amounts were covered by federal depository insurance ($300,000 and $301,935, respectively) or by collateral held in the RTA's name by its agent ($6,614,102 and $6,823,215 respectively), except for amounts at one bank in which deposits in excess of federal depository insurance and collateral held in the RTA's name by its agent amounted to $93,406 as of December 31, 2003. Actual cash in money markets accounts was $6,908,631 and $8,171,652, respectively, and is included in cash and money market above. These money market balances are uncategorized.

Investments are held in the name of the RTA by its agent and are classified as category 1 investments under GASB 3 requirements. Statutes authorize the RTA to invest in direct United States Treasury obligations; bonds, debentures, notes or other indebtedness issued or guaranteed by U.S. Government instrumentalities which are federally sponsored or federal agencies that are backed by the full faith and credit of the United States; short-term repurchase agreements; and time certificates of deposit at financial institutions, state banks and national banks having their principal offices in Louisiana.

As of December 31, 2004 and 2003, approximately $1,218,000 and $1,217,000, respectively, of restricted assets was pledged as collateral to the Louisiana Office of Workman's Compensation to maintain RTA/TMSEL's self-insurance certificate.

(3) Accounts Receivable

Accounts receivable consist of the following as of December 31:

		2004	2003
Sales tax	$	10,147,067	9,159,656
Hotel/motel tax		1,164,763	1,897,475
Federal capital grants		25,242,234	20,029,788
State operating subsidy		429,885	120,241
Passenger (transpass and visitour)		1,168,459	972,581
Orleans Parish School Board		1,932,170	2,097,246
Kenner operating subsidy		84,725	148,465
Other		461,654	206,843
		40,630,957	34,632,295
Less allowance for uncollectible amounts		(537,465)	(442,010)
	$	40,093,492	34,190,285

(4) Property, Buildings and Equipment

A summary of changes in fixed assets follows:

		January 1, 2004	Additions	Deletions	December 31, 2004
Land	$	6,988,812	-	-	6,988,812
Buildings		85,247,283	11,276,943	-	96,524,226
Equipment, primarily transportation vehicles		165,668,651	136,062,897	(212,600)	301,518,948
Furniture and fixtures		25,584,638	1,987,384	-	27,572,022
Construction in progress		138,705,309	10,809,842	(145,225,600)	4,289,551
		422,194,693	160,137,066	(145,438,200)	436,893,559
Accumulated depreciation and amortization		(153,898,749)	(21,653,238)	170,079	(175,381,908)
	$	268,295,944			261,511,651

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

At December 31, 2004 and 2003, equipment includes transportation vehicles under capital lease with a net book value of $19,116,969 and $23,043,343, respectively. During 2004 and 2003, interest capitalized was $422,242 and $1,224,131, respectively.

5) Due to City of New Orleans

The RTA has an agreement with the City of New Orleans (the City) to repay $5,891,177 for overpayments of sales taxes collected by the City on behalf of the RTA, which was recorded against sales tax collections for the year ended December 31, 2004. This amount is inclusive of an offset of the amounts due from the City as of December 31, 2003 of $807,692. The repayments are to be made in monthly installments ending March 2008 of $140,266 deducted from sales tax remittances from the City. Deductions from sales tax remittances totaled $420,798 for the year ended December 31, 2004. The balance remaining as of December 31, 2004 is $5,470,379.

(6) Long-term Debt

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

		2004	2003
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	$	18,995,000	20,405,000
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		13,455,733	14,620,733
2000 Series, LCDA Revenue Bonds, variable interest rate of 3.59% as of December 31, 2004, due in annual principal debt service requirements ranging from $155,100 to $2,372,500, final payment due February 2025		29,455,113	30,208,313
2000A Series, LCDA Revenue Bonds, variable interest rate of 3.63% as of December 31, 2004, due in annual principal debt service requirements ranging from $181,700 to $1,970,600, final payment due November 2029		29,524,856	10,603,181
		91,430,702	75,837,227
Plus unamortized premium		1,617,887	1,936,394
Less current maturities		4,148,600	3,509,900
Long-term debt less current maturities	$	88,899,989	74,263,721

1998A Bond Series

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

The interest on the Series 1998A Refunding Bonds is due and payable on June 1 and December 1 of each year through December 2013. The Series 1998A Refunding Bonds are secured by a pledge and lien upon a portion of RTA's one cent sales revenue (one-half of one percent upon items and services subject to the sales tax). As a result of the 1997 effective date of this Forward Bond Placement Agreement, the 1988 bond debt service restricted assets had been released by RTA's trustee. Bond issue costs were deferred and are being amortized over the life of the 1998A Refunding Bonds. The unamortized premium related to the Series 1998A Refunding Bonds was $1,617,887 and $1,936,394 at December 31, 2004 and 2003, 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, 2021. 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, 2004 and 2003.

2000 Series and 2000A Series – LCDA Revenue Bonds

Under agreements with the Louisiana Local Government Environmental Facilities and Community Development Authority (LCDA), RTA may borrow up to $65,820,000 in funds to finance the local match portion of the costs expected to be incurred in the construction of the Canal Street Streetcar and Desire Street Streetcar Projects. The funds are provided from a portion of the proceeds of a Master Indenture Agreement and the sale of revenue bonds by LCDA. For the 2000 Series, the amount drawn down under this agreement as of December 31, 2004 and 2003 was $31,149,000, respectively. The principal balance as of December 31, 2004 and 2003 is $29,455,113 and $30,208,313, respectively, of which $798,000 is due in 2005. For the 2000A Series, the amount drawn down under this agreement as of December 31, 2004 and 2003 was $29,848,156 and $10,603,181, respectively. In addition to scheduled monthly payments, a prepayment of $32,194,000 was made by RTA during December 2003. The principal balance as of December 31, 2004 and 2003 is $29,524,856 and $10,603,181, respectively, of which $590,600 is due in 2005. Total bond issuance costs of $160,787 were financed in 2001 and monthly payments are required. These costs will be amortized over the remaining life of the agreement.

REGIONAL TRANSIT AUTHORITY

Notes to Financial Statements

December 31, 2004

Debt Service Requirements

The following represents the debt service requirements for the bond issues as of December 31, 2004:

		1991 and 1998A Bonds Principal	1991 and 1998A Bonds Interest	2000 and 2000A Bonds Principal	2000 and 2000A Bonds Interest	Total Principal	Total Interest
2005	$	2,760,000	1,873,418	1,388,600	2,106,648	4,148,600	3,980,066
2006		2,965,000	1,671,218	1,467,100	2,055,286	4,432,100	3,726,504
2007		3,180,000	1,453,818	1,550,700	2,001,002	4,730,700	3,454,820
2008		3,415,000	1,220,493	1,639,100	1,943,612	5,054,100	3,164,105
2009		2,534,323	2,099,922	1,731,200	1,882,980	4,265,523	3,982,902
2010-2014		12,581,950	10,590,162	10,253,400	8,377,827	22,835,350	18,967,989
2015-2019		3,824,400	19,350,604	13,517,800	6,253,028	17,342,200	25,603,632
2020-2024		1,190,060	8,080,000	17,827,400	3,451,423	19,017,460	11,531,423
2025-2029		-	-	9,604,669	872,090	9,604,669	872,106
	$	32,450,733	46,339,635	58,979,969	28,943,896	91,430,702	75,283,547

Changes in long-term debt

Long-term debt activity for the year ended December 31, 2004 and 2003 are as follows:

		January 1, 2004	Additions	Payments	December 31, 2004	Due Within One Year
1998A Series, Sales Tax Refunding Bonds	$	20,405,000	-	(1,410,000)	18,995,000	1,520,000
1991 Series, Sales Tax Revenue Bonds		14,620,733	-	(1,165,000)	13,455,733	1,240,000
2000 Series, LCDA Revenue Bonds		30,208,313	-	(753,200)	29,455,113	798,000
2000A Series, LCDA Revenue Bonds		10,603,181	19,244,975	(323,300)	29,524,856	590,600
	$	75,837,227	19,244,975	(3,651,500)	91,430,702	4,148,600

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

(7) TMSEL Pension Plan

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

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

Members of Amalgamated Transit Union (ATU) Division 1560, effective February 2, 1990, received a "30 and Out" Pension Service. Effective January 1, 1998, the TMSEL Pension Plan was amended to increase the multiplier from 1.6% to 1.8% and to change the participation eligible age from 25 to 21 for those employees hired prior to January 1, 1985. Effective January 1, 1999, the multiplier was increased from 1.8% to 1.9%. Prior to February 2, 1990, members of ATU Division 1560 contributed 0.77% of their weekly earnings to the Plan. To fund the "30 and Out" pension service, the members of ATU Division 1560 began contributing an additional 2.23%. To fund the increase in the multiplier from 1.6% to 1.8% and to change the participation eligible age from 25 to 21, members of ATU Division 1560 contributed an additional 0.77%. To fund the increase in the multiplier from 1.8% to 1.9%, members of ATU Division 1560 began contributing an additional 1.38%. Effective January 1, 2001, to fund twenty percent (20%) of the increase in the multiplier from 1.5% to 1.8% and to change the participation eligible age from 25 to 21 and one hundred percent (100%) of the increase in multiplier from 1.8% to 1.9% for members of ATU 1611, members of ATU 1560 began contributing an additional 0.03%.

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

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

Members of International Brotherhood of Electrical Workers (IBEW) Local 1700-4, effective March 21, 1996, received a "30 and Out" Pension Service and contribute 2.45% of gross wages. Effective July 1, 1998, the Plan was amended, changing the participation age in the Plan from 25 to 21 for those employees hired prior to January 1, 1985. To fund this benefit, the Members of IBEW Local 1700-4 contribute 1.27% of gross wages. Since July 1, 1998, the total amount the Members of IBEW Local 1700-4 contribute to the Plan is 3.72%, which represents the contribution of 2.45% of gross wages for the "30 and Out" Pension Service, plus the 1.27% of gross wages for changing the participation age in the Plan from 25 to 21. Effective January 18, 2001, the Plan was amended to increase the multiplier from 1.6% to 1.8%, with TMSEL paying 80% of the cost and the members of IBEW Local 1700-4 paying 20% of the cost effective February 28, 2001. The Plan was further amended to increase the multiplier from 1.8% to 1.9% with members of IBEW Local 1700-4 paying 100% of the cost. To fund this benefit, members of IBEW Local 1700-4 contribute an additional 1.83% of gross wages. On November 15, 2001, the Plan was also amended to increase the multiplier from 1.9% to 2.0% effective January 1, 2002. The Plan was further amended to increase the multiplier from 2.0% to 2.1% effective July 1, 2003. As of November 15, 2001, the total amount members of IBEW Local 1700-4 contribute to the Plan is 5.55% of total salary, which represents the 2.45% of gross wages for the 30 & Out Pension Service, the 1.27% of gross wages for changing the participation age in the plan from 25 to 21, and the 1.83% of gross wages for the increase in the multiplier from 1.8% to 1.9%.

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

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

	2004	2003
Actuarial present value of benefit obligation	$ 175,430,040	151,063,679
Projected future compensation levels effect	23,577,748	24,353,848
Projected benefit obligation for service rendered to date	199,007,788	175,417,527
Plan assets at fair value	124,995,105	113,435,806
Deficiency in plan assets over projected benefit obligation	(74,012,683)	(61,981,721)
Unrecognized prior service cost	15,515,000	13,936,511
Unrecognized net loss from past experience different from that assumed	(126,800)	(210,775)
Unrecognized net liability	51,448,191	41,449,399
Accrued pension cost	$ (7,176,292)	(6,806,586)

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

	2004	2003
Service cost - benefits earned during the period	$ 3,607,092	2,918,251
Interest cost on projected benefit Obligation	11,023,799	10,519,515
Actual return on plan assets	(8,693,253)	(12,648,649)
Net amortization and deferral	3,862,506	8,826,561
Net periodic pension cost prior to change in estimate	$ 9,800,144	9,615,678

The most recent projected pension benefit obligation was computed based on the actuarial valuation performed as of January 1, 2004. Significant actuarial assumptions used in the valuation include (a) a rate of return on the investment of present and future assets of 8.00% per year compounded annually, (b) a discount rate of 6.25%, and (c) projected salary increases including an inflation component of 2.25%.

TMSEL funds actuarially determined pension costs when accrued. Any unfunded actuarial accrued liability is amortized over twenty-five years. Pension expense, which is included in labor and fringe benefits expense, was $10,232,445 and $8,370,679 in 2004 and 2003, respectively. The significant actuarial assumptions used to compute the actuarially determined contribution requirements are the same as those used to compute the projected pension benefit obligation as described above. On May 7, 2003, the Internal Revenue Service approved a change in funding method for the TMSEL Retirement Plan which was effective retroactively to January 1, 2002. Under the new funding method, the actuarial value of assets is determined using a method with a smoothing period of five years.

As of December 31, 2004 and 2003, the ERISA funding requirement of approximately $10,205,903 and $8,188,809 is included in amounts due to TMSEL on the statements of net assets.

(8) 401(K) Plan

TMSEL employees participate in a 401(K) profit sharing and savings plan (the Plan) sponsored by TMSEL. Employees who have elected to participate, and have 1000 hours of service and are 21 years of age or older, or were employed as of the effective date of the Plan of April 1, 2002 are eligible to participate. The Plan is subject to the provisions of the Employee Retirement Security Act of 1974 (ERISA). The Plan provides for discretionary matching contributions in an amount determined by TMSEL on an annual basis. The Plan also provides for annual profit-sharing contributions if approved by the sponsor. Matching contributions are allocated only to participants who defer compensation under the Plan. Profit sharing contributions are allocated to each participant in the ratio that such participant's compensation bears to the compensation of all participants. TMSEL did not make any matching or profit sharing contributions in 2004 or 2003.

(9) Other Post Employment Retirement Benefits

NOPSI Retiree Employees

As part of the Transfer Agreement among the RTA, NOPSI and the City, the RTA, through TMSEL, began providing benefits for health care and life insurance to retired and disabled transit employees of NOPSI. In addition, the RTA assumed liability for benefits payable to those employees who retired or became disabled prior to July 1, 1983. On July 1, 1983, the actuarially determined present value of such benefits was approximately $24,000,000. A preliminary actuarial valuation, performed in 1991, indicated that the present value of future benefits, as of December 31, 1991, was $20,500,000. In consideration for the assumption of liability under the terms of the Employee and Retiree Pension Benefits Agreement (the Agreement), NOPSI and the City of New Orleans agreed to reimburse the RTA for future health care and life insurance claims of retired and disabled transit employees of NOPSI in amounts of $13,000,000 and $11,000,000, respectively, plus an interest factor of 9%.

Also, NOPSI paid $7,330,000 to the RTA for indemnification against any unforeseen losses arising from the transaction, and this amount has been reflected by the RTA as employee benefits payable on behalf of TMSEL and former NOPSI employees.

TMSEL Retirees

The RTA, pursuant to the TMSEL management contract, underwrites benefits for health care and life insurance to TMSEL retirees who were NOPSI transit employees prior to July 1, 1983. These employees retain full retirement benefits under the plan. All other employees of TMSEL are not eligible to receive post-retirement health and life insurance under the plan benefits. The health care plan is self-insured and is financed on a pay-as-you-go-basis. During 2004 and 2003, total TMSEL expense relating to the above plan for retirees was $1,919,718 and $1,754,104, respectively. As of December 31, 2004, no actuarial evaluation of the plan has been performed.

(10) Commitments and Contingencies

(a) Operating Leases

The RTA is obligated under various operating leases for radio communications antenna space, record storage space and copy machines. The operating leases contain renewal options for varying periods at equal or increased annual rentals. Future operating lease payments for the remaining lives of the leases following December 31, 2004 are as follows:

2005	$ 108,964
2006	93,600
2007	93,600
2008	93,600

Total lease and rental payments for the years ended December 31, 2004 and 2003 were $250,212 and $168,772, respectively.

(b) Capital Leases

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

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, 2004:

		Present value of minimum lease payments	Interest	Total minimum lease payments
2005	$	5,100,000	1,450,145	6,550,145
2006		5,355,000	1,186,114	6,541,114
2007		5,625,000	908,801	6,533,801
2008		5,905,000	684,558	6,589,558
2009		6,105,000	409,781	6,514,781
2010		6,415,000	93,552	6,508,552
		34,505,000	4,732,951	39,237,951
Plus unamortized premium		1,104,606		
Less unamortized refunding loss		2,450,698		
Less current portion		5,100,000		
Long-term portion	$	28,058,908		

(c) Contingencies

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

(d) Grant Commitments

As of December 31, 2004 and 2003, the RTA is committed to funding local matching requirements under grants for which a contractual obligation existed at the end of each year. The outstanding federal share of grants at December 31, 2004 and 2003 totals approximately $59,000,000 and $94,000,000, respectively, and requires commitments of local matching funds totaling approximately $16,500,000 and $24,400,000, respectively. These amounts include amounts outstanding from the full funding grant agreement for the Canal Street Streetcar Line, which were approved in March 2003 and authorized in December 2004.

(11) Self-insurance and Legal Claims

The RTA is, from time to time, involved in lawsuits arising in the ordinary course of its business. Management provides for a provision for claims when such amounts are known or can be estimated. The RTA is also exposed to various risks of loss related to torts, damage to and destruction of assets, errors and omissions, injuries to TMSEL employees and natural disasters. The RTA is self-insured for general liability claims up to $1,000,000 prior to April 1, 1996, $2,000,000 through January 25, 2002, $500,000 through April 15, 2004, and $1,000,000 beginning May 27, 2005. Commercial insurance for general liability covers annual claims in excess of up to $14,000,000 prior to April 1, 1996, $10,000,000 through April 15, 2004, and $10,000,000 beginning May 27, 2005. The RTA is fully self-insured for general liability claims for the period from April 15, 2004 through May 26, 2005. 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, 2004 and 2003, $31,577,910 and $27,290,695, 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, 2004 and 2003, were $26,860,816 and $24,568,746, 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, 2004 and 2003.

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
2002	$	27,969,991	8,331,160	(5,002,308)	31,298,843
2003	$	31,298,843	2,710,976	(6,719,124)	27,290,695
2004	$	27,290,695	12,676,557	(8,389,342)	31,577,910

TMSEL's self-insured reserves for workers' compensation and health benefits are included in amounts due to TMSEL on the statements of net assets and total $2,150,223 and $2,412,121 as of December 31, 2004 and 2003, respectively. As of December 31, 2004 and 2003, approximately $1,218,000 and $1,217,000, respectively, of restricted assets was pledged as collateral to the Louisiana Office of Workman's Compensation to maintain RTA/TMSEL's self-insurance certificate.

(12) Management Fees and Other Reimbursed Expenditures

For the first nine months of 2001, the RTA, METRO, and TMSEL were operating under a five-year contract dated November 1, 1997 under which METRO was to provide management and supervision of the transit system's operations, and TMSEL was to operate the system. A new contract among the RTA, METRO, and TMSEL provided for similar services beginning October 1, 2001. The Civil District Court later declared in a judgment that the effective date was not until October 1, 2002. Management fees, reimbursement of expenses and expenses, including professional consulting services, expensed under these contracts with METRO for the year ended December 31, 2002 were $758,874. A portion of the 2002 expenditures related to capital items are capitalized. On December 17, 2002, the contract with METRO was terminated, but the contract as to TMSEL continued with no disruption in transit service. The October 1, 2001 METRO management services agreement provided for a payout to METRO of $504,000 which was disputed by RTA and was unaccrued as of December 31, 2003 pending final settlement. In addition, the RTA disputed $675,000 in charges by METRO, which was also unaccrued as of December 31, 2003. During February 2005, a settlement was agreed to in the amount of $650,000, all of which is accrued as of December 31, 2004. During essentially all of the time during which the RTA had a contract with METRO and TMSEL, METRO was the sole shareholder of TMSEL. On December 16, 2002, the RTA designated Interregional Transit, Inc., a Louisiana non-profit corporation, to purchase the stock of TMSEL under a 1990 Buy-Out Agreement between METRO and RTA for the amount of $25. There were no expenses under these contracts with METRO and Interregional Transit, Inc. for the year ended December 31, 2003.

(13) 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 2004 and 2003.

The members of the Board of Commissioners who were paid a per diem for the attendance at board meetings in calendar years 2004 and 2003 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, 2004 and 2003 were as follows:

		Per Diem	Expense Reimbursement	Total
2004:				
Daniel Alfortish	$	900	-	900
Charlotte Burnell		525	574	1,099
Walter Campbell		675	-	675
Dennis Dimarco		225	-	225
Barbara Major		825	-	825
Earline Roth		975	-	975
James Reiss, Jr.		-	2,147	2,147
	$	4,125	2,721	6,846

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

(14) 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, 2004, 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, 2004 and 2003

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

	Capital Projects and Contingency	Capital	Debt Service	Revenue	Total
Beginning balance - January 1, 2003	$ 418,560	104,594	136,750	-	659,904
Cash receipts:					
Transfer for principal and interest	-	-	1,597,562	-	1,597,562
Investment income	2,868	717	4,418	-	8,003
Total cash receipts	2,868	717	1,601,980	-	1,605,565
Cash disbursements:					
Principal and interest payments	-	-	(1,597,919)	-	(1,597,919)
Expense payments	(2,095)	(524)	(3,515)	-	(6,134)
Total disbursements	(2,095)	(524)	(1,601,434)	-	(1,604,053)
Beginning balance - January 1, 2004	419,333	104,787	137,296	-	661,416
Cash receipts:					
Transfer for principal and interest	-	-	1,593,752	-	1,593,752
Sales tax receipts	-	-	-	54,712,931	54,712,931
Investment income	3,121	737	6,075	-	9,933
Total cash receipts	3,121	737	1,599,827	54,712,931	56,316,616
Cash disbursements:					
Principal and interest payments	-	-	(1,593,620)	-	(1,593,620)
Transfer for debt service and excess	-	-	-	(54,709,431)	(54,709,431)
Expense payments	(2,096)	(480)	(3,519)	-	(6,095)
Total disbursements	(2,096)	(480)	(1,597,139)	(54,709,431)	(56,309,146)
Ending balance - December 31, 2004	$ 420,358	105,044	139,984	3,500	668,886

(Continued)

REGIONAL TRANSIT AUTHORITY

Schedule of Changes in Restricted Asset Bond Accounts

For the years ended December 31, 2004 and 2003

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

	Sales Tax Capital	Debt Service	Total
Beginning balance - January 1, 2003	$ 258,035	388	258,423
Cash receipts:			
Investment income	7,245	-	7,245
Transfer for principal and interest	3,035,657	-	3,035,657
Total cash receipts	3,042,902	-	3,042,902
Cash disbursements:			
Principal and interest payments	(3,040,392)	-	(3,040,392)
Expense payments	(5,677)	-	(5,677)
Total disbursements	(3,046,069)	-	(3,046,069)
Beginning balance - January 1, 2004	254,868	388	255,256
Cash receipts:			
Investment income	15,799	-	15,799
Transfer for principal and interest	3,040,759	-	3,040,759
Total cash receipts	3,056,558	-	3,056,558
Cash disbursements:			
Principal and interest payments	(3,047,186)	-	(3,047,186)
Expense payments	(5,663)	-	(5,663)
Total disbursements	(3,052,849)	-	(3,052,849)
Ending balance - December 31, 2004	$ 258,577	388	258,965

See accompanying independent auditors' report.

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June 23, 2005

The Board of Commissioners
Regional Transit Authority
New Orleans, Louisiana:

We have audited the financial statements of the Regional Transit Authority (the Authority) as of and for the year ended December 31, 2004, and have issued our report thereon dated June 23, 2005. Under auditing standards generally accepted in the United States of America, we are providing you with the attached information related to the conduct of our audit.

This report is intended solely for the use of the Authority, the Authority's management and federal awarding agencies and pass-through entities, such as the State of Louisiana and the Legislative Auditors' office and is not intended to be, and should not be used for any other purpose.

Very truly yours,

Postlethwaite & Netterville

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REGIONAL TRANSIT AUTHORITY

DECEMBER 31, 2004

Our Responsibility Under Generally Accepted Auditing Standards

Our responsibility under auditing standards generally accepted in the United States of America is to express an opinion on the basic financial statements of the Regional Transit Authority (the Authority) as of and for the year ended December 31, 2004 based on our audit. In carrying out this responsibility, we assessed the risk that the financial statements may contain a material misstatement, either intentional or unintentional, and designed and conducted our audit to provide reasonable, not absolute, assurance of detecting misstatements that are material to the financial statements. In addition, we considered the internal control structure of the Authority to gain a basic understanding of the accounting system in order to design an effective and efficient audit approach, although not for the purpose of providing specific assurance on the internal control structure.

Significant Accounting Policies

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

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

Management Judgments and Accounting Estimates

Accounting estimates are an integral part of the basic financial statements prepared by management and are based upon management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of the significance of the financial statements and because of the possibility that future events affecting them may differ from management's current judgments. We considered the calculation of claim provisions and liabilities to be estimates that are significant due to the amount of management's estimate. Based on the testwork performed, we conclude that management's estimate appears reasonable at December 31, 2004.

Significant Audit Adjustments

We proposed adjustments to certain accounts which had a significant affect on the financial statement; these adjustments related primarily to investments, long-term debt, inventory, property, tax revenue and receivables, and amounts due to the City of New Orleans. We are not aware of any significant unrecorded adjustments.

Disagreements With Management

There were no disagreements with management on financial accounting and reporting matters which, if not satisfactorily resolved, would have caused a modification of our report on the Authority's 2004 financial statements.

Consultation With Other Accountants

To the best of our knowledge, management has not consulted with or obtained an opinion, written or oral, from other independent accountants during the past year which were subject to the requirements of Statement on Auditing Standards No. 50, "*Reporting on the Application of Accounting Principles.*"

Major Issues Discussed With Management Prior to Retention

There have been no major issues discussed with management prior to our retention as your auditors.

Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing our audit.

REGIONAL TRANSIT AUTHORITY

Single Audit Reports

December 31, 2004

REGIONAL TRANSIT AUTHORITY
New Orleans, Louisiana

Single Audit Reports

December 31, 2004

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS 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, 2004, and have issued our report thereon dated June 23, 2005. 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.

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 that might be material weaknesses. A material weakness is a reportable 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 caused by error or fraud 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 June 23, 2005.

Compliance and Other Matters

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 grant agreements, 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 or other matters that are required to be reported under *Government Auditing Standards.*

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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. However, under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Postlethwaite & Netterville

June 23, 2005

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

To the Board of Commissioners
Regional Transit Authority:

Compliance

We have audited the compliance of the Regional Transit Authority (the RTA) with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended December 31, 2004. 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, 2004. 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 04-1 and 04-2.

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Internal Control Over Compliance

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

We noted a certain matter involving the internal control over compliance and its operation that we consider to be a reportable condition. 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 04-1.

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 material weaknesses. However, we believe that the reportable condition described above is not 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, 2004, and have issued our report thereon dated June 23, 2005. Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

This report is intended solely for the information of the RTA, the RTA's management, 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. However, under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Postlethwaite & Netterville

June 23, 2005

REGIONAL TRANSIT AUTHORITY
New Orleans, Louisiana

Schedule of Expenditures of Federal Awards

For the year ended December 31, 2004

Federal Grantor/Program Title	CFDA Number		Expenditures
Federal Transit Administration – Federal Transit cluster:			
Capital Investment Grants	20.500	$	27,549,228
Formula Grants	20.507		14,780,393
Total Federal Transit cluster			42,329,621
Federal Transit Administration:			
Security/Emergency Management Drills	None Specified		37,172
Total Federal Awards		$	42,366,793

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, 2004

(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, 2004. 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, 2004.

(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	$ 13,295,831
Planning and technical study grants	961,532
Capital contributions	27,479,429
	$ 42,366,793

REGIONAL TRANSIT AUTHORITY
New Orleans, Louisiana

Schedule of Findings and Questioned Costs

Year ended December 31, 2004

(1) Summary of Auditors' Results

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

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

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

(d) Reportable conditions in internal control over major programs: 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: $1,271,004

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

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

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

04-1 DAVIS-BACON ACT

Condition: While the provisions are included in construction contracts for Davis-Bacon prevailing wages and for reporting by contractors, the RTA did not test compliance with the requirements of the Davis-Bacon Act of individual contractors during 2004.

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 is tested.

RTA Response: The RTA agrees with the above finding and understands that it has been deficient in its duty to monitor compliance of individual contractors and subcontractors to meet the requirements of the Davis-Bacon Act. The RTA will immediately develop and implement a procedure to monitor each of its contractors and subcontractors on contracts exceeding $2,000.00 to ensure that they are in compliance with the requirements of the Davis-Bacon Act. This will be accomplished by testing a reasonable portion of the certified payroll submitted throughout the project and ensuring that wages paid are not less than those established as prevailing wage rates for this area.

04-2 PROPERTY LOCATIONS AND TAGGING

Condition: Of the thirty-four (34) items sampled by the Internal Audit Department for physical existence and appropriate safeguarding and maintenance, four (4) items could not be located, the location where three (3) items were found did not agree to the property ledger, two (2) items found could not be traced to the property ledger, two (2) items were not properly tagged or tag numbers did not agree to the property ledger, and the asset cost was not included on the property ledger for two (2) items. In addition, multiple instances were noted where the property ledger descriptions were not adequate to properly identify the assets. Exceptions generally relate to smaller moveable equipment.

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

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

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

Recommendation: The Accounting Department should ensure that (1) all items acquired have been appropriately tagged and (2) all items acquired are recorded properly on the property ledger and can easily be traced.

RTA Response: Since the Property Accountant's position is currently vacant, temporary help is being utilized to verify the inventory report, which is received from all the departments company-wide, to the fixed asset module, noting any discrepancies to be corrected later. On completion of this verification and necessary corrections, a report will be run and reconciled with the physical inventory to address the problems noted.

REGIONAL TRANSIT AUTHORITY
New Orleans, Louisiana

Schedule of Findings and Questioned Costs, Continued

OTHER REPORTS

RTA received a final report dated September 24, 2004 from the Federal Transit Administration regarding a Financial Management Oversight Review of the effectiveness of internal control over RTA's financial management system. This report noted several findings and recommendations. A follow-up review was performed and the final report submitted on March 31, 2005. RTA is in the process of addressing this report.

RTA received a draft report dated March 16, 2005 from the Federal Transit Administration regarding a Procurement Systems Review. This report noted several deficiencies and required corrective actions. RTA is in the process of addressing this report.

REGIONAL TRANSIT AUTHORITY
New Orleans, Louisiana

Summary Schedule of Prior Audit Findings

02-2 LIABILITY FOR DISPOSITION OF DESTROYED BUSES

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

Current Status: The unrecorded liability prior to December 2002 was the result of executive management's unclear decision to purchase replacement buses. The RTA Board of Commissioners awarded a contract to Orion Bus Industries in March 2003 to purchase replacement buses. Three buses were delivered during 2004. The liability has been adjusted to offset the expenses incurred toward the purchase of the replacement buses.

03-1 REQUIRED ANNUAL PHYSICAL INVENTORY

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

Current Status: Subsequent to the Single Audit, efforts were made to fill the vacant Property Accountant's position which is crucial in successfully performing the inventory reconciliation. Unfortunately, the new hire for that position did not meet expectations and the position remains vacant. The Director of Accounting plans to post the position again seeking a qualified individual that can assist with the outstanding inventory reconciliation as well as the other task of the job. In the meantime, a temporary employee has been hired to assist the Accounting Department.

The RTA will perform its next physical inventory by December 31, 2005. The reconciliation to property records is expected to be completed by the first quarter of 2006.

03-2 PROPERTY LOCATIONS AND TAGGING

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

Current Status: During the physical inventory performed by the Accounting Department, it was also noted that there were some deficiencies. Since then, all untagged items have been tagged. The location information and the necessary adjustments to the property records will be made during the conclusion of the inventory reconciliation.

The management staff of RTA has been notified of this finding and has committed to better communication with the Accounting department regarding the movement and tracking of property.

REGIONAL TRANSIT AUTHORITY
New Orleans, Louisiana

Summary Schedule of Prior Audit Findings, Continued

03-3 PROCUREMENT COST/PRICE ANALYSIS

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

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