MIAMI VALLEY REGIONAL TRANSIT AUTHORITY

Financial Statements

December 31, 2001 and 2000

(With Independent Auditors' Report Thereon)

STATE OF OHIO
OFFICE OF THE AUDITOR
JIM PETRO, AUDITOR OF STATE

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To the Board of Trustees
Miami Valley Regional Transit Authority

We have reviewed the Independent Auditor's Report of the Miami Valley Regional Transit Authority, Montgomery County, prepared by KPMG LLP, for the audit period January 1, 2001 through December 31, 2001. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Miami Valley Regional Transit Authority is responsible for compliance with these laws and regulations.

JIM PETRO
Auditor of State

July 5, 2002

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KPMG

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Independent Auditors' Report

The Board of Trustees of
Miami Valley Regional Transit Authority and
Mr. Jim Petro, Auditor of State:

We have audited the accompanying balance sheets of Miami Valley Regional Transit Authority (the Authority) as of December 31, 2001 and 2000, and the related statements of revenues and expenses, changes in equity, and cash flows for the years then ended. These financial statements are the responsibility of the Authority'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 the Authority at December 31, 2001 and 2000, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 10, the Authority adopted the provisions of Governmental Accounting Standards Board Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*.

In accordance with *Government Auditing Standards*, we have also issued a report dated April 5, 2002 on our consideration of the Authority's internal control over financial reporting and our test 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.

KPMG LLP

April 5, 2002

MIAMI VALLEY REGIONAL TRANSIT AUTHORITY

Balance Sheets

December 31, 2001 and 2000

Assets		**2001**	**2000**
Current assets:			
Cash and cash equivalents (note 3)	$	7,208,089	4,575,024
Short-term investments - Board designated for capital acquisition (note 3)		9,954,600	19,275,740
Accounts receivable, less allowance for doubtful accounts of $87,323 in 2001 and $87,948 in 2000:			
Sales tax		8,497,968	8,276,096
Federal operating and preventative maintenance assistance		1,683,838	3,631,861
State operating and preventative maintenance assistance		—	670,356
Federal capital assistance		326,726	1,857,291
State capital assistance		—	1,052,161
Interest		450,701	651,108
Other		562,471	591,803
Total accounts receivable		11,521,704	16,730,676
Materials and supplies		4,311,725	3,687,623
Prepaid expenses and deposits		373,351	286,488
Total current assets		33,369,469	44,555,551
Non-current assets:			
Long-term investments (note 3):			
Non-Board designated		12,506,134	7,030,503
Board designated:			
Capital acquisitions		67,654	5,852,641
Self-insurance (note 7)		2,631,968	2,592,453
Working capital		9,621,260	9,498,331
Other		3,000,000	3,000,000
		27,827,016	27,973,928
Property and equipment (note 8):			
Revenue producing and service equipment		89,872,289	81,972,181
Land		4,562,819	4,562,819
Buildings and structures		90,130,539	68,244,254
Office furnishings, shop equipment and other		16,273,163	14,979,219
Job orders in process		4,734,595	14,831,512
		205,573,405	184,589,985
Less accumulated depreciation		71,397,798	62,838,996
Property and equipment, net		134,175,607	121,750,989
Total assets	$	195,372,092	194,280,468
Liabilities and Equity			
Current liabilities:			
Accounts payable	$	3,937,775	7,536,532
Accrued payroll and related benefits		6,198,765	5,315,704
Accrued self-insurance (note 7)		2,559,811	2,631,968
Unredeemed fares		547,153	506,417
Other accrued expenses		589,878	327,557
Current maturities of bonds and notes payable (note 4)		1,845,000	1,745,000
Total current liabilities		15,678,382	18,063,178
Bonds and notes payable (note 4)		12,880,000	14,725,000
Total liabilities		28,558,382	32,788,178
Equity:			
Capital grants:			
Federal		82,779,638	90,533,023
State of Ohio		5,564,230	5,867,525
		88,343,868	96,400,548
Retained earnings		78,469,842	65,091,742
Total equity		166,813,710	161,492,290
Total liabilities and equity	$	195,372,092	194,280,468

See accompanying notes to financial statements.

MIAMI VALLEY REGIONAL TRANSIT AUTHORITY

Statements of Revenues and Expenses

Years ended December 31, 2001 and 2000

		2001	2000
Operating revenues:			
Passenger fares	$	5,656,055	5,665,256
Special transit fares and charter service:			
Board of Education (student transportation)		1,167,750	1,193,625
Charter service		81,535	110,590
Contract service		21,528	19,417
Total operating revenues		6,926,868	6,988,888
Operating expenses:			
Labor		25,836,775	24,914,162
Fringe benefits		13,680,369	11,856,346
Contractual services		3,823,864	3,125,835
Materials and supplies		5,529,204	5,176,190
Utilities and propulsion power		1,327,597	1,481,549
Claims and insurance		689,265	670,040
Other		906,145	729,118
Total operating expenses excluding depreciation		51,793,219	47,953,240
Operating loss before depreciation expense		(44,866,351)	(40,964,352)
Depreciation expense:			
Acquired with Authority funds		701,760	2,310,930
Acquired with capital grant funds		8,056,680	6,773,026
Total depreciation expense		8,758,440	9,083,956
Operating loss		(53,624,791)	(50,048,308)
Nonoperating revenues (expenses):			
Sales tax proceeds		32,289,276	32,268,771
Federal operating and preventative maintenance assistance		8,415,208	7,439,889
Federal capital grants (passed through to sub-recipient)		5,438,930	1,964,004
Capital grants to sub-recipient		(5,438,930)	(1,964,004)
State operating and preventative maintenance assistance		572,253	1,811,061
State special fare assistance		252,312	249,092
Interest on investments		2,773,267	3,262,260
Interest expense		(855,568)	(935,243)
Net increase in the fair value of investments		443,501	1,098,722
Other		616,631	1,161,343
Total nonoperating revenues, net		44,506,880	46,355,895
Net loss before capital contributions		(9,117,911)	(3,692,413)
Capital contributions		14,439,331	—
Net income (loss)	$	5,321,420	(3,692,413)

See accompanying notes to financial statements.

MIAMI VALLEY REGIONAL TRANSIT AUTHORITY

Statements of Changes in Equity

Years ended December 31, 2001 and 2000

	Capital Grants			
	Federal	State	Retained earnings	Total equity
Balance at December 31, 1999	$ 78,144,813	5,251,667	62,011,129	145,407,609
Net loss	—	—	(3,692,413)	(3,692,413)
Grants received and earned for capital additions	18,919,105	857,989	—	19,777,094
Depreciation of assets acquired with capital grant funds (note 2)	(6,530,895)	(242,131)	6,773,026	—
Balance at December 31, 2000	90,533,023	5,867,525	65,091,742	161,492,290
Net income	—	—	5,321,420	5,321,420
Depreciation of assets acquired with capital grant funds (note 2)	(7,753,385)	(303,295)	8,056,680	—
Balance at December 31, 2001	$ 82,779,638	5,564,230	78,469,842	166,813,710

See accompanying notes to financial statements.

MIAMI VALLEY REGIONAL TRANSIT AUTHORITY

Statements of Cash Flows

Years ended December 31, 2001 and 2000

		2001	2000
Cash flows from operating activities:			
Operating loss	$	(53,624,791)	(50,048,308)
Adjustments to reconcile operating loss to net cash used in operating activities:			
Depreciation		8,758,440	9,083,956
Changes in assets and liabilities:			
Accounts receivable – other		29,332	110,003
Materials and supplies		(624,102)	(387,733)
Prepaid expenses and deposits		(86,863)	(47,348)
Accounts payable		(3,598,757)	3,555,799
Accrued expenses and unredeemed fares		1,113,961	(253,575)
Net cash used in operating activities		(48,032,780)	(37,987,206)
Cash flows from noncapital financing activities:			
Sales tax		32,067,404	32,685,335
Federal operating and preventive maintenance assistance grants		10,363,231	5,054,733
Federal capital grants (passed through to sub-recipient)		5,438,930	1,964,004
Capital grants to sub-recipient		(5,438,930)	(1,964,004)
State operating and preventive maintenance and special fare assistance grants		1,494,921	2,610,224
Other		616,631	1,161,343
Net cash provided by noncapital financing activities		44,542,187	41,511,635
Cash flows from capital and related financing activities:			
Capital grants received		17,022,057	21,079,473
Additions to property and equipment		(21,183,058)	(25,698,959)
Proceeds from sales of property and equipment		—	63,904
Interest paid on bonds and notes payable		(855,568)	(935,243)
Payments of bonds payable		(1,745,000)	(1,650,000)
Net cash used in capital and related financing activities		(6,761,569)	(7,140,825)
Cash flows from investing activities:			
Purchases of investment securities		(10,045,012)	(23,922,901)
Proceeds from sale or maturity of investment securities		20,325,184	22,449,328
Interest received		2,605,055	3,292,848
Net cash provided by investing activities		12,885,227	1,819,275
Net increase (decrease) in cash and cash equivalents		2,633,065	(1,797,121)
Cash and cash equivalents at beginning of year		4,575,024	6,372,145
Cash and cash equivalents at end of year	$	7,208,089	4,575,024

See accompanying notes to financial statements.

(1) The Authority and Reporting Entity

(a) The Authority

Miami Valley Regional Transit Authority (the Authority) provides virtually all public mass transportation within Montgomery County. The Authority is governed by a nine member Board of Trustees and is an independent political subdivision of the State of Ohio organized pursuant to Ohio Revised Code Section 306.30 through 306.71, inclusive, as amended, and as such, is not subject to state or federal income taxes. The Authority was created on July 6, 1971, pursuant to the Revised Code, by ordinances of the Councils of the City of Dayton and City of Oakwood. After completing the purchase of the assets of City Transit, which was the major privately-owned public transportation system in the area, the Authority became operational on November 5, 1972. In July 1980, after the approval in the preceding April by the voters of the county of a one-half percent sales and use tax of unlimited duration for all purposes of the Authority, the boundaries of the Authority were extended to be coextensive with boundaries of Montgomery County, Ohio.

(b) Reporting Entity

The accompanying financial statements include only the accounts and transactions of the Authority. Under the criteria specified in Governmental Accounting Standards Board (GASB) Statement No. 14, the Authority has no component units nor is it considered a component unit of any other governmental authority. The conclusions regarding the financial reporting entity are based on the concept of financial accountability. The Authority is not financially accountable for any other organization. This is evidenced by the fact that the Authority is a legally and fiscally separate and distinct organization under the provisions of the Ohio Revised Code.

(2) Summary of Significant Accounting Policies

(a) Basis of Accounting

The accounting policies of the Authority conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental entities. The accounts of the Authority, which are organized as an enterprise fund, are used to account for the Authority's activities that are financed and operated in a manner similar to a private business enterprise. Accordingly, the Authority maintains its records on the accrual basis of accounting. Revenues from operations, investments, and other sources are recorded when earned. Expenses (including depreciation and amortization) of providing services to the public are accrued when incurred.

Non-exchange transactions, in which the Authority receives value without directly giving equal value in return, include sales tax revenue and grants. On an accrual basis, revenue from sales taxes is recognized in the period when the underlying exchange transaction occurs. Therefore, taxes on items sold in 2001 will be recognized as revenue in 2001. Revenue from grants is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, and expenditure requirements, in which the resources are provided to the Authority on a reimbursement basis.

(Continued)

Pursuant to GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting,* the Authority follows GASB guidance as applicable to proprietary funds and Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins issued on or before November 30, 1989, that do not conflict with or contradict GASB pronouncements.

(b) Budgetary Accounting and Control

The Authority's annual budget, as provided by law, is prepared on the accrual basis of accounting. The Authority maintains budgetary control by not permitting expenditures to exceed appropriations without approval of the Board of Trustees.

(c) Cash and Cash Equivalents

Cash and cash equivalents consists of cash on hand, demand deposits, short-term investments with original maturities of three months or less from the date of acquisition, and deposits in the State Treasurer's Asset Reserve investment pool (STAR Ohio).

(d) Investments

Investments are reported at fair value, based on quoted market prices, except for repurchase agreements, which are reported at amortized cost.

(e) Board Designated Investments

Investments are designated annually by the Board of Trustees and shall be required for each of the following items:

Capital acquisitions – to provide local match funds for approved or projected Federal grants, projects not eligible for grant participation, or local match for transit related projects that would assist community development efforts.

Self insurance – the value of the estimated potential claim liability.

Working capital – the value of an average two months of budgeted operating expenses.

Other – to provide flexibility in funding operations when an economic downturn affects major revenue sources or when a major, unforeseen crisis requires extraordinary expenditures.

(f) Materials and Supplies

Materials and supplies are recorded at average cost and consist principally of maintenance supplies and repair parts.

(g) Property and Equipment

Property and equipment is stated at historical cost and includes expenditures, which substantially increase the useful lives of existing assets. Repair and maintenance costs are directly expensed as incurred. Public domain assets such as electrical overhead systems and shelters are capitalized.

(Continued)

(h) Depreciation

Depreciation is computed using the straight-line method based on the estimated useful lives of the respective assets as follows:

Description	Estimated useful life
Revenue producing and service equipment	3 to 18 years
Buildings and structures	6 to 45 years
Office furnishings, shop equipment and other	5 to 8 years
Operating rights	20 years

Depreciation on assets acquired with federal and state contributions is reflected as a transfer to the related state and federal capital grant equity accounts.

(i) Compensated Absences

The Authority accrues vacation benefits as earned by its employees and the vested and nonvested portion of accumulated sick leave benefits payable upon retirement.

(j) Passenger Fares

Passenger fares are recorded as revenue at the time services are performed.

(k) Sales Taxes

The Authority receives the proceeds of a one-half percent sales tax as approved by the residents of Montgomery County. The sales tax is collected by vendors within Montgomery County and remitted to the Ohio Department of Taxation, which charges a one percent administrative fee for its service. Sales tax revenue is recognized in the month collected by the vendors.

(l) Federal and State Operating and Preventative Maintenance Assistance Funds

Federal and State operating and preventative maintenance assistance funds to be received by the Authority under the Urban Mass Transportation Assistance Act of 1964, as amended, and under the Ohio Public Mass Transportation Grant Program are recorded and reflected in income in the period to which they are applicable.

(m) Capital Grants

Federal and state capital grants for the acquisition of property and equipment are recorded as the costs are incurred. Capital acquisitions for which grant funds have not been received from Federal Transit Authority (FTA) or Ohio Department of Transportation (ODOT) are recorded as capital grants receivable.

When assets acquired with capital grant funds are disposed, the Authority is required to notify the granting federal agency. A proportional amount of the proceeds or fair market value, if any, of such property may be used to acquire like-kind replacement vehicles or remitted to the granting federal agency.

(Continued)

(n) Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(o) Reclassifications

Certain amounts from the prior year have been reclassified to conform to the current year presentation.

(p) New Accounting Pronouncements

The Authority will implement the provisions of GASB Statement No. 34, *Basic Financial Statements – Management Discussion and Analysis – for State and Local Governments;* GASB Statements No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*; and GASB Statements No. 38, *Certain Financial Statement Note Disclosures*, effective for year ended December 31, 2002. Management has not yet determined the impact of these statements on the Authority's financial statements.

(3) Cash and Investments

The investment and deposit of Authority monies are governed by the provisions of the Ohio Revised Code. In accordance with these statutes, only banks located in Ohio and domestic building and loan associations are eligible to hold public deposits. The statutes also permit the Authority to invest its monies in certificates of deposit, commercial paper, savings accounts, money market accounts, the State Treasurer's Asset Reserve investment pool (STAR Ohio) and obligations of the United States government or certain agencies thereof. The Authority may also enter into repurchase agreements with any eligible depository or any eligible dealer who is a member of the National Association of Securities Dealers for a period not exceeding thirty days. The Authority is prohibited from investing in any financial instrument, contract, or obligation whose value or return is based upon or linked to another asset or index, or both, separate from the financial instrument, contract, or obligation itself (commonly known as a "derivative"). The Authority is also prohibited from investing in reverse repurchase agreements.

(Continued)

Public depositories must give security for all public funds on deposit. These institutions may either specifically collateralize individual accounts in lieu of amounts insured by the Federal Deposit Insurance Corporation (FDIC), or may pledge a pool of government securities valued at least 110% of the total value of public monies on deposit at the institution. Repurchase agreements must be secured by the specific government securities upon which the repurchase agreements are based. These securities must be obligations of or guaranteed by the United States and must mature or be redeemable within five years of the date of the related repurchase agreement. The market value of the securities, subject to a repurchase agreement, must exceed the value of the principal by 2% and be marked to market daily.

(a) Deposits

At December 31, 2001 and 2000, the carrying amount of the Authority's deposits was $299,431 and $143,990, respectively, as compared to bank balances of $1,189,147 and $209,621, respectively. Of the bank balances at December 31, 2001 and 2000, $200,000 and $157,621, respectively, was on deposit and covered by federal depository insurance and $989,147 and $52,000, respectively was collateralized by a pool of securities maintained by the Authority's financial institutions but not in the Authority's name.

(b) Investments

The following table presents a summary of the fair values of the Authority's investments at December 31, 2001 and 2000. All categorized investments are insured or registered and are held by the Authority's custodian (agent) in the Authority's name. The deposits in Star Ohio (pooled funds) are not categorized because the relationship between the Authority and the investment agent is a direct contractual relationship, and the investments are not supported by a transferable instrument that evidences ownership or creditorship. These deposits are valued at the pool's share price, which is the price for which the investment could be sold as of December 31, 2001 and 2000, respectively.

	Fair Value 2001	Fair Value 2000
Categorized:		
U.S. government and agencies securities	$ 37,781,616	43,164,093
Certificates of Deposit	—	3,097,346
Commercial paper	—	988,229
Noncategorized:		
Star Ohio (investment pool)	6,908,658	4,431,034
Total investments	$ 44,690,274	51,680,702

Although the Star Ohio deposits are included with investments above for risk categorization, these deposits are classified as cash and cash equivalents for financial reporting purposes.

(4) Bonds and Notes Payable

Bonds and notes payable consist of capital facilities bonds issued for the purpose of purchasing, acquiring, constructing, replacing, improving, extending and enlarging transit facilities. The bonds and notes were authorized to be issued and sold under resolutions passed by the Board of Trustees. The bonds and notes are general obligations of the Authority and consist of the following:

	Interest rates	December 31, 2001	December 31, 2000
General obligation capital facilities bonds and notes:			
Series 1992	4.00% to 5.50%	$ 610,000	1,190,000
Series 1993	3.10% to 5.10%	3,020,000	3,340,000
Series 1994	3.50% to 6.00%	3,125,000	3,430,000
Series 1997	4.15% to 5.55%	7,970,000	8,510,000
Total payable		14,725,000	16,470,000
Less current portion		(1,845,000)	(1,745,000)
Non-current maturities of bonds and notes payable		$ 12,880,000	14,725,000

The annual requirements to pay principal and interest on the bonds and notes outstanding at December 31, 2001 are as follows:

	Principal	Interest	Total
2002	$ 1,845,000	774,350	2,619,350
2003	1,300,000	681,208	1,981,208
2004	1,370,000	617,518	1,987,518
2005	1,445,000	548,583	1,993,583
2006	1,535,000	474,390	2,009,390
Thereafter	7,230,000	1,212,465	8,442,465
	$ 14,725,000	4,308,514	19,033,514

(5) Pension Plan

(a) Plan Description

The Authority contributes to the Public Employees Retirement System of Ohio (PERS), a cost-sharing, multiple-employer public employee retirement system. PERS provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Chapter 145 of the Ohio Revised Code assigns the authority to establish and amend benefit provisions to the PERS Board of Trustees (Board). PERS issues a stand-alone financial report that includes the financial statements. That report may be obtained by writing to Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 614-466-2085 or 1-800-222-PERS (7377).

(b) Funding Policy

Plan members are required to contribute 8.5% of their annual covered salary, and the Authority is required to contribute an actuarially determined rate. The 2001, 2000, and 1999 employer contribution rate was 13.55%, 10.84%, and 13.55%, respectively, of annual covered payroll. The 2000 rate reflected a 20% temporary contribution rate rollback. The contribution requirements of plan members and the Authority are established and may be amended by the Board. The Authority's contributions to PERS for the years ending December 31, 2001, 2000, and 1999 were $4,071,961, $3,195,188, and $3,880,899, respectively, equal to the required contributions for each year. Required employer contributions are equal to 100% of the dollar amount billed to each employer.

(6) Other Post-Employment Benefits (OPEB)

PERS also provides post-retirement health care coverage to age and service retirees with 10 or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. The health care coverage provided by the retirement system is considered an Other Post-employment Benefit (OPEB) as described in GASB Statement No. 12. As required by state statute, a portion of each employer's contribution to PERS (see note 5) is set aside for the funding of post-retirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The contribution rates of 13.55% and 10.84% to the Plan for the years ended December 31, 2001 and 2000, respectively, included a portion (4.3%) that was used to fund healthcare. The Authority's contributions for post-employment benefits were approximately $175,094 and $137,393 for the years ended December 31, 2001 and 2000, respectively.

The Ohio Revised Code provides the statutory authority requiring public employers to fund postretirement health care through their contributions to PERS.

Summary of assumptions:

Actuarial Review – The assumptions and calculations below were based on the System's latest Actuarial Review performed as of December 31, 2000.

Funding Method – An entry age normal actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of unfunded actuarial accrued liability.

Assets Valuation Method – All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach assets are adjusted annually to reflect 25% of the unrealized market appreciation or depreciation on investment assets.

Investment Return – The investment assumption rate for 2000 was 7.75%.

Active Employee Total Payroll – An annual increase of 4.75% compounded annually, is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4.75% base increase, were assumed to range from 0.54% to 5.1%.

Health Care – Health care costs were assumed to increase 4.75% annually.

OPEBs are advanced funded on an actuarially determined basis. The number of active participating participants at December 31, 2001 was $411,076. $11,735.9 million represents the actuarial value of the Retirement System's net assets available for OPEB at December 31, 2000 (the latest date information is available). The actuarially accrued liability and the unfunded actuarial accrued liability at December 31, 2000 (the latest date information is available), based on the actuarial cost method used, were $14,364.6 million and $ 2,628.7million, respectively.

The Board enacted a temporary employer contribution rollback for calendar year 2000. The decision to rollback rates was based on the December 31, 1998 actuarial study, which indicated that actuarial assets exceeded actuarial liabilities. The temporary rate rollback was 20% for local government divisions. The Board reallocated employer contributions from 4.20% to 4.30% at the beginning of 2000 to improve health care financing. The proportion of contributions dedicated to funding OPEB increased during the year for those reasons.

(7) Risk Management

The Authority is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Effective December 31, 1994, the Authority commenced participation in the Ohio Transit Insurance Pool, Inc. (OTIP) related to its risk of property and casualty loss. Under this plan, the Authority receives property and casualty loss coverage in exchange for premiums paid. OTIP self-insures the first $100,000 of any qualified property loss and the first $250,000 of any qualified casualty loss subject to a $1,000 per loss deductible ($25,000 for revenue vehicles). Per occurrence, excess insurance coverage is maintained by OTIP equal to $269,559,059 for qualified property losses and $25,000,000 for qualified casualty losses. The annual aggregate stop-loss limit for casualty is $1,600,000 and for property is $300,000.

Any underfunding of the plans liabilities is shared by the members on a pro rata basis based on pool contribution factors comprised of: population, full-time employees, vehicles, property values, budget, claims history times two and net operating expenses.

The Authority is also self-insured for worker's compensation claims up to a limit of $300,000 per claim at which point stop-loss insurance becomes effective. A reserve has been provided at December 31, 2001 and 2000 for the estimated potential claim liability based upon an actuary's estimate. This liability is classified as current although some portion may not be paid within one year. Management believes, based on prior experience, that the estimated reserve for claims is adequate to satisfy all claims filed or to be filed for incidents, which occurred through December 31, 2001.

The following is a reconciliation of the Authority's claims liability:

		2001	2000
Accrued self-insurance – beginning of year	$	2,631,968	2,592,453
Claims and other expenses incurred – during year		612,654	636,535
Claims paid – during year		(684,811)	(597,020)
Accrued self-insurance – end of year		2,559,811	2,631,968

(8) Capital and Other Grants

The Authority has a capital improvement program, which is primarily funded through capital grants. The purpose of this program is to provide various improvements to the transit system. The total amount approved under the capital improvement program is to be provided by grants and Authority equity, which includes participation by the FTA (approximately 80%), the Authority's funds (between 10% and 20% depending upon ODOT participation) and to a lesser extent ODOT.

The Authority participates in community based transit improvement projects where management deems there to be a public transit related benefit. The Authority serves as a funding conduit for specific Federal/State funding, and/or provides Federal/State/Local funding out of its annual allocation. In exchange for its participation, the Authority receives benefits, which may include operating rights, exclusive use agreements, or other forms of consideration. Capital grants received for such projects are recorded as "Federal capital grants (passed through to sub-recipient)" offset by "capital grants to sub-recipient" in the Statements of Revenues and Expenses.

In 1998, the Authority entered into contracts with ODOT for two downtown Dayton projects, which will include Federal Highway Administration (FHWA) and FTA funds. The process for receiving these Federal funds requires the Authority to enter into a contract with ODOT for each project in the amount of $3.303 million for the Baseball Stadium project and $3.675 million for the RiverScape project. The Authority also entered into agreements with the City of Dayton, which will be responsible for all contracts associated with the transit-related portions of the Baseball Stadium project and Montgomery County, which will be responsible for all contracts associated with the transit-related portions of the RiverScape and Arts Center Foundation projects.

The Authority remitted approximately $76,000 and $2.0 million of FTA and FHWA funds during 2001 and 2000, respectively, to the City of Dayton for the Baseball Stadium project and related transit enhancements and approximately $3,675 million and $0 of FTA and FHWA funds during 2001 and 2000, respectively, to Montgomery County for the RiverScape project. Additionally, the Authority remitted approximately $2.2 million of FTA and ODOT money in 2001 to Montgomery County for the Arts Center.

The Authority has an obligation to ensure that the benefits received from such projects continue for a time period deemed appropriate to ensure Federal/State funds have fully vested in the project and that no Federal/State payback would be required by the sub-recipient. At December 31, 2001, the Authority continues to monitor the Baseball Stadium project (as described above), completed in May of 2000 with $3,026,504 in Federal funding, as well as the Main Street Project, completed in November of 1992 with $3,184,806 in Federal funding. Both of these projects have a 20 year vesting period and would require a partial payback of funding, based on straight line amortization, if the benefits received by the Authority are discontinued before the vesting period ends.

(9) Contingencies and Commitments

(a) Contingencies

Federally assisted capital grant programs are subject to audit by the granting agency. Management believes that no liability will arise, as a result of audits previously performed or to be performed, which might adversely affect the financial position of the Authority.

FTA grant stipulations also require the grantee to retain assets acquired by FTA funds for the full estimated asset useful life (as determined by FTA). If this provision is not met, the grantee must refund FTA's un-depreciated basis in assets disposed.

(b) ETI Trolley Buses

In 1994, the Authority entered into a $32 million contract with Electric Transit Inc. (ETI) to purchase a new fleet of electric trolley buses. The ETI fleet consists of three prototype buses and 54 production models. In November 2000, two structural problems were discovered and 50 of the production buses were removed from revenue service. During 2001, ETI developed and tested final repair actions and retrofits. The Authority has been able to maintain service by using its contingency fleet, re-assigning certain fleets, and utilizing buses reserved for the 2003 Celebration of the Centennial of Flight. While the 50 production buses represent approximately $28 million in capital investment, the risk is offset by the following: 1) the affected buses are still under warranty; 2) the Authority holds approximately $850,000 in retainage money; and 3) the Authority holds a $16.3 million ETI performance bond. As of December 31, 2001, the RTA has accumulated $491,000 in ETI receivables. This represents $300,000 in additional diesel fuel costs associated with the electric trolley buses being out of service; $117,000 for outstanding warranty claims and associated labor costs; and $74,000 in contract and related expenses associated with hiring a third-party technical advisor to the Authority to review engineering reports submitted to the Authority by ETI. The RTA has elected not to record the 2001 ETI receivables until which time collectibility becomes more certain.

At the date of this report, the final repair actions and modifications are being made to correct the structural problems, and 13 of the 50 production buses have been returned to revenue service. All 50 of the production buses are expected in revenue service by fall 2002. RTA expects 2002 receivables of approximately $244,000 in additional warranty claims.

Difficulties with new fleet designs of specialty buses, such as the electric trolley bus, are not unusual occurrences in the transit industry. The RTA currently has ten workers from the Czech Republic and ETI working on site on fleet repairs. Secondly, Region 5 of the Federal Transit Administration (FTA) is regularly kept abreast of procurement status and management has no reason to believe that FTA will require reimbursement given FTA's commitment to alternative fuel technologies, and FTA's support of RTA's due diligence in contract management. In addition, the RTA continues to work with the National Transit Safety Administration, who has offered to review ETI's Finite Element Analysis at no additional charge. In summary, ETI continues to make good faith efforts to successfully complete this contract, the Authority continues to use due diligence in contract management, FTA has been kept regularly abreast of procurement status and is supportive of management's efforts, the Authority has necessary warranties and bonds in place, and a number of vehicles are already in revenue service. At the date of this report, management believes that all systems are in place to assure a successful completion of this vehicle procurement.

(c) Commitments

At December 31, 2001, the Authority had outstanding purchase commitments for contracts of approximately $7.9 million, of which approximately $7.1 million is for new project mobility and diesel vehicles and $.8 million for construction and equipment for the American Building.

(d) Litigation

The Authority is involved in a dispute with a tenant operating a daycare facility in the building that houses the Authority's Northwest hub operation. The plaintiff filed suit against the Authority claiming breach of provisions in the lease contract and delay of occupancy, and the Authority has filed a counterclaim against the plaintiff, also claiming breach of contract. The Authority has chosen to vigorously contest this matter based on its strong belief that it abided by the letter and spirit of the lease agreement. In the opinion of the Authority's management, the Authority has adequate legal defense for this action and does not believe that this action will materially affect the Authority's operations or financial position.

(10) Adoption of New Accounting Pronouncements

In fiscal year 2001, the Authority implemented the provisions of GASB Statement No. 33, Accounting and Financial Reporting for Non-exchange Transactions and GASB Statement No. 36, Recipient Reporting for Certain Shared Non-exchange Revenues (an amendment of GASB Statement No. 33). These statements require that capital contributions be recognized as revenues and not as contributed capital. Accordingly, during the year ended December 31, 2001, $14,439,331 in capital contributions were recognized as revenue in the statement of revenues and expenses for the Authority. These statements also require the recognition of sales taxes in the financial statements in the period when the underlying exchange transaction occurs. As the Authority has recognized sales tax revenue in a manner consistent with these requirements, there was no effect on the Authority's 2000 financial statements as a result of adopting these statements.

MIAMI VALLEY REGIONAL TRANSIT AUTHORITY

OMB Circular A-133 Report

Year Ended December 31, 2001

(With Independent Auditors' Report Thereon)

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MIAMI VALLEY REGIONAL TRANSIT AUTHORITY

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KPMG

191 West Nationwide Boulevard
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Independent Auditors' Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

The Board of Trustees
Miami Valley Regional Transit Authority and
Mr. Jim Petro, Auditor of State:

We have audited the financial statements of Miami Valley Regional Transit Authority (the Authority) as of and for the year ended December 31, 2001, and have issued our report thereon dated April 5, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting which we have reported to management of the Authority in a separate letter dated April 5, 2002.

This report is intended solely for the information and use of the Board of Trustees, the Board's Finance/Personnel committee and management of the Authority, the Federal Transit Administration, other applicable U.S. Government Agencies, and the Auditor of the State of Ohio and it is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

April 5, 2002

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Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program, Internal Control Over Compliance in accordance with OMB Circular A-133, and Schedule of Expenditures of Federal Awards

The Board of Trustees
Miami Valley Regional Transit Authority and
Mr. Jim Petro, Auditor of State:

Compliance

We have audited the compliance of Miami Valley Regional Transit Authority (the Authority) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended December 31, 2001. The Authority'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 Authority's management. Our responsibility is to express an opinion on the Authority'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 Authority's compliance with those requirements and performing such other procedures as we consider 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 Authority's compliance with those requirements.

In our opinion, the Miami Valley Regional Transit Authority 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, 2000.

Internal Control Over Compliance

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

Our consideration of the Authority's internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control over compliance that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the Authority as of and for the year ended December 31, 2001, and have issued our report thereon dated April 5, 2002. 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 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 and use of the Board of Trustees, the Board's Finance/Personnel committee and management of the Authority, the Federal Transit Administration, other applicable U.S. Government Agencies, and the Auditor of the State of Ohio and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

April 5, 2002

MIAMI VALLEY REGIONAL TRANSIT AUTHORITY

Schedule of Expenditures of Federal Awards

Year ended December 31, 2001

Federal Grantor/Pass Through Grantor/Program Title	Grant Number	Federal CFDA Number	Expenditures
Department of Transportation			
Direct Programs:			
Federal Transit - Section 5309 - Capital Improvement Grants	OH-03-0172	20.500	$ 88,457
	OH-03-1097	20.500	1,603,955
	OH-03-0199	20.500	1,588,560
	OH-03-0182	20.500	505,451
	OH-03-0188	20.500	1,883,586
	OH-03-0189	20.500	207,538
Passed through the Ohio Department of Transportation			
Federal Transit - Section 5309 - Capital Improvement Grants	OH-03-0169	20.500	579,628
	OH-03-0165	20.500	4,297,265
	OH-03-0184	20.500	269,727
	OH-03-0175	20.500	1,007,698
Total CFDA # 20.500			12,031,865
Direct Programs:			
Federal Transit - Section 5307 - Capital and Operating Assistance Formula Grants	OH-90-0094	20.507	387,327
	OH-90-X380	20.507	5,234,856
	OH-90-0267	20.507	209,708
	OH-90-0295	20.507	9,356
	OH-90-0316	20.507	110,519
	OH-90-0341	20.507	2,146,554
	OH-90-0359	20.507	3,619,946
	OH-90-X003	20.507	194,177
Total CFDA # 20.507			11,912,443
Total Department of Transportation - Federal Transit Cluster			23,944,308
Passed through the Ohio Department of Transportation:			
Federal Highway Administration - Baseball Stadium project	9190	20.205	76,555
Federal Highway Administration - Riverscape Project			3,675,000
Total Department of Transportation - Highway Planning & Construction Cluster			3,751,555
Total expenditure of federal awards			$ 27,695,863

See accompanying independent auditors' report and notes to Schedule of Expenditures of Federal Awards.

MIAMI VALLEY REGIONAL TRANSIT AUTHORITY

Notes to Schedule of Expenditures of Federal Awards

December 31, 2001

(1) Note A – General

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal award programs of the Miami Valley Regional Transit Authority (the Authority). The Authority's reporting entity is defined in Note 1(a) to the Authority's financial statements. All federal awards received directly from federal agencies, as well as federal awards passed through other government agencies are included on the Schedule.

(2) Note B – Basis of Accounting

The accompanying Schedule of Expenditures of Federal Awards is presented using the accrual basis of accounting.

(3) Note C – Subrecipients

The Authority was a pass-through entity of the Federal Transit Cluster funds, as well as, the Federal Highway Administration.

The City of Dayton:		
Baseball Park	$	76,555
Montgomery County:		
Arts Center		1,395,677
Riverscape		3,765,000

MIAMI VALLEY REGIONAL TRANSIT AUTHORITY

Schedule of Findings and Questioned Costs

Year ended December 31, 2001

(1) Summary of Auditors' Results

Financial Statements

(a) Type of auditors' report issued: Unqualified opinion

(b) Internal control over financial reporting:

Material weakness (as) identified: No
Reportable condition(s) identified not considered to be material weaknesses: None reported

(c) Noncompliance material to financial statements noted: No

Federal Awards

(a) Internal control over major programs:

Material weakness (as) identified: No
Reportable condition(s) identified: None reported

(b) Type of auditors' report issued on compliance of major programs: Unqualified opinion

(c) Any audit findings disclosed that are required to be reported in accordance with Circular A-133 (section .510(a)): No

(d) Major program for the December 31, 2001 audit: Federal Transit Cluster CFDA numbers 20.500 and 20.507

(e) Dollar threshold used to distinguish between Type A and Type B programs: $830,876

(f) Auditee qualified as low-risk auditee under Section .530 of OMB Circular A-133: Yes

(2) Findings Relating to the Financial Statements Reported in Accordance with *Government Auditing Standards*

None

(3) Findings and Questioned Costs Relating to Federal Awards

None

MIAMI VALLEY REGIONAL TRANSIT AUTHORITY

Schedule of Prior Audit Findings
OMB Circular A-133

Year ended December 31, 2001

Finding Number	Finding Summary	Fully Corrected?	Status
December 31, 2000 00-1	Federal Transit Cluster	Yes	Corrected

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JIM PETRO, AUDITOR OF STATE

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MIAMI VALLEY REGIONAL TRANSIT AUTHORITY

MONTGOMERY COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
AUGUST 6, 2002