

***GREATER DAYTON REGIONAL TRANSIT  
AUTHORITY***

**AUDIT REPORT**

**FOR THE YEAR ENDED DECEMBER 31, 2006**

(with comparative statements for the year ended December 31, 2005)

***Charles E. Harris and Associates, Inc.***  
**Certified Public Accountants and Government Consultants**





Mary Taylor, CPA  
Auditor of State

Board of Trustees  
Greater Dayton Regional Transit Authority  
4 South Main Street  
Dayton, Ohio 45401

We have reviewed the *Report of Independent Accountants* of the Greater Dayton Regional Transit Authority, Montgomery County, prepared by Charles E. Harris & Associates, Inc., for the audit period January 1, 2006 through December 31, 2006. 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 Greater Dayton Regional Transit Authority is responsible for compliance with these laws and regulations.

*Mary Taylor*

Mary Taylor, CPA  
Auditor of State

June 27, 2007

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**GREATER DAYTON REGIONAL TRANSIT AUTHORITY**  
**Audit Report**  
**For the year ending December 31, 2006**

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**REPORT OF INDEPENDENT ACCOUNTANTS**

The Board of Trustees of  
Greater Dayton Regional Transit Authority and  
Ms. Mary Taylor, Auditor of State:

We have audited the accompanying basic financial statements of the business-type activities of the Greater Dayton Regional Transit Authority (the Authority) as of and for the year ended December 31, 2006 and 2005, as listed in the table of contents. 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 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. 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provide a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of December 31, 2006 and 2005 and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 28, 2006 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 8 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements of the Authority. 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.

***Charles E. Harris & Associates, Inc.***

March 28, 2007



# GREATER DAYTON REGIONAL TRANSIT AUTHORITY

## Management's Discussion and Analysis

December 31, 2006 and 2005

(Unaudited)

As financial management of the Greater Dayton Regional Transit Authority (the Authority), we offer readers of these financial statements this narrative overview and analysis of the financial activities of the Authority for the fiscal years ended December 31, 2006 and 2005. This discussion and analysis is designed to assist the reader in focusing on significant financial issues and activities and to identify any significant changes in financial position. We encourage readers to consider the information presented here in conjunction with the financial statements as a whole.

### Financial Highlights for 2006

- The Authority's total net assets decreased by \$11.8 million or 7.5% over the course of the year's operations causing a reduction in reserves.
- The Authority's operating expenses, excluding depreciation, in 2006 were \$2.6 million or 4.6% higher than 2005. This was due primarily to a one-time charge for obsolete parts and materials.
- Operating revenues for the Authority were \$8.5 million in 2006, up \$.7 million from 2005. This was an increase of 9% and was primarily the result of a new school transportation contract with Dayton City Schools.
- Sales tax revenue was \$.3 million less than 2005 primarily due to a one-time reduction by the State of Ohio representing the Authority's share of a significant refund of previous years' taxes. As sales tax accounts for approximately 60% of all funding, it is important that inflationary increases are realized year over year.
- Investment income was \$.2 million or 10.5% higher than 2005 due to higher interest rates.

### Financial Highlights for 2005

- The Authority's total net assets decreased by \$8.9 million or 5.3% over the course of the year's operations causing a reduction in reserves.
- The Authority's operating expenses, excluding depreciation, in 2005 were \$1.4 million higher than 2004 expenses. This was due primarily to increased fuel costs.
- Operating revenues for the Authority were \$7.8 million for fiscal year 2005. This was an increase of 22.2% over the prior year, and was primarily the result of fare increases.
- Sales tax revenue was \$.3 million less than 2004.
- Investment income was equal to 2004 due to higher interest rates which were nearly offset by a smaller average investment balance.

# GREATER DAYTON REGIONAL TRANSIT AUTHORITY

## Management's Discussion and Analysis

December 31, 2006 and 2005

(Unaudited)

### **Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the Authority's financial statements, which is comprised of the basic financial statements and the notes to the financial statements. This report contains supplementary information concerning the Authority's net assets and changes in net assets in addition to the basic financial statements themselves.

### ***Required Financial Statements***

The financial statements of the Authority are designed to provide readers with a broad overview of the Authority's finances, in a manner similar to private-sector business.

The balance sheets present information on all of the Authority's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating. Net assets increase when revenues exceed expenses. Increases to assets without a corresponding increase to liabilities, results in increased net assets, which indicate improved financial position.

The statements of revenues, expenses, and changes in net assets present information showing how the Authority's net assets changed during the fiscal year. All changes in net assets are reported as soon as the event occurs, regardless of timing of related cash flows. Thus revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

The final required financial statement is the statement of cash flows. This statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

### ***Notes to the Financial Statements***

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

### **Financial Analysis of the Authority**

One of the most important questions asked about the Authority's finances is "Is the Authority as a whole better off or worse off as a result of this year's activities?" The statement of net assets and the statement of revenues, expenses and changes in net assets report information about the Authority's activities in a way that will help answer this question. Over time, increases or decreases in the Authority's net assets are one indicator of whether its financial health is improving or deteriorating. However, one will need to consider other nonfinancial factors such as changes in economic conditions, population decline or growth and new or changed governmental legislation.

**GREATER DAYTON REGIONAL TRANSIT AUTHORITY**

Management's Discussion and Analysis

December 31, 2006 and 2005

(Unaudited)

*Net Assets*

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Current assets	\$ 36,749,103	38,504,973	33,453,532
Long-term investments	12,353,395	16,233,597	27,059,398
Capital assets, net	<u>117,414,189</u>	<u>124,735,884</u>	<u>131,808,769</u>
Total assets	<u>166,516,687</u>	<u>179,474,454</u>	<u>192,321,699</u>
Current liabilities	14,853,618	14,327,517	16,709,605
Long-term bonds and notes payable	<u>5,610,000</u>	<u>7,230,000</u>	<u>8,765,000</u>
Total liabilities	<u>20,463,618</u>	<u>21,557,517</u>	<u>25,474,605</u>
Net assets:			
Invested in capital assets, net of related debt	110,184,189	115,970,884	121,598,769
Unrestricted	<u>35,868,580</u>	<u>41,946,053</u>	<u>45,248,325</u>
Total net assets	\$ <u><u>146,052,769</u></u>	\$ <u><u>157,916,937</u></u>	\$ <u><u>166,847,094</u></u>

**Capital Assets**

The largest portion of the Authority's net assets is its investment in capital assets. Capital assets include land and land improvements, revenue producing and service equipment, buildings and structures, shop equipment, office furnishings and computer equipment. The Authority uses these capital assets to provide public transportation service for Montgomery County citizens. These assets are not available to liquidate liabilities or other spending.

The Authority's investment in capital assets, net of accumulated depreciation, was \$117.4 million as of December 31, 2006, a reduction of \$7.3 million from 2005 as capital asset expenditures were less than depreciation expense during the year. Major capital asset expenditures during 2006 included the following:

- Purchase of equipment and spare parts for revenue vehicles totaling \$1.1 million,
- Purchase of 2 service vehicles totaling \$.3 million.

Upgrades to the distribution system totaling \$.3 million.

## **GREATER DAYTON REGIONAL TRANSIT AUTHORITY**

### Management's Discussion and Analysis

December 31, 2006 and 2005

(Unaudited)

The Authority's investment in capital assets, net of accumulated depreciation, was \$124.7 million as of December 31, 2005, a reduction of \$7.1 million from 2004 as capital asset expenditures were less than depreciation expense during the year. Major capital asset expenditures during 2005 included the following:

- Purchase of 20 Project Mobility mini vans and 4 street cars totaling \$2.5 million,
- Purchase of security equipment for revenue vehicles and facilities totaling \$.6 million,
- Purchase of 6 ticket/pass vending machines totaling \$.4 million.

#### *Long-term Debt*

The Authority has outstanding bonds and notes payable of \$7,230,000 and \$8,765,000 in 2006 and 2005, respectively. These balances represent decreases of \$1,535,000 and \$1,445,000 due to principal payments in 2006 and 2005, respectively. This debt consists 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 are general obligations of the Authority. There were no changes to the debt structure during fiscal years 2006 and 2005.

**GREATER DAYTON REGIONAL TRANSIT AUTHORITY**

Management's Discussion and Analysis

December 31, 2006 and 2005

(Unaudited)

*Net Assets*

Net assets decreased \$11.9 million and \$8.9 million for the years ended December 31, 2006 and 2005, respectively. See further discussion under changes in net assets below.

***Changes in Net Asset***

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Operating revenues	\$ 8,521,377	7,820,898	6,398,946
Operating expenses excluding depreciation	(58,495,638)	(55,910,575)	(54,466,400)
Depreciation expense	<u>(12,667,385)</u>	<u>(12,426,720)</u>	<u>(11,373,393)</u>
Operating loss	<u>(62,641,645)</u>	<u>(60,516,397)</u>	<u>(59,440,847)</u>
Net nonoperating revenues (expenses):			
Sales tax proceeds	32,696,174	32,982,075	33,324,081
Federal operating and preventive maintenance assistance	12,514,943	12,391,735	11,448,867
Federal capital grants (pass through)	141,401	844,214	1,028,438
Capital grants to sub-recipient	(141,401)	(844,214)	(1,028,438)
State special fare assistance	643,570	561,968	370,264
Investment income	1,676,772	1,517,906	1,540,705
Interest expense	(470,143)	(544,834)	(614,208)
Net increase/decrease in fair value of investments	9,382	(599,912)	(947,706)
Other	<u>879,895</u>	<u>567,944</u>	<u>298,130</u>
Nonoperating revenues and expenses, net	<u>47,950,594</u>	<u>46,876,882</u>	<u>45,420,133</u>
Capital contributions	<u>2,826,883</u>	<u>4,709,358</u>	<u>10,972,146</u>
Change in net assets	(11,864,168)	(8,930,157)	(3,048,568)
Net assets, beginning of year	<u>157,916,937</u>	<u>166,847,094</u>	<u>169,895,662</u>
Net assets, end of year	\$ <u><u>146,052,769</u></u>	<u><u>157,916,937</u></u>	<u><u>166,847,094</u></u>

## GREATER DAYTON REGIONAL TRANSIT AUTHORITY

### Management's Discussion and Analysis

December 31, 2006 and 2005

(Unaudited)

#### *Year Ended December 31, 2006*

The Authority's operating revenues were \$8.5 million during 2006, an increase of \$.7 million or 9% from 2005. The increase primarily resulted from a new contract with the Dayton School Board for transporting its students.

Operating expenses, including depreciation expense, were \$71.2 million during 2006, an increase of \$2.8 million or 4.1% from 2005. This increase was primarily the result of a one-time charge for obsolete materials and equipment. The remaining increase in operating expenses was due to general inflationary increases, offset by management operating efficiencies.

Nonoperating revenues and expenses, net, were \$47.9 million during 2006, an increase of \$1.1 million or 2.3% from 2005. The increase primarily resulted from the \$.6 million increase in the value of the Authority's investment portfolio.

#### *Year Ended December 31, 2005*

The Authority's operating revenues were \$7.8 million during 2005, an increase of \$1.4 million or 22.2% from 2004. The increase primarily resulted from fare increases that approximated 20% and a 3% increase in fare-paying riders.

Operating expenses, including depreciation expense, were \$68.3 million during 2005, an increase of \$2.5 million or 3.8% from 2004. This increase was primarily the result of higher vehicle fuel and natural gas costs. The remaining increase in operating expenses was due to general inflationary increases, offset by management operating efficiencies.

Nonoperating revenues and expenses, net, were \$46.9 million during 2005, an increase of \$1.5 million or 3.2% from 2004. The increase primarily resulted from \$.9 million additional federal operating and preventative maintenance assistance and \$.2 million more in state special fare assistance.

#### **Additional Information**

In January 2007, the Authority implemented large-scale service changes which are expected to have significant favorable impacts on its operating results.

#### **Requests for Information**

This financial report is designed to provide a general overview of the Authority's finances for all those with an interest in its finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Chief Financial Officer, Greater Dayton Regional Transit Authority, 4 South Main Street, Dayton, OH 45401.

**GREATER DAYTON REGIONAL TRANSIT AUTHORITY**

Balance Sheets

December 31, 2006 and 2005

<b>Assets</b>	<b>2006</b>	<b>2005</b>
Current assets:		
Cash and cash equivalents (note 4)	\$ 3,830,364	5,930,298
Short-term investments (note 4):		
Board designated for capital acquisition	6,617,963	7,510,571
Non-Board designated	<u>11,224,064</u>	<u>10,005,838</u>
Total Short-term investments	17,842,027	17,516,409
Accounts receivable, less allowance for doubtful accounts of \$26,000 in 2006 and \$14,000 in 2005 (note 3)	10,354,852	9,886,790
Materials and supplies, net	3,069,099	4,185,672
Prepaid expenses and deposits	<u>1,652,761</u>	<u>985,804</u>
Total current assets	<u>36,749,103</u>	<u>38,504,973</u>
Non-current assets:		
Long-term investments (note 4):		
Non-Board designated	12,353,395	16,233,597
Total long-term investments	<u>12,353,395</u>	<u>16,233,597</u>
Capital assets (note 5):		
Land	4,976,974	4,976,974
Revenue producing and service equipment	91,740,165	94,892,136
Buildings and structures	100,831,374	100,434,987
Office furnishings, shop equipment and other	18,684,411	17,648,338
Construction in progress	<u>2,690,183</u>	<u>406,377</u>
	218,923,107	218,358,812
Less accumulated depreciation	<u>101,508,918</u>	<u>93,622,928</u>
Capital assets, net	<u>117,414,189</u>	<u>124,735,884</u>
Total assets	\$ <u>166,516,687</u>	<u>179,474,454</u>
<b>Liabilities and Net Assets</b>		
Current liabilities:		
Accounts payable	\$ 3,707,530	3,689,937
Accrued payroll and related benefits	6,166,945	6,156,017
Accrued self-insurance (note 9)	2,365,777	2,293,237
Unearned fares and state assistance	881,741	525,858
Other accrued expenses	111,925	127,467
Current maturities of bonds and notes payable (note 6)	<u>1,620,000</u>	<u>1,535,000</u>
Total current liabilities	14,853,918	14,327,517
Bonds and notes payable (note 6)	<u>5,610,000</u>	<u>7,230,000</u>
Total liabilities	<u>20,463,918</u>	<u>21,557,517</u>
Net assets:		
Invested in capital assets, net of related debt	110,184,189	115,970,884
Unrestricted	<u>35,868,580</u>	<u>41,946,053</u>
Total net assets	<u>146,052,769</u>	<u>157,916,937</u>
Total liabilities and net assets	\$ <u>166,516,687</u>	<u>179,474,454</u>

See accompanying notes to financial statements.

**GREATER DAYTON REGIONAL TRANSIT AUTHORITY**

Statements of Revenues, Expenses, and Changes in Net Assets

Years ended December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Operating revenues:		
Passenger fares	\$ 6,707,795	6,608,532
Special transit fares and charter service:		
Board of Education (student transportation)	1,776,993	1,145,250
Charter service	26,990	35,301
Contract service	<u>9,599</u>	<u>31,815</u>
Total operating revenues	<u>8,521,377</u>	<u>7,820,898</u>
Operating expenses:		
Labor	25,977,046	25,968,656
Fringe benefits	16,194,482	15,324,945
Contractual services	4,644,946	4,940,744
Materials and supplies	6,211,140	5,465,829
Utilities and propulsion power	1,792,827	1,871,839
Claims and insurance	1,944,355	1,767,866
Other	<u>1,730,842</u>	<u>570,696</u>
Total operating expenses excluding depreciation	<u>58,495,638</u>	<u>55,910,575</u>
Operating loss before depreciation expense	(49,974,261)	(48,089,677)
Depreciation expense	<u>12,667,385</u>	<u>12,426,720</u>
Total operating expenses	71,163,022	68,337,295
Operating loss	<u>(62,641,645)</u>	<u>(60,516,397)</u>
Nonoperating revenues (expenses):		
Sales tax proceeds	32,696,174	32,982,075
Federal operating and preventative maintenance assistance	12,514,943	12,391,735
Federal capital grants (passed through to sub-recipient)	141,401	844,214
Capital grants to sub-recipient	(141,401)	(844,214)
State special fare assistance	643,570	561,968
Interest on investments	1,676,772	1,517,906
Interest expense	(470,143)	(544,834)
Net increase in the fair value of investments	9,382	(599,912)
Other	<u>879,895</u>	<u>567,945</u>
Total nonoperating revenues, net	<u>47,950,594</u>	<u>46,876,882</u>
Loss before capital contributions	(14,691,051)	(13,639,515)
Capital contributions	<u>2,826,883</u>	<u>4,709,358</u>
Increase in net assets	(11,864,168)	(8,930,157)
Net assets – beginning of year	<u>157,916,937</u>	<u>166,847,094</u>
Net assets – end of year	\$ <u>146,052,769</u>	<u>157,916,937</u>

See accompanying notes to financial statements.



**GREATER DAYTON REGIONAL TRANSIT AUTHORITY**

Statements of Cash Flows

Years ended December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Cash flows from operating activities:		
Receipts from fares and charters	\$ 7,831,227	8,102,313
Payments to suppliers	(13,928,087)	(13,810,262)
Payments for labor and employee benefits	(42,160,600)	(41,613,083)
Payments for claims and insurance	(1,871,815)	(2,132,057)
Net cash used in operating activities	<u>(50,129,276)</u>	<u>(49,453,089)</u>
Cash flows from noncapital financing activities:		
Sales tax	32,774,179	33,306,437
Federal operating and preventive maintenance assistance grants	12,180,395	12,972,648
Federal capital grants (passed through to sub-recipient)	141,401	844,214
Capital grants to sub-recipient	(141,401)	(844,214)
State operating and preventive maintenance and special fare assistance grants	946,930	783,724
Other	1,037,552	725,602
Net cash provided by noncapital financing activities	<u>46,939,056</u>	<u>47,788,411</u>
Cash flows from capital and related financing activities:		
Capital grants received	3,331,714	6,368,105
Additions to property and equipment	(5,345,689)	(5,353,834)
Interest paid on bonds and notes payable	(470,143)	(544,834)
Payments of bonds payable	(1,535,000)	(1,445,000)
Net cash used in capital and related financing activities	<u>(4,019,118)</u>	<u>(975,564)</u>
Cash flows from investing activities		
Purchases of investment securities	(18,850,443)	(18,899,581)
Proceeds from sale or maturity of investment securities	22,717,996	23,694,213
Interest received	1,241,850	1,141,566
Net cash provided by investing activities	<u>5,109,403</u>	<u>5,936,198</u>
Net increase (decrease) in cash and cash equivalents	(2,099,934)	3,295,956
Cash and cash equivalents at beginning of year	<u>5,930,298</u>	<u>2,634,342</u>
Cash and cash equivalents at end of year	\$ <u>3,830,364</u>	<u>5,930,298</u>
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ (62,641,645)	(60,516,397)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	12,667,385	12,426,720
Changes in assets and liabilities:		
Accounts receivable – other	(742,673)	281,993
Materials and supplies	1,116,573	133,047
Prepaid expenses and deposits	(666,957)	693,635
Accounts payable	17,593	(1,558,127)
Accrued expenses and unredeemed fares	120,448	(913,960)
Net cash used in operating activities	\$ <u>(50,129,276)</u>	<u>(49,453,089)</u>

See accompanying notes to financial statements.

# GREATER DAYTON REGIONAL TRANSIT AUTHORITY

Notes to Financial Statements

December 31, 2006 and 2005

## (1) The Authority and Reporting Entity

### (a) *The Authority*

Greater Dayton 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.

Nonexchange 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 2006 will be recognized as revenue in 2006. 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.

## GREATER DAYTON REGIONAL TRANSIT AUTHORITY

### Notes to Financial Statements

December 31, 2006 and 2005

Pursuant to GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The Authority also has the option of following subsequent private-sector guidance, subject to this same limitation. The Authority has elected not to follow subsequent private-sector guidance as it relates to its operations.

**(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.

**GREATER DAYTON REGIONAL TRANSIT AUTHORITY**

Notes to Financial Statements

December 31, 2006 and 2005

**(g) Capital Assets**

The Authority defines capital assets as assets with an initial, individual cost of more than \$500 and an estimated useful life in excess of a year. Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated fixed assets are recorded at their estimated fair value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

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

**(h) Compensated Absences**

The liability for compensated absences consists of unpaid, accumulated annual and sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

**(i) Net Assets**

Equity is displayed in three components as follows:

**Invested in Capital Assets, Net of Related Debt** – This consists of capital assets, net of accumulated depreciation, less the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

**Restricted** – This consists of net assets that are legally restricted by outside parties or by law through constitutional provisions or enabling legislation. When both restricted and unrestricted resources are available for use, generally it is the Authority's policy to use restricted resources first, and then unrestricted resources when they are needed. The Authority does not have restricted net assets at December 31, 2006 or 2005.

**Unrestricted** – This consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

**(j) Passenger Fares**

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

## GREATER DAYTON REGIONAL TRANSIT AUTHORITY

Notes to Financial Statements

December 31, 2006 and 2005

**(k) Sales Taxes**

The Authority receives the proceeds of a one-half percent sales and use 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.

**(n) Classification of Revenues**

The Authority has classified its revenues as either operating or nonoperating. Operating revenue includes activities that have the characteristics of exchange transactions including passenger fares and special transit fares and charter service. Nonoperating revenue includes activities that have the characteristics of nonexchange transactions, such as sales tax proceeds and most Federal, State, and local grants and contracts.

**(o) 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.

**(p) Reclassifications**

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

**GREATER DAYTON REGIONAL TRANSIT AUTHORITY**

Notes to Financial Statements

December 31, 2006 and 2005

**(q) New Accounting Pronouncement**

During the year ended December 31, 2005, the Authority adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 40, Deposit and Investment Risk Disclosures – an amendment of GASB Statement No. 3. This statement revises the deposit and investment risks disclosed in the notes to the financial statements. The financial statements have been prepared in conformance with this Statement.

**(3) Accounts Receivable**

Accounts receivable at December 31, 2006 and 2005 was as follows:

	<u>2006</u>	<u>2005</u>
Sales tax	\$ 8,306,131	8,384,136
Federal operating and preventive maintenance assistance	511,033	176,485
Federal capital assistance	380,055	762,648
State capital assistance	85,152	30,905
Interest	330,356	199,020
Warranty claims settlement	-	157,659
Other	768,075	189,481
	<hr/>	<hr/>
Gross receivables	10,380,802	9,900,334
Less allowance for uncollectibles	(25,950)	(13,544)
	<hr/>	<hr/>
Net total receivables	\$ <u>10,354,852</u>	<u>9,886,790</u>

**(4) 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.

**GREATER DAYTON REGIONAL TRANSIT AUTHORITY**

Notes to Financial Statements

December 31, 2006 and 2005

(a) **Deposits**

*Custodial Credit Risk* is the risk that, in the event of a bank failure, the Authority's deposits may not be returned. 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 at least 105% 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.

At December 31, 2006 and 2005, the carrying amount of the Authority's deposits was \$88,909 and \$116,322, respectively, as compared to bank balances of \$155,793 and \$220,525, respectively. Of the bank balances at December 31, 2006 and 2005, \$155,793 and \$200,000, respectively, was on deposit and covered by federal depository insurance and in 2005 \$20,525, was collateralized by a pool of securities maintained by the Authority's financial institutions but not in the Authority's name.

(b) **Investments**

As of December 31, 2006, the Authority had the following investments and maturities:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Maturity(1)</u>	<u>Rating(2)</u>
Federal Home Loan Bank Federal Home Loan Mortgage Corp.	\$ 7,937,560	519	Aaa/AAA
Federal National Mortgage Assoc.	11,631,335	291	Aaa/AAA
U.S. Treasury Strips	8,216,762	251	Aaa/AAA
STAR Ohio (investment pool)	2,409,765	588	Aaa/AAA
Total Investments	<u>3,741,455</u>	Daily	Aaa
	\$ 33,936,877		

(1) Weighted Maturity - Days

(2) Moody's/S&P

*Custodial credit risk* for an investment is the risk that in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Authority's \$27,785,657 investment in U.S. governmental agency instruments, and \$2,409,765 in U.S. Treasury 'strips' are held in the Authority's name by its custodian (agent).

**GREATER DAYTON REGIONAL TRANSIT AUTHORITY**

Notes to Financial Statements

December 31, 2006 and 2005

*Interest Rate Risk* is the possibility that changes in interest rates will adversely affect the fair value of an investment. The Authority's investment policy limits investment maturities to 5 years from date of settlement unless the investment is matched to a specific obligation or debt of the Authority.

*Credit Risk* is the possibility that an issuer or other counterparty to an investment will not fulfill its obligation. The Authority's investment policy limits investments to, among others, obligations of the US government or agencies thereof. The investment in STAR Ohio is a direct contractual relationship and the investments are not supported by a transferable instrument that evidences ownership or creditorship.

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.



**GREATER DAYTON REGIONAL TRANSIT AUTHORITY**

Notes to Financial Statements

December 31, 2006 and 2005

**(5) Capital Assets**

Capital asset activity for the year ended December 31, 2006 was as follows:

	<b>Balance January 1, 2006</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance December 31, 2006</b>
Capital assets not being depreciated:				
Land and land improvements	\$ 4,976,974	—	—	4,976,974
Construction in progress	406,377	5,068,217	2,784,411	2,690,183
Total capital assets not being depreciated	<u>5,383,351</u>	<u>5,068,217</u>	<u>2,784,411</u>	<u>7,667,157</u>
Capital assets being depreciated:				
Revenue producing and service equipment	94,892,136	1,323,696	4,475,667	91,740,165
Buildings and structures	100,434,987	396,387	—	100,831,374
Office furnishings, shop equipment, and other	17,648,338	1,064,329	28,256	18,684,411
Total capital assets being depreciated	<u>212,975,461</u>	<u>2,784,412</u>	<u>4,503,923</u>	<u>211,255,950</u>
Less accumulated depreciation:				
Revenue producing and service equipment	46,395,567	7,013,033	4,584,033	48,824,567
Buildings and structures	37,481,905	3,503,124	25,395	40,959,634
Office furnishings, shop equipment, and other	9,745,457	2,151,228	171,967	11,724,718
Total accumulated depreciation	<u>93,622,928</u>	<u>12,667,385</u>	<u>4,781,395</u>	<u>101,508,918</u>
Total capital assets being depreciated, net	<u>119,352,533</u>	<u>(9,882,973)</u>	<u>(277,472)</u>	<u>109,747,032</u>
Total capital assets, net	\$ <u><u>124,735,884</u></u>	<u><u>(4,814,756)</u></u>	<u><u>2,506,939</u></u>	<u><u>117,414,189</u></u>

Certain beginning balances were reclassified to reflect the implementation of a new fixed asset system.

**GREATER DAYTON REGIONAL TRANSIT AUTHORITY**

Notes to Financial Statements

December 31, 2006 and 2005

Capital asset activity for the year ended December 31, 2005 was as follows:

	<b>Balance January 1, 2005</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance December 31, 2005</b>
Capital assets not being depreciated:				
Land and land improvements	\$ 4,976,974	—	—	4,976,974
Construction in progress	495,549	—	89,172	406,377
Total capital assets not being depreciated	<u>5,472,523</u>	<u>—</u>	<u>89,172</u>	<u>5,383,351</u>
Capital assets being depreciated:				
Revenue producing and service equipment	91,800,983	3,091,153	—	94,892,136
Buildings and structures	99,466,924	968,063	—	100,434,987
Office furnishings, shop equipment, and other	<u>16,357,232</u>	<u>1,384,080</u>	<u>92,974</u>	<u>17,648,338</u>
Total capital assets being depreciated	<u>207,625,139</u>	<u>5,443,296</u>	<u>92,974</u>	<u>212,975,461</u>
Less accumulated depreciation:				
Revenue producing and service equipment	39,048,906	7,025,790	—	46,074,696
Buildings and structures	34,095,652	3,429,294	—	37,524,946
Office furnishings, shop equipment, and other	<u>8,144,335</u>	<u>1,971,636</u>	<u>92,685</u>	<u>10,023,286</u>
Total accumulated depreciation	<u>81,288,893</u>	<u>12,426,720</u>	<u>92,685</u>	<u>93,622,928</u>
Total capital assets being depreciated, net	<u>126,336,246</u>	<u>(6,983,424)</u>	<u>289</u>	<u>119,352,533</u>
Total capital assets, net	<u>\$ 131,808,769</u>	<u>(6,983,424)</u>	<u>89,461</u>	<u>124,735,884</u>

**GREATER DAYTON REGIONAL TRANSIT AUTHORITY**

Notes to Financial Statements

December 31, 2006 and 2005

**(6) 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.

Bond activity for the year ended December 31, 2006 was as follows:

<u>Issue</u>	<u>Interest rate</u>	<u>Balance January 1, 2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance December 31, 2006</u>	<u>Due within one year</u>
Series 1993	3.10 to 5.10	\$ 1,480,000	—	460,000	1,020,000	490,000
Series 1994	3.50 to 6.00	1,730,000	—	395,000	1,335,000	420,000
Series 1997	4.15 to 5.55	5,555,000	—	680,000	4,875,000	710,000
Total		\$ 8,765,000	—	1,535,000	7,230,000	1,620,000

Bond activity for the year ended December 31, 2005 was as follows:

<u>Issue</u>	<u>Interest rate</u>	<u>Balance January 1, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance December 31, 2005</u>	<u>Due within one year</u>
Series 1993	3.10 to 5.10	\$ 1,905,000	—	425,000	1,480,000	460,000
Series 1994	3.50 to 6.00	2,105,000	—	375,000	1,730,000	395,000
Series 1997	4.15 to 5.55	6,200,000	—	645,000	5,555,000	680,000
Total		\$ 10,210,000	—	1,445,000	8,765,000	1,535,000

The annual requirements to pay principal and interest on the bonds and notes outstanding at December 31, 2006 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	1,620,000	394,205	2,014,205
2008	1,725,000	308,315	2,033,315
2009	1,260,000	215,280	1,475,280
2010	830,000	144,420	974,420
2011	875,000	95,175	970,175
2012	920,000	55,070	975,070
	\$ 7,230,000	1,212,465	8,442,465

## GREATER DAYTON REGIONAL TRANSIT AUTHORITY

Notes to Financial Statements

December 31, 2006 and 2005

### (7) Pension Plan

#### (a) *Plan Description*

The Authority contributes to the Ohio Public Employees Retirement System of Ohio (OPERS), a cost sharing, multiple-employer public employee retirement system. OPERS provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries through three separate pension plans: The Traditional Pension Plan – a cost-sharing, multiple-employer defined benefit pension plan; The Member-Directed Plan – a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under this plan, members accumulate retirement assets equal to the value of member and (vested) employer contributions plus any investment earnings; and the Combined Plan – a cost-sharing multiple-employer defined benefit pension plan. Under this plan, OPERS invests employer contributions to provide a formula retirement benefit similar in nature to the Traditional Pension Plan benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the Member-Directed Plan. Chapter 145 of the Ohio Revised Code assigns the authority to establish and amend benefit provisions to the PERS board of trustees (Board). OPERS issues a stand-alone financial report that includes the financial statements. That report may be obtained by writing to the Ohio 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 a percentage of their annual covered salary (9% in 2006 and 8.5% in 2005), and the Authority is required to contribute an actuarially determined rate. The employer contribution rate for 2006 was 13.7%, 13.55% for 2005 and 2004 of annual covered payroll. The contribution requirements of plan members and the Authority are established and may be amended by the Board. The Authority's contributions to OPERS for the years ending December 31, 2006, 2005, and 2004 \$4,133,340, \$4,166,710, and \$4,033,413, respectively, equal to the required contributions for each year. Required employer contributions are equal to 100% of the dollar amount billed to each employer.

### (8) Other Post-Employment Benefits (OPEB)

OPERS 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 OPERS (see note 7) 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 13.7% and 13.55% to the Plan for the years ended December 31, 2006 and 2005, respectively included a portion (4.5% in 2006 and 4% in 2005) that was used to fund healthcare. The Authority's contributions for post-employment benefits were approximately \$1,357,678 and \$1,230,025 for the years ended December 31, 2006 and 2005, respectively.

## GREATER DAYTON REGIONAL TRANSIT AUTHORITY

### Notes to Financial Statements

December 31, 2006 and 2005

The Health Care Preservation Plan (HCPP) adopted by the OPERS Board on September 9, 2004, is effective on January 1, 2007. OPERS took additional actions to improve the solvency of the Health Care Fund in 2005 by creating a separate investment pool for health care assets. Member and employer contribution rates increased as of January 1, 2006 and January 1, 2007, which will allow additional funds to be allocated to the health care plan.

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

#### *Summary of assumptions*

*Actuarial Review* – The assumptions and calculations below were based on the System's latest Actuarial Review performed as of December 31, 2005.

*Funding Method* – The individual entry age 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 annually, not to exceed a 12% corridor.

*Investment Return* – The investment assumption rate for 2005 was 6.5%.

*Active Employee Total Payroll* – An annual increase of 4.0% 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 4.0% base increase, were assumed to range from 0.5% to 6.3%.

*Health Care* – Health care costs were assumed to increase at the projected wage inflation rate plus an additional factor ranging from .5% to 6% for the next 9 years. In subsequent years (10 and beyond), health care costs were assumed to increase at 4.0% (the projected wage inflation rate).

OPEBs are advanced funded on an actuarially determined basis. The number of active contributing participants in the Traditional Pension Plan and Combined Plans at December 31, 2005 was 369,214. The actuarial value of the Retirement System's net assets available for OPEB at December 31, 2005 was \$11.1 billion. The actuarially accrued liability and the unfunded actuarial accrued liability at December 31, 2005, based on the actuarial cost method used, were \$31.3 billion and \$20.2 billion, respectively.

#### **(9) 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 1, 2006, the Authority entered into contracts with a number of insurance companies whereby it receives loss coverage in exchange for premiums. Loss limits and deductibles are established for each type of coverage by the specific insurer. Prior to December 1, 2006, the Authority participated in the Ohio Transit Risk Pool, Inc.

**GREATER DAYTON REGIONAL TRANSIT AUTHORITY**

Notes to Financial Statements

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(OTRP) formerly the Ohio Transit Insurance Pool, Inc. (OTIP) related to its risk of property and casualty loss. Under this plan, the Authority received property and casualty loss coverage in exchange for contributions paid. For the period ended November 30, 2006 OTRP self-insured the first \$250,000 of any qualified auto physical damage loss, the first \$150,000 of any qualified commercial property loss, and the first \$1,000,000 of any qualified casualty loss subject to a \$1,000 per loss deductible (\$25,000 for auto physical damage losses involving revenue vehicles). Per occurrence, catastrophic loss coverage is maintained by OTRP equal to \$200,000,000 for qualified property losses (including auto physical damage) and \$7,500,000 for qualified casualty losses.

Any underfunding of the plan’s 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, net operating expenses and claims history (double weighted). This can result in future refund or return of prior years surplus.

The Authority is also self-insured for worker’s compensation claims up to a limit of \$500,000 per claim at which point stop-loss insurance becomes effective. A reserve has been provided at December 31, 2006 and 2005 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, 2006.

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

	<u>2006</u>	<u>2005</u>
Accrued self-insurance – beginning of year	\$ 2,293,237	2,657,428
Claims and other expenses incurred – during year	1,161,226	488,776
Claims paid – during year	<u>(1,088,686)</u>	<u>(852,967)</u>
Accrued self-insurance – end of year	<u>\$ 2,365,777</u>	<u>2,293,237</u>

**(10) 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 (typically 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

## GREATER DAYTON REGIONAL TRANSIT AUTHORITY

### Notes to Financial Statements

December 31, 2006 and 2005

recorded as “Federal capital grants (passed through to sub-recipient)” offset by “capital grants to sub-recipient” in the Statements of Revenues, Expenses and Changes in Net Assets.

In 1998, the Authority entered into contracts with ODOT for two downtown Dayton projects, which included Federal Highway Administration (FWHA) and FTA funds. The process for receiving these Federal funds required the Authority to enter into a contract with ODOT for each project in the amount of \$3,303,000 for the Baseball Stadium project and \$3,675,000 for the RiverScape project. The Authority also entered into agreements with the City of Dayton, who was responsible for all contracts associated with the transit-related portions of the Baseball Stadium project and Montgomery County, which was responsible for all contracts associated with the transit-related portions of the RiverScape and Arts Center Foundation projects. In 2002, the Authority entered into contracts with the City of Dayton to use ODOT (\$793,145) and FTA (\$3,172,580) funds for transit related construction associated with the Wright Dunbar project.

The Authority passes-through certain federal awards to the City of Dayton and Montgomery County for various projects. During the years ended 2006 and 2005, the Authority remitted \$69,590 and \$844,000 to the City of Dayton for the Wright Dunbar project transit related construction.

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, 2006, the Authority continues to monitor the Baseball Stadium project completed in May of 2000 with \$3,027,000 in Federal funding, the Main Street Project, completed in November of 1992 with \$3,185,000 in Federal funding, and the Schuster Performing Arts Center project completed in 2003 with \$10,342,330 in Federal funding. All 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.

#### **(11) 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 with all repairs completed during the fourth quarter 2002. As of

## GREATER DAYTON REGIONAL TRANSIT AUTHORITY

### Notes to Financial Statements

December 31, 2006 and 2005

December 31, 2001, the RTA had accumulated ETI receivables in excess of \$700,000 representing diesel fuel costs associated with the electric trolley buses being out of service, outstanding warranty claims and associated labor costs, and 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 elected not to record the ETI receivables until such time collectibility becomes more certain.

On January 30, 2003, ETI and RTA entered into a settlement agreement which provides, among other things, that RTA would be entitled to the \$754,000 unpaid contract balance. Said amount was paid to RTA as follows: \$123,000 at signing for unpaid warranty claims and the balance, \$631,000, was deposited in an interest bearing escrow account and is to be paid out annually over a 4 year period beginning April 2003. The \$631,000 represents \$213,000 for labor to repaint the trolleys, \$242,000 for diesel bus operation in lieu of the trolleys, and \$176,000 for remaining warranty claims. In addition, ETI extended the structure warranty for an additional five years and provided sufficient paint to redo the entire trolley as well as turn over their supply of repair materials to RTA. The fourth and final installment was received during 2006 with all proceeds from the settlement (\$754,000) included in other nonoperating revenue.

(c) ***Commitments***

At December 31, 2006, the Authority had outstanding purchase commitments for contracts of approximately \$4,200,000, of which approximately \$1,600,000 is for new revenue vehicles and attendant equipment, \$1,700,000 is for building demolition and \$900,000 is for tires.

(d) ***Litigation***

The Authority believes that any ongoing litigation is in the normal course of business and does not believe that the outcomes will materially affect the Authority's operation or financial position.

(e) ***Labor Contracts***

In May 2006, RTA and the American Federation of State, County and Municipal Employees, AFL-CIO (AFSCME) entered into a new three year contract. Among other things, the contract provides for annual increases of approximately 3.5%, 4.2% and 3.6% effective December 1, 2005, 2006 and 2007, respectively.

In May 2006, RTA and the Amalgamated Transit Union, Local 1385 entered into a new three year contract effective April 2006. Among other things, the agreement provides for annual increases of 2% in 2006, 2007, and 2008, respectively.



**GREATER DAYTON REGIONAL TRANSIT AUTHORITY**  
**Schedule of Expenditures of Federal Awards**  
**For the year ended December 31, 2006**

Federal Grantor/Pass Through Grantor Program Title	Grant Number	Federal CFDA Number	Expenditures
<b>U.S. Department of Transportation</b>			
Federal Transit Administration (FTA)			
Received Directly from FTA			
Federal Transit Cluster			
Federal Transit-Section 5309-Capital Improvement Grants:			
	OH-03- 0197	20.500	\$ 60,653
	OH-03- 0217	20.500	141,401
	OH-03- 0264	20.500	817,880
	OH-03- 0290	20.500	6,728
	OH-05- 0089	20.500	<u>3,734,114</u>
Total CFDA #20.500			<u>4,760,776</u>
Federal Transit Section 5307-Capital and Operating Assistance Formula Grants:			
	OH-90- 0295	20.507	123,609
	OH-90- 0341	20.507	46,586
	OH-90- 0359	20.507	120,185
	OH-90- X380	20.507	66,735
	OH-90- X409	20.507	418,761
	OH-90- X435	20.507	53,213
	OH-90- X483	20.507	27,888
	OH-90- X493	20.507	5,025,583
	OH-90- X541	20.507	4,245,897
Passed through the Ohio Department of Transportation Federal Highway Administration	OH-90- X519	20.507	<u>168,905</u>
Total CFDA #20.507			<u>10,297,362</u>
Total Department of Transportation - Federal Transit Cluste			<u>\$ 15,058,138</u>

See accompanying notes to schedule of expenditures of federal awards.

**Greater Dayton Regional Transit Authority**  
**Notes to the Schedule of Expenditures of Federal Awards**  
**For the Year Ended December 31, 2006**

**1. Significant Accounting Policies**

The accompanying schedule of federal awards expenditures is a summary of the activity of the Authority's federal award programs. The schedule has been prepared on the accrual basis of accounting.

**2. Basis of Accounting**

The accompanying schedule of expenditures of federal awards is presented using the accrual basis of accounting.

**3. Subrecipients**

The Authority was a pass-through entity of the Federal Transit Cluster funds to the following entity:

The City of Dayton:	
Wright Dunbar Project	\$ 141,401
Ozone	42,933
Total	<u>\$ 184,334</u>

*Charles E. Harris & Associates, Inc.*  
*Certified Public Accountants*

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND  
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS REQUIRED BY  
GOVERNMENT AUDITING STANDARDS**

Greater Dayton Regional Transit Authority  
Montgomery County  
600 Longworth Street  
Dayton, Ohio 45401

To the Board of Trustees:

We have audited the financial statements of the Greater Dayton Regional Transit Authority (the Authority) as of and for the year ended December 31, 2006, and have issued our report thereon dated March 28, 2007. 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 Controls Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Authority's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Authority's financial statements that is more than inconsequential will not be prevented or detected by the Authority's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Authority's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

### Compliance and Other Matters

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, grants agreements and other matters, 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*.

We noted certain matters that we have reported to management of the Authority in a separate letter dated March 28, 2007.

This report is intended for the information and use of management, the Board of Directors and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

***Charles E. Harris & Associates, Inc.***

March 28, 2007

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO  
EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE  
IN ACCORDANCE WITH OMB CIRCULAR A-133**

Greater Dayton Regional Transit Authority  
Montgomery County  
600 Longworth Street  
Dayton, Ohio 45401

To the Board of Trustees:

**Compliance**

We have audited the compliance of the Greater Dayton Regional Transit Authority (the Authority) with the types of compliance requirements described in *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, 2006. The Authority's major federal program is identified in the summary of auditor's 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 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 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 Authority's compliance with those requirements.

In our opinion, the 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, 2006.

**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 internal control over compliance 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 noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Board of Trustees, management of the Authority and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

***Charles E. Harris & Associates, Inc.***

March 28, 2007

**GREATER DAYTON REGIONAL TRANSIT AUTHORITY  
MONTGOMERY COUNTY  
OMB CIRCULAR A-133 SECTION .505  
December 31, 2006**

**Schedule of Findings and Questioned Costs**

**A. Summary of Audit Results**

1. The auditor's report expresses an unqualified opinion on the basic financial statements.
2. There were no material control weakness conditions reported at the financial statement level.
3. There were no reportable conditions were disclosed during the audit.
4. No instances of noncompliance material to the financial statements of the Authority were disclosed during the audit.
5. No material control weakness conditions were reported for major federal programs.
6. No reportable conditions in internal control over major programs were disclosed.
7. The auditor's report on compliance for the major federal award program for the Authority expresses an unqualified opinion.
8. No findings required to be reported under Section .510(a) of OMB Circular A-133.
9. The program tested as a major program was Federal Transit Administration Cluster: CFDA #20.500 and #20.507.
10. The dollar threshold for distinguishing Type A and Type B programs was \$451,744.
11. The Authority was not determined to be a low-risk auditee.

**B. Findings-Financial Statement Audit**

None

**C. Findings and Questioned Costs- Federal Transit Cluster, CFDA #20.500 and #20.507.**

None

STATUS OF PRIOR AUDIT'S CITATIONS AND RECOMMENDATIONS

The prior audit report, as of December 31, 2005, reported no material citations or recommendations.





**Mary Taylor, CPA**  
Auditor of State

**GREATER DAYTON 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  
JULY 10, 2007**