

**SOUTHWEST OHIO REGIONAL
TRANSIT AUTHORITY**

Single Audit Report
for the Year Ended
December 31, 2001



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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Board of Trustees
Southwest Ohio Regional Transit Authority

We have reviewed the Independent Auditor's Report of the Southwest Ohio Regional Transit Authority, Hamilton County, prepared by Deloitte & Touche 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 Southwest Ohio Regional Transit Authority is responsible for compliance with these laws and regulations.

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JIM PETRO
Auditor of State

June 27, 2002

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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Southwest Ohio Regional Transit Authority
Cincinnati, Ohio

We have audited the accompanying balance sheets of the Southwest Ohio Regional Transit Authority (the "Authority") as of December 31, 2001 and 2000, and the related statements of revenues, expenses, and changes in equity and of cash flows for the years then ended. These general purpose financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these general purpose 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 general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose 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, such general purpose financial statements present fairly, in all material respects, the financial position of the Authority as of December 31, 2001 and 2000, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2B to the general purpose financial statements, effective January 1, 2001, the Authority implemented Government Auditing Standards Board Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions* and, retroactively, restated its general purpose financial statements as of and for the year ended December 31, 2000 for the change.

Our audits were performed for the purpose of forming an opinion on the general purpose financial statements of the Authority taken as a whole. The accompanying supplemental schedule of expenditures of federal awards for the year ended December 31, 2001 is presented for purpose 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 general purpose financial statements. This schedule is the responsibility of the Authority's management. Such information has been subjected to the auditing procedures applied in our audit of the general purpose financial statements and, in our opinion, is fairly stated, in all material respects, when considered in relation to the general purpose financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 29, 2002, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

A handwritten signature in black ink that reads "Deloitte & Touche LLP". The signature is written in a cursive, flowing style.

March 29, 2002

Southwest Ohio Regional Transit Authority

**Balance Sheets
as of December 31, 2001 and 2000**

ASSETS	2001	2000
Current assets:		
Cash and cash equivalents (Note 4)	\$13,232,301	\$15,575,249
Investments (Note 4)	34,626,749	27,976,429
Receivables:		
Federal assistance	4,125,596	1,538,009
State assistance	2,397,253	3,384,743
Other	2,340,383	2,005,211
Inventory of materials and supplies	1,043,336	1,021,208
Prepaid expenses and other current assets	124,196	100,755
Total current assets	<u>57,889,814</u>	<u>51,601,604</u>
Restricted assets:		
Cash and investments (Notes 4 and 7)	6,788,634	3,436,492
Receivables for capital assistance	128,132	488,576
Total restricted assets	<u>6,916,766</u>	<u>3,925,068</u>
Property, facilities and equipment (Notes 5 and 7):		
Land and buildings	14,651,434	14,436,400
Improvements	6,892,379	6,395,917
Revenue vehicles	96,957,006	84,277,415
Other equipment	23,339,402	21,699,156
Total	141,840,221	126,808,888
Less allowance for depreciation and amortization	<u>65,515,069</u>	<u>58,606,077</u>
Property, facilities, and equipment-net	<u>76,325,152</u>	<u>68,202,811</u>
Total assets	<u><u>\$141,131,732</u></u>	<u><u>\$123,729,483</u></u>

(continued)

The notes to the general purpose financial statements are an integral part of the general purpose financial statements.

Southwest Ohio Regional Transit Authority

**Balance Sheets (continued)
as of December 31, 2001 and 2000**

LIABILITIES AND EQUITY	2001	2000
Current liabilities:		
Accounts payable	\$2,453,828	\$2,735,955
Accrued payroll	849,000	720,199
Accrued payroll taxes and other benefits (Note 8)	4,066,474	3,487,674
Current portion of estimated claims payable (Note 9)	1,650,000	700,000
Other current liabilities	3,024,281	1,832,394
Advance from City of Cincinnati		
Income Tax-Transit Fund (Note 3):		
For current operations	6,961,819	5,854,518
For capital purposes	25,314,775	31,048,787
Total current liabilities	<u>44,320,177</u>	<u>46,379,527</u>
Liabilities payable from restricted assets:		
Capital expenditures payable	633,883	572,066
Deferred capital grants	5,466,776	3,117,289
Deferred assistance	235,713	235,713
Total liabilities payable from restricted assets	<u>6,336,372</u>	<u>3,925,068</u>
Other liabilities:		
Estimated claims payable, net of current portion (Note 9)	3,844,570	3,493,237
Capital lease obligation (Note 7)	10,012,718	1,376,358
Accrued pension cost (Note 8)	292,743	352,482
Total other liabilities	<u>14,150,031</u>	<u>5,222,077</u>
Total liabilities	<u>64,806,580</u>	<u>55,526,672</u>
Equity (Notes 3 and 11):		
Contributed capital - capital grants		
Federal	59,822,389	59,822,389
State	4,101,683	4,101,683
Local	5,961,134	5,961,134
Total	<u>69,885,206</u>	<u>69,885,206</u>
Retained earnings (deficit)	6,439,946	(1,682,395)
Total equity	<u>76,325,152</u>	<u>68,202,811</u>
Total liabilities and equity	<u>\$141,131,732</u>	<u>\$123,729,483</u>

(concluded)

The notes to the general purpose financial statements are an integral part of the general purpose financial statements.

Southwest Ohio Regional Transit Authority

**Statements of Revenues, Expenses and Changes in Equity
for the years ended December 31, 2001 and 2000**

	2001	2000
Operating revenues:		
Passenger fares for transit service	\$14,474,633	\$14,728,474
Special transit fares	328,381	380,958
Auxiliary transportation revenue	<u>574,118</u>	<u>762,095</u>
Total	<u>15,377,132</u>	<u>15,871,527</u>
Operating expenses other than depreciation:		
Labor	35,050,061	33,926,817
Fringe benefits (Note 4B)	13,339,444	12,573,991
Materials and supplies consumed	7,953,349	10,479,961
Services	3,044,121	3,386,760
Utilities	1,073,508	1,079,877
Casualty and liability	1,723,949	259,725
Taxes	849,209	859,210
Purchased transportation services	5,166,966	4,397,879
Leases and rentals	478,845	477,269
Miscellaneous	<u>1,409,339</u>	<u>1,614,470</u>
Total	<u>70,088,791</u>	<u>69,055,959</u>
Depreciation and Amortization (Note 5)	<u>9,011,366</u>	<u>8,749,894</u>
Total operating expenses	<u>79,100,157</u>	<u>77,805,853</u>
Operating loss	<u>(63,723,025)</u>	<u>(61,934,326)</u>
Non-operating revenues:		
Federal maintenance grants and reimbursements (Note 6)	13,920,354	18,218,890
State maintenance grants, reimbursements and special fare assistance (Note 6)	2,588,311	4,663,757
Local operating grants and special fare assistance (Note 6)	5,248,786	4,564,219
Investment income-net (Note 7)	3,130,394	2,980,631
Non-transportation revenue	<u>413,503</u>	<u>491,459</u>
Total	<u>25,301,348</u>	<u>30,918,956</u>
Loss before operating assistance provided by City of Cincinnati Income Tax-Transit Fund	(38,421,677)	(31,015,370)
Operating assistance from the City of Cincinnati Income Tax-Transit Fund (Note 3)	<u>29,410,311</u>	<u>22,265,476</u>
Net loss before capital grant activity	(9,011,366)	(8,749,894)
Capital grant revenue (Note 2B)	<u>17,133,707</u>	<u>7,067,499</u>
Increase (decrease) in equity during the year	8,122,341	(1,682,395)
Equity, beginning of year	<u>68,202,811</u>	<u>69,885,206</u>
Equity, end of year	<u>\$76,325,152</u>	<u>\$68,202,811</u>

The notes to the general purpose financial statements are an integral part of the general purpose financial statements.

Southwest Ohio Regional Transit Authority

**Statements of Cash Flows
for the years ended December 31, 2001 and 2000**

	2001	2000
Cash flows from operating activities:		
Operating loss	\$(63,723,025)	\$(61,934,326)
Adjustments to reconcile to net cash used in operating activities:		
Depreciation and amortization expense	9,011,366	8,749,894
Equity securities received from insurance company (Note 4B)	(1,582,168)	—
Non-transportation revenue	413,503	491,459
Effect of changes in assets and liabilities:		
Other receivables	(335,172)	(253,282)
Inventory of materials and supplies	(22,128)	(140,343)
Prepaid expenses and other current assets	(23,441)	(26,690)
Accounts payable	(282,127)	765,459
Accrued payroll, related taxes and other benefits	707,601	(459,184)
Estimated claims payable	1,301,333	96,185
Other liabilities	1,132,148	1,033,865
Total adjustments	<u>10,320,915</u>	<u>10,257,363</u>
Net cash used in operating activities	<u>(53,402,110)</u>	<u>(51,676,963)</u>
Cash flows from noncapital financing activities:		
Transfer from City of Cincinnati Income Tax-Transit Fund	30,270,349	26,200,644
Other local operating assistance received	5,248,786	4,564,219
Federal maintenance and other assistance received	11,332,767	16,680,881
State maintenance and other assistance received	4,534,702	4,708,147
Net cash provided by noncapital financing activities	<u>51,386,604</u>	<u>52,153,891</u>
Cash flows from capital and related financing activities:		
Capital grants and other assistance received:		
City of Cincinnati Income Tax-Transit Fund	7,424,568	11,199,045
Federal, state and other local	6,003,790	4,916,905
Proceeds from capital lease obligation	8,636,360	—
Acquisition of fixed assets	(17,102,264)	(7,036,372)
Interest paid under capital leases	(372,755)	(67,744)
Net cash provided by capital and related financing activities	<u>4,589,699</u>	<u>9,011,834</u>
Cash flows from investing activities:		
Net cash payments for investments	(8,089,311)	(911,801)
Income received from investments	3,172,170	2,654,036
Net cash provided by (used in) investing activities	<u>(4,917,141)</u>	<u>1,742,235</u>
Net increase (decrease) in cash and cash equivalents	(2,342,948)	11,230,997
Cash and cash equivalents, beginning of year	<u>15,575,249</u>	<u>4,344,252</u>
Cash and cash equivalents, end of year (Note 4)	<u><u>\$13,232,301</u></u>	<u><u>\$ 15,575,249</u></u>
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES		
Increase in fair value of investments	<u><u>\$330,983</u></u>	<u><u>\$394,339</u></u>

The notes to the general purpose financial statements are an integral part of the general purpose financial statements.

Southwest Ohio Regional Transit Authority

Notes to General Purpose Financial Statements for the years ended December 31, 2001 and 2000

1. Organization and Reporting Entity

A. Organization

The Southwest Ohio Regional Transit Authority ("SORTA" or the "Authority") is responsible for the operation of the Greater Cincinnati public transit system. SORTA is organized under Sections 306.30 through 306.53 of the Ohio Revised Code and is not subject to income taxes. SORTA, which is the policy-making body for the transit system known as Metro, operates under an agreement with the City of Cincinnati (the "City") (see Note 3).

B. Reporting Entity

The Authority has adopted the provisions of Statement No. 14 of the Governmental Accounting Standards Board, "The Financial Reporting Entity". Accordingly, the accompanying financial statements include only the accounts and transactions of the Authority. Under the criteria specified in Statement No. 14, the Authority has no component units nor is it considered a component unit of the City of Cincinnati or Hamilton County, Ohio. The Authority is, however, considered to be a related organization to Hamilton County by virtue of the fact that SORTA's Board of Trustees is appointed by the Hamilton County Board of Commissioners.

These conclusions regarding the financial reporting entity are based on the concept of financial accountability. The Authority is not financially accountable for any other organization nor is the City or Hamilton County accountable for SORTA. 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 accompanying financial statements were prepared in accordance with accounting principles generally accepted in the United States of America which require the accrual basis of accounting. Under this basis of accounting, revenues and expenses are recognized in the period earned or incurred. All transactions are accounted for in a single enterprise fund. In accordance with Statement No. 20 of the Governmental Accounting Standards Board, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting," the Authority has elected not to apply the provisions of the Statements and Interpretations of the Financial Accounting Standards Board issued after November 30, 1989. The Authority will continue applying all applicable pronouncements issued by the Governmental Accounting Standards Board ("GASB").

The measurement focus is on the determination of revenues, expenses, financial position, and cash flows as the identification of these items is necessary for appropriate capital maintenance, public policy, management control, accountability, and the calculation of amounts due under the City/SORTA agreement (see Note 3).

Southwest Ohio Regional Transit Authority

Notes to General Purpose Financial Statements for the years ended December 31, 2001 and 2000 (continued)

B. Nonexchange Transactions

Effective January 1, 2001, the Authority implemented GASB Statement No. 33, "Accounting and Financial Reporting for Nonexchange Transactions". In general, GASB Statement No. 33 establishes accounting and financial reporting standards about when to report the results of nonexchange transactions involving financial or capital resources. In a nonexchange transaction, an entity gives (or receives) value without directly receiving or giving equal value in return. The Authority's principal nonexchange transactions involve the receipt of monies from the City Income Tax-Transit Fund (see Note 3) along with federal, state and local grants for operating assistance as well as the acquisition of property, facilities and equipment. Substantially all of the Authority's nonexchange transactions represent reimbursement-type grants, which are recorded as revenue in the period the related expenditures are incurred. Any monies received in advance of the period in which the related expenditures are incurred, are recorded as restricted assets and as deferred revenue until the expenditures are incurred.

The principal change in accounting that resulted from GASB Statement No. 33 is the requirement that the Authority report capital grants as revenues rather than contributed capital. As part of the implementation of GASB Statement No. 33, the Authority also ceased its practice of closing depreciation expense recognized on assets funded through capital grants to contributed capital. As required under GASB Statement No. 33, the Authority has retroactively restated its general purpose financial statements as of and for the year ended December 31, 2000 for the change, which increased the Authority's contributed capital approximately \$1.7 million and increased its retained deficit by a corresponding amount. The accounting change had no impact on the Authority's total equity or net loss before capital grant activity.

C. Passenger Fares

Passenger fares are recorded as revenue at the time services are performed and revenues pass through the farebox.

D. Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the Authority considers all highly liquid investments (including restricted assets and SORTA's investment in the State Treasury Asset Reserve of Ohio ("STAROhio")) with a maturity of three months or less when purchased to be cash equivalents.

E. Investments

The Authority's investments (including cash equivalents) are recorded at fair value (based on quoted market prices) except that short-term, highly liquid debt investments, with a remaining maturity at the time of purchase of one year or less are reported at amortized cost.

The Authority has invested funds in STAROhio, an investment pool managed by the State Treasurer's office which allows governments within the state to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price, which is the price at which the investment could be sold.

Southwest Ohio Regional Transit Authority

**Notes to General Purpose Financial Statements
for the years ended December 31, 2001 and 2000 (continued)**

F. Inventory of Materials and Supplies

Materials and supplies are stated at cost, which is determined using the average cost method.

G. Restricted Assets

Restricted assets consist of funds received under various capital grants from the Federal Transit Administration ("FTA"), the Ohio Department of Transportation ("ODOT"), and the local matching share received from the City Income Tax-Transit Fund. Restricted assets also include funds received under a master lease-purchase agreement and not yet expended. These assets are restricted for capital and other project expenditures.

H. Property and Depreciation

Property, facilities, and equipment are stated at cost and include expenditures which substantially increase the utility or useful lives of existing assets. Maintenance parts are expensed when placed in service. Routine maintenance and repairs are expensed as incurred.

Assets acquired with capital grants or under capital lease are also included in property, facilities, and equipment, and depreciation/amortization of the cost of those assets is included in the Statements of Revenues, Expenses and Changes in Equity.

Amortization/depreciation is computed using the straight-line method over the estimated useful lives of the respective assets, as follows:

Description	Years
Improvements	15
Revenue vehicles	4-12
Other equipment	3-10

I. Claims

As described in Note 9, SORTA is self-insured for public liability, personal injury, third-party property damage, and workers' compensation claims. SORTA recognizes a liability for such claims if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated.

The liability recorded includes the estimated incremental expenses to be incurred to settle the claims, including legal fees. Claims liabilities are based on evaluations of individual claims and a review of experience with respect to the probable number and nature of claims arising from losses that have been incurred but have not yet been reported. The claims liabilities represent the estimated ultimate cost of settling the claims, including the effects of inflation and other societal and economic factors. Estimated future recoveries on

Southwest Ohio Regional Transit Authority

Notes to General Purpose Financial Statements for the years ended December 31, 2001 and 2000 (continued)

settled and unsettled claims, such as subrogations, if any, are evaluated in terms of their estimated realizable value and deducted from the liability for unpaid claims. Any adjustments resulting from the actual settlement of the claims are reflected in earnings at the time the adjustments are determined.

J. Compensated Absences

Vacation pay is accrued and charged to expense as earned. Because rights to sick pay do not vest, SORTA recognizes such costs when they are incurred.

K. Budgetary Accounting and Control

SORTA's annual budget is prepared on the accrual basis of accounting. The budget includes amounts for current year revenues and expenses as well as new capital projects.

The Authority maintains budgetary control by not permitting total operating expenses (excluding depreciation) and expenditures for individual capital projects to exceed revenue sources without approval by the Board of Trustees. No budget amendments were passed for 2001 and 2000. All budget amounts lapse at year end.

L. Reclassification

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

3. Federal Grants and Local Reimbursements

SORTA receives operating and capital assistance from the U.S. Department of Transportation under the Urban Mass Transportation Act of 1964 (the "Act"), as amended. Among other requirements of the Act, state and local governments must provide a proportionate share of funds and/or support (as defined by the Federal Transit Administration guidelines) for operating and capital assistance.

In addition to federal and state operating and capital assistance, funding is also provided by a portion of the City income tax approved by the residents of the City and designated for transit operations. Operating assistance provided from the City Income Tax-Transit Fund represents SORTA's net loss before such assistance, excluding depreciation/amortization and losses on the disposal of assets purchased with capital grants. Any portion unremitted for the year is recorded as a receivable. Any overadvanced amount for the year is recorded as an advance from the City Income Tax-Transit Fund or as deferred capital grants representing the Authority's matching local share requirements under the Act.

An agreement between the City and SORTA requires the City to maintain a transit fund into which the proceeds of the income tax designated for transit operations are deposited. This fund provides all necessary local (other than operating revenues) operating and capital assistance to SORTA. The agreement also contains certain provisions regarding service standards and fares. This agreement is of indefinite duration but may be terminated by

Southwest Ohio Regional Transit Authority

Notes to General Purpose Financial Statements for the years ended December 31, 2001 and 2000 (continued)

providing 180 days written notice to the other party. If terminated, the City will assume all outstanding commitments that SORTA incurred in carrying out the agreement.

4. Cash and Investments

The investment and deposit of Authority monies are governed by the provisions of the Ohio Revised Code and the Authority's established policies. Accordingly, only banks located in Ohio and domestic building and loan associations are eligible to hold public deposits. The Authority is also permitted to invest its monies in certificates of deposit, savings accounts, money market accounts, the State Treasurer's investment pool (STAROhio), and obligations of the United States government and certain agencies thereof. The Authority may also enter into repurchase agreements for a period not exceeding thirty days with banks located within the State of Ohio with which the Authority has signed a Master Repurchase Agreement. At the time of making an investment, the Authority's Treasurer must reasonably expect that the investment can be held until maturity. To the extent possible, the Treasurer will attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow requirement, the Treasurer will not directly invest in securities maturing more than five years from the settlement date of purchase. The weighted average maturity of all securities cannot exceed two years.

Public depositories must give security for all public funds on deposit. These institutions may either specifically collateralize individual accounts in excess of amounts insured by the Federal Deposit Insurance Corporation (FDIC), may pledge a pool of government securities valued at least 105% of the total value of public monies on deposit at the institution, or may deposit surety company bonds which when executed shall be for an amount in excess of collateral requirements. 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. State law does not require security for public deposits and investments to be maintained in the Authority's name.

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.

As of December 31, 2001, the Authority maintained restricted cash and investments of \$6,788,634, and unrestricted cash and investments of \$47,859,050. The total cash and investments of \$54,647,684 consisted of \$22,948,917 in deposits and \$31,698,767 in investments.

Southwest Ohio Regional Transit Authority

Notes to General Purpose Financial Statements for the years ended December 31, 2001 and 2000 (continued)

A. Deposits

At December 31, 2001, the carrying amount of the Authority's deposits was \$22,948,917 and the bank balance was \$25,067,135 (primarily consisting of certificates of deposit), \$25,033,145 of which was covered by federal depository insurance or surety bonds provided by a commercial insurance company and \$33,990 was uninsured and uncollateralized as defined by the GASB. However, the \$33,990 was covered by a pledged collateral pool not held in the Authority's name, as permitted under Ohio law.

B. Investments

The Authority's investments are detailed below and are categorized in accordance with the criteria established by the GASB to indicate the level of credit risk assumed as of December 31, 2001. Category 1 includes investments that are insured or registered for which the securities are held by the Authority or its agent in the Authority's name. Category 2 includes investments that are uninsured and unregistered for which the securities are held by the counterparty's trust department or agent in the Authority's name. Category 3 includes uninsured and unregistered investments for which securities are held by the counterparty or by its trust department or agent but not in the Authority's name.

Description	Category			Carrying Amount	Fair Value
	1	2	3		
U.S. Government & Agency securities	\$14,717,520	\$ —	\$ —	\$14,717,520	\$14,823,199
Equity Securities	1,825,313	—	—	1,825,313	1,825,313
STAROhio				<u>15,155,934</u>	<u>15,155,934</u>
Total				<u>\$31,698,767</u>	<u>\$31,804,446</u>

The equity securities were received in connection with the demutualization of Anthem Blue Cross and Blue Shield Company. The fair value of the securities on the date they were received of \$1,582,168 was recorded as a reduction of fringe benefits expense in the Statement of Revenue, Expenses and Changes in Equity for the year ended December 31, 2001.

The Authority's investment in STAROhio has not been categorized as to credit risk because it represents an investment pool that is not evidenced by securities that exist in physical or book entry form. STAROhio is an investment pool created pursuant to Ohio statutes and managed by the Treasurer of the State of Ohio. STAROhio is not registered with the Securities and Exchange Commission as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price which is the price at which the investment could be redeemed on December 31, 2001.

The Authority's deposits and investments are included in the accompanying balance sheets under the captions "Cash and cash equivalents", "Investments", and "Cash and investments".

Southwest Ohio Regional Transit Authority

**Notes to General Purpose Financial Statements
for the years ended December 31, 2001 and 2000 (continued)**

5. Property, Facilities, and Equipment

Prior to 1986, under terms of the operating agreement with the City, SORTA agreed to operate transportation equipment and certain operating facilities which had been purchased by the City primarily under FTA and ODOT capital grants.

During 1986, the City transferred the title to existing transit system physical assets, except for real estate, construction projects and certain assets which had been conveyed to a bank under a sale and leaseback arrangement.

If the assets not conveyed by the City in 1986 (real estate, construction projects, and certain other assets having an estimated aggregate cost of approximately \$28.3 million at December 31, 2001) had been owned by SORTA, the provision for depreciation for the years ended December 31, 2001 and 2000 would have increased approximately \$650,000 in each year.

In case of termination of the City/SORTA operating agreement, all assets operated by SORTA for the City are to be returned to the City.

6. Grants, Reimbursements, and Special Fare Assistance

Grants, reimbursements, and special fare assistance included in the Statements of Revenues and Expenses and Changes in Equity for the years ended December 31, 2001 and 2000 consist of the following:

	2001	2000
Federal:		
Federal Highway Administration Surface Transportation Program	—	\$1,093,739
FTA-Maintenance and Other Assistance	<u>\$13,920,354</u>	<u>17,125,151</u>
Total	<u>\$13,920,354</u>	<u>\$18,218,890</u>
State:		
ODOT-Fuel Tax Reimbursement	\$808,371	\$796,074
ODOT-Elderly and Handicapped Grant	338,833	331,965
ODOT-Maintenance and Other Assistance	<u>1,441,107</u>	<u>3,535,718</u>
Total	<u>\$2,588,311</u>	<u>\$4,663,757</u>
Local:		
Cincinnati Board of Education Contract	\$4,262,152	\$3,826,232
Hamilton County	372,218	360,960
Warren County	107,735	101,500
Butler County	226,255	86,074
Deerfield Township	39,435	38,646
Clermont County	120,918	28,319
City of Mason	13,435	12,646
City of Sharonville	—	8,750
Other	<u>106,638</u>	<u>101,092</u>
Total	<u>\$5,248,786</u>	<u>\$4,564,219</u>

Southwest Ohio Regional Transit Authority

**Notes to General Purpose Financial Statements
for the years ended December 31, 2001 and 2000 (continued)**

7. Lease Commitments

SORTA leases its administrative offices under lease agreements which are accounted for as operating leases. Rent expense under these leases, which includes certain short-term leases, was approximately \$254,000 in 2001 and \$246,000 in 2000. At December 31, 2001, the minimum future payments under leases with terms extending beyond one year are as follows:

<u>Year</u>	<u>Amount</u>
2002	\$ 256,660
2003	235,821
2004	245,032
2005	256,217
2006	266,650
Thereafter	712,255
Total	<u>\$1,972,635</u>

SORTA also leases 68 revenue vehicles under two master lease-purchase agreements with local financial institutions. Based on the terms of the agreements, they have been accounted for as capital leases. The capitalized cost and accumulated amortization recorded for these vehicles amounted to \$9,432,324 and \$867,404, respectively, at December 31, 2001. Unspent proceeds of the capital leases totaling \$580,394 are included in restricted cash and investments in the accompanying balance sheet as of December 31, 2001.

One of the agreements calls for semi-annual payments of interest with the entire principal balance of \$1,376,358 due April 29, 2003; the other agreement calls for annual payments of interest with the entire principal balance of \$8,636,360 due April 6, 2006. Future minimum lease payments under the capital leases are as follows:

<u>Year</u>	<u>Amount</u>
2002	\$483,669
2003	1,826,156
2004	417,064
2005	415,925
2006	9,052,284
Total minimum lease payments	<u>12,195,098</u>
Less amount representing interest	<u>2,182,380</u>
 Present value of net minimum lease payments	 <u>\$10,012,718</u>

During the years ended December 31, 2001 and 2000, the Authority recognized \$372,755 and \$67,744, respectively, of interest expense under its capital leases.

Southwest Ohio Regional Transit Authority

Notes to General Purpose Financial Statements for the years ended December 31, 2001 and 2000 (continued)

8. Retirement Benefits

A. Public Employees Retirement System of Ohio

Plan Description. Effective July 1, 1991, all employees of the Authority are required to be members of the Public Employees Retirement System of Ohio ("PERS"), a cost-sharing, multiple-employer defined benefit pension plan. PERS provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State statute per Chapter 145 of the Ohio Revised Code. PERS issues a stand-alone financial report that includes financial statements and required supplementary information. The financial report may be obtained by making a written request to the Public Employees Retirement System of Ohio, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 466-2085 or 1-800-222-PERS (7377).

Funding Policy. The Ohio Revised Code provides statutory authority for employee and employer contributions. Employees other than law enforcement personnel are required to contribute 8.5% of their covered payroll to PERS. The 2001 and 2000 employer contribution rate for local government employer units was 13.55% and 10.84%, respectively, of covered payroll including 4.3% that is used to fund postretirement health care benefits. The employer contribution rate for 2000 reflects a temporary 20% rollback of the rate by PERS. The Authority's total contributions to PERS for pension benefits (excluding the amount relating to postretirement benefits) for the years ended December 31, 2001, 2000 and 1999 were \$3,520,000, \$2,402,000, and \$3,257,000, respectively, equal to 100% of the required contribution for each year.

B. Private Pension Plans

Plan Description. Certain retirees (42 at January 1, 2002) continue to participate in the private pension plans which originated under the privately owned transit system (Cincinnati Transit, Inc.) acquired by the City in 1973. SORTA administers these single-employer, defined benefit pension plans and is reimbursed by the City for the costs of the plans (Note 3). The pension costs of the private plans are expected to decline in future years. The private pension plans do not issue stand-alone financial reports.

Funding policy. SORTA has elected to pay benefits when due. As a result, the net pension obligation calculated below has not been discounted to take into consideration interest on contributions.

Annual Pension Cost and Net Pension Obligation. SORTA's annual pension cost and net pension obligation pertaining to the private pension plans as of and for the years ended December 31, 2001, 2000 and 1999 were determined using the unit credit actuarial cost method as follows:

Southwest Ohio Regional Transit Authority

**Notes to General Purpose Financial Statements
for the years ended December 31, 2001 and 2000 (continued)**

	2001	2000	1999
Annual required contribution	—	—	—
Interest on net pension obligation	—	—	—
Actuarial adjustment to net pension obligation	<u>\$4,881</u>	<u>—</u>	<u>\$(142,444)</u>
Annual pension cost	4,881	—	(142,444)
Contribution/benefit payments made	<u>(64,620)</u>	<u>\$(73,581)</u>	<u>(104,798)</u>
Decrease in net pension obligation	(59,739)	(73,581)	(247,242)
Net pension obligation beginning of year	<u>352,482</u>	<u>426,063</u>	<u>673,305</u>
Net pension obligation end of year	<u>\$292,743</u>	<u>\$352,482</u>	<u>\$426,063</u>

The net pension obligation was actuarially determined using a mortality assumption obtained from the Unisex Pension Table for 1984 and the 2001 and 2000 amounts are recognized as non-current liabilities on the accompanying balance sheets. Because future benefit increases are not assured and are not expected to be material, this factor was not considered in the determination of the net pension obligation and annual pension cost.

C. Other Postemployment Benefits

Benefits Provided Through PERS. In addition to the pension benefits described previously, PERS provides postretirement 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 also available. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit ("OPEB") as described in GASB Statement No. 12.

A portion of each employer's contribution to PERS is set aside for the funding of post-retirement health care. The Ohio Revised Code provides statutory authority requiring public employers to fund postretirement health care through their contributions to PERS. The portion of the employer contribution rate used to fund health care for 2001 and 2000 was 4.3% of covered payroll. During 2001 and 2000, \$1,637,000 and \$1,579,000, respectively, of SORTA's total contribution to PERS was used for postretirement benefits. At December 31, 2001, the Authority was not responsible for paying premiums, contributions, or claims for OPEB under PERS for any retirees, terminated employees, or other beneficiaries.

The OPEB is advance-funded on an actuarially determined basis through employer contributions and investment earnings thereon. The principal assumptions used for the 2000 actuarial computations (latest available) were as follows:

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.

Southwest Ohio Regional Transit Authority

Notes to General Purpose Financial Statements for the years ended December 31, 2001 and 2000 (continued)

Assets Valuation Method. For actuarial valuation purposes, a smoothed market approach is used. Under this approach assets are adjusted annually to reflect 25% of 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%.

At December 31, 2000 (latest information available), there were 411,076 active participants contributing to the plan. The Authority's actuarially required OPEB contribution for 2000 equalled the actual amount contributed to PERS by SORTA. In addition, at December 31, 2000, the actuarial value of the plan's net assets available for OPEB approximated \$11.7 billion and the actuarial accrued liability and the unfunded actuarial accrued liability, based on the actuarial method used, were \$14.4 billion and \$2.7 billion, respectively.

The contributions allocated to retiree health care, along with investment income on allocated assets and periodic adjustments in health care provisions, are expected to be sufficient to sustain the program indefinitely.

Other Benefits Provided. In addition to the other postemployment benefits provided by PERS, SORTA also provides postemployment health care benefits to former employees of Cincinnati Transit, Inc., who do not qualify for PERS health care benefits, and a \$1,500 life insurance benefit to each retired hourly employee. The life insurance benefits are provided through group insurance arrangements which are funded by SORTA through payment of monthly insurance premiums. The health care benefits were previously provided by group insurance arrangements which were funded by SORTA through payment of monthly insurance premiums. Effective March 1, 1997, SORTA became self-insured for such health care benefits. As of December 31, 2001, 7 individuals were receiving health care benefits and 308 individuals were eligible to receive life insurance benefits.

SORTA has recorded the following accrued liabilities in accrued payroll taxes and other benefits on its balance sheet for these postemployment benefits at December 31:

	<u>2001</u>	<u>2000</u>
Health care benefits	\$ 39,471	\$ 86,044
Life insurance benefits	\$237,103	\$228,163

These liabilities represent the present value of the estimated future health care benefits and life insurance premiums that are expected to be paid for retirees who were eligible for benefits as of each of the dates indicated. The liability for life insurance benefits includes a provision for estimated amounts which will be paid for existing employees.

Southwest Ohio Regional Transit Authority

**Notes to General Purpose Financial Statements
for the years ended December 31, 2001 and 2000 (continued)**

These liabilities were determined based on the following assumptions:

	2001	2000
Medical inflation assumptions	**	**
Future annual increases in life insurance premiums	2.00%	2.00%
Remaining life expectancy*	Individually Determined	
Medical		
Life	14.6 yrs.	14.6 yrs.
Interest factor	6.00%	6.00%

* Based on U.S. National Center for Health Statistics, Vital Statistics of the U.S. 1994 (most recent available).

** 7.5% in 2002, decreasing to 5% in 2006 and thereafter.

The total expense recognized by the Authority for postemployment benefits not provided under PERS was less than \$40,000 for each of the years ended December 31, 2001 and 2000.

9. Risk Management

SORTA is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or acts of God. Blanket insurance coverage has been obtained to cover damage or destruction to the Authority's property and SORTA is self-insured for public liability, personal injury, and third-party property damage claims. In addition, the City of Cincinnati has appropriated \$2,000,000 of funds held in the City Income Tax-Transit Fund (see Note 3). These funds may be used to fund individual claims against SORTA to the extent that each claim is in excess of \$100,000 per incident. Claims expense and a liability are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated.

Employee health care benefits are provided under a group insurance arrangement and, on January 1, 1995, the Authority became self-insured for workers' compensation benefits. Prior to 1995, SORTA was insured through the State of Ohio for workers' compensation benefits. The State of Ohio Bureau of Workers' Compensation continues to be liable for all claims prior to January 1, 1995. As shown below, the estimated amount due for workers' compensation claims is included in the accrual for estimated claims payable. SORTA carries liability insurance to cover any workers' compensation claim in excess of \$250,000 through December 31, 2001, and \$350,000 thereafter. The workers' compensation liability includes an amount for claims that may have been incurred but not reported. The claims liability has been calculated on an actuarial basis considering the effects of inflation, recent claim settlement trends including frequency and amount of pay-outs, and other economic factors. Unpaid workers' compensation claims are discounted at 5.5%.

The changes in the liabilities for self-insured risks for the years ended December 31, 2001 and 2000 are as follows:

Southwest Ohio Regional Transit Authority

**Notes to General Purpose Financial Statements
for the years ended December 31, 2001 and 2000 (continued)**

	<u>Workers'</u> <u>Compensation</u>	<u>Public Liability</u> <u>and Property Damage</u>	<u>Total</u>
Balance January 1, 2000	\$3,413,052	\$ 684,000	\$4,097,052
Claims net of changes in estimates	404,403	331,392	735,795
Payments	<u>(348,903)</u>	<u>(290,707)</u>	<u>(639,610)</u>
Balance December 31, 2000	3,468,552	724,685	4,193,237
Claims net of changes in estimates	619,763	1,832,976	2,452,739
Payments	<u>(516,315)</u>	<u>(635,091)</u>	<u>(1,151,406)</u>
Balance December 31, 2001	<u>\$3,572,000</u>	<u>\$ 1,922,570</u>	<u>\$5,494,570</u>

The liabilities above represent the Authority's best estimates based upon available information.

Settled claims have not exceeded the Authority's commercial insurance coverage for any of the past three years.

10. Contingencies and Commitments

A. Litigation and Claims

It is the Authority's policy, within certain limits (see Note 9), to act as self-insurer for certain insurable risks consisting primarily of public liability, property damage, and workers' compensation. At December 31, 2001, SORTA had been named in various public liability and property damage claims and suits, some of which seek significant damages. The ultimate outcome of those matters cannot be determined; however, it is the opinion of management that any resulting liability to the Authority in excess of the amount provided for in the accompanying balance sheets, and which is not covered by insurance, will not have a material adverse effect on the Authority's financial position.

B. Federal and State Grants

Under the terms of the Authority's various grants, periodic audits are required where certain costs could be questioned as not being eligible expenditures under the terms of the grants. At December 31, 2001, there were no questioned costs that had not been resolved with appropriate federal and state agencies. Questioned costs could still be identified during audits to be conducted in the future. In the opinion of SORTA's management, no material grant expenditures will be disallowed.

C. Outstanding Commitments

The Authority has outstanding commitments to purchase revenue vehicles at December 31, 2001 of \$10.1 million. These contracts are being financed primarily through federal grant programs.

Southwest Ohio Regional Transit Authority

**Notes to General Purpose Financial Statements
for the years ended December 31, 2001 and 2000 (continued)**

11. Equity

The activity in the components of the Authority's equity (as restated-see Note 2B) during the years ended December 31, 2001 and 2000 was as follows:

	<u>Contributed Capital</u>	<u>Retained Earnings</u>	<u>Total Equity</u>
Balance January 1, 2000	\$69,885,206		\$69,885,206
Excess of expenses over revenues		<u>\$(1,682,395)</u>	<u>(1,682,395)</u>
Balance at December 31, 2000	<u>69,885,206</u>	<u>(1,682,395)</u>	<u>68,202,811</u>
Excess of revenues over expenses		<u>8,122,341</u>	<u>8,122,341</u>
Balance at December 31, 2001	<u>\$69,885,206</u>	<u>\$6,439,946</u>	<u>\$76,325,152</u>

12. New Accounting Standards

The GASB has issued Statement No. 34, "Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments," Statement No. 37, "Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments: Omnibus," and Statement No. 38, "Certain Financial Statement Disclosures." These statements revise accounting and reporting standards for general purpose external financial reporting by governmental units. These statements are effective for the Authority's year ending December 31, 2003. The Authority has not completed an analysis of the impact of these statements on its reported financial condition and results of operations.

13. Subsequent Event

Effective February 1, 2002, SORTA entered into a master lease-purchase agreement to lease 38 revenue vehicles. Based on the terms of the agreement, it will be accounted for as a capital lease. The capitalized cost of the vehicles and related capital lease obligation resulting from the transaction approximate \$10 million. Future minimum lease payments (including interest) will be approximately \$.5 million through 2010 and approximately \$10.5 million in 2011.

Southwest Ohio Regional Transit Authority

**Supplemental Schedule of Expenditures of Federal Awards
for the year ended December 31, 2001**

Federal Grantor/Pass-through Grantor/ Program Title	Federal CFDA Number	Federal and Pass-through Grant Number	Grant Expenditures
U.S. Department Of Transportation			
Federal Transit Cluster			
Direct Program:			
Federal Transit Administration-Capital and Operating Assistance Formula Grants	20.507	OH-90-X152	\$ 135,918
		OH-90-X176	109,189
		OH-90-X203	9,559
		OH-90-X233	34,511
		OH-90-X265	216,796
		OH-90-X276	40,049
		OH-90-X319	62,977
		OH-90-X343	13,068
		OH-90-X367	<u>14,196,561</u>
Total CFDA #20.507			<u>14,818,628</u>
Direct Programs:			
Federal Transit Administration-Capital Improvements Grant	20.500	OH-03-0192	1,584,503
Federal Transit Administration-Reverse Commute Job Access	20.500	OH-37-4010	627,938
Passed-through the Ohio Department of Transportation-Federal Transit Administration- Capital Improvements Grant	20.500	OH-03-0164	90,580
		OH-03-0184	<u>1,565,343</u>
			<u>1,655,923</u>
Total CFDA #20.500			<u>3,868,364</u>
Direct Program:			
Federal Transit Administration-State Planning and Research Program	20.515	OH-81-9031	<u>40,000</u>
Total CFDA #20.515			<u>40,000</u>
Total-U.S. Department of Transportation-Federal Transit Cluster			<u>18,726,992</u>
Passed-through the OKI Regional Council of Governments-Federal Highway Administration- Congestion Mitigation Air Quality Program	20.205	553581	<u>44,700</u>
Total CFDA # 20.205			<u>44,700</u>
Total Expenditures of Federal Awards- All U.S. Department of Transportation			<u>\$18,771,692</u>

See note to the Supplemental Schedule of Expenditures of Federal Awards

Southwest Ohio Regional Transit Authority

**Note to the Supplemental Schedule of Expenditures of Federal Awards
for the year ended December 31, 2001**

1. Basis of Presentation

The accompanying Supplemental Schedule of Expenditures of Federal Awards (the "Schedule") reflects the expenditures of the Southwest Ohio Regional Transit Authority under programs financed by the U.S. government for the year ended December 31, 2001. The Schedule has been prepared in accordance with the requirements of OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations", using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

For purposes of the Schedule, federal awards include the following:

- **Direct federal awards**
- **Pass-through funds received from non-federal organizations made under federally sponsored programs conducted by those organizations.**



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON
INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON THE AUDIT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Trustees
Southwest Ohio Regional Transit Authority
Cincinnati, Ohio

We have audited the general purpose financial statements of the Southwest Ohio Regional Transit Authority (the "Authority") as of and for the year ended December 31, 2001, and have issued our report thereon dated March 29, 2002, which contained an explanatory paragraph stating that, effective January 1, 2001, the Authority implemented Government Auditing Standards Board Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions* and, retroactively, restated its general purpose financial statements as of and for the year ended December 31, 2000 for the change. 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 general purpose 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 general purpose 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 misstatement 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.

This report is intended solely for the information and use of the Board of Trustees, Authority management, federal awarding agencies, state funding agencies, pass-through entities 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.

A handwritten signature in black ink that reads "Deloitte & Touche LLP". The signature is written in a cursive, flowing style.

March 29, 2002



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND INTERNAL CONTROL OVER COMPLIANCE APPLICABLE TO EACH MAJOR FEDERAL AWARD PROGRAM

Board of Trustees
Southwest Ohio Regional Transit Authority
Cincinnati, Ohio

Compliance

We have audited the compliance of the Southwest Ohio 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 each of its major federal programs for the year ended December 31, 2001. The Authority's major federal programs are 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 each of its major federal programs 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 and 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 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 each of its major federal programs for the year ended December 31, 2001.

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 condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. 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, Authority management, federal awarding agencies, state funding agencies, pass-through entities 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.

Deloitte & Touche LLP

March 29, 2002

Southwest Ohio Regional Transit Authority
Schedule of Findings and Questioned Costs
for the Year Ended December 31, 2001

Summary of Auditors' Results

- **Type of Report Issued on the Financial Statements as of and for the Year Ended December 31, 2001-Unqualified.**
- **Reportable Conditions in Internal Control Disclosed by the Audit of the Financial Statements-N/A. (None reported)**
- **Noncompliance Noted that is Material to the Financial Statements of the Authority-None.**
- **Reportable Conditions in Internal Control Over Major Federal Financial Assistance Programs Disclosed by the Audit of the Financial Statements-N/A. (None reported)**
- **Type of Report Issued on Compliance for Major Federal Financial Assistance Programs-Unqualified.**
- **The audit did not disclose any audit findings which are required to be reported under Section .510(a) of OMB Circular A-133.**
- **Major Federal Financial Assistance Programs Identified for the Year Ended December 31, 2001:**
 - **Federal Transit Cluster:**
 - **CFDA #20.500 Federal Transit Capital Improvement Grants**
 - **CFDA #20.507 Federal Transit Capital and Operating Assistance Formula Grants**
 - **CFDA #20.515 Federal Transit Administration State Planning and Research Program**
 - **Dollar Threshold Used to Distinguish Between Type A and Type B Programs-\$563,151**
 - **The Authority is considered to be a Low-Risk Auditee as defined under OMB Circular A-133.**

Findings Related to the Financial Statements that are Required to be Reported Under *Government Auditing Standards*

None

Findings and Questioned Costs Relating to Federal Awards

None

Southwest Ohio Regional Transit Authority

**Status of Prior Year Comments on Internal Control and Legal Compliance
for the year ended December 31, 2001**

There were no comments on internal control and legal compliance included in the prior year reports.

Southwest Ohio Regional Transit Authority

**Authority Officials
as of December 31, 2001**

BOARD OF TRUSTEES	
Chairman	Peter D. Gomsak, Jr.
Vice Chairman	Timothy R. Williams
Trustees	Edward J. Babbitt Martiné R. Dunn Richard M. Haines Robert L. Harris Diane F. Price Donald L. Schott Elizabeth A. Stivers

ADMINISTRATION	
CEO & General Manager	Paul Jablonski
Assistant General Manager – Administration	Barry E. Frank
Assistant General Manager – Operations	Michael L. Brown
Secretary-Treasurer	Robert J. Kaufman

**Southwest Ohio Regional Transit Authority
Hamilton County, Ohio**

**COMPREHENSIVE ANNUAL FINANCIAL REPORT
For the Fiscal Year Ended December 31, 2001**

**Peter D. Gomsak, Jr.
Chairman
Board of Trustees**

**Paul C. Jablonski
CEO & General Manager
Metro Operating Division**

**Prepared by:
Department of Accounting and Budget**

Southwest Ohio Regional Transit Authority
COMPREHENSIVE ANNUAL FINANCIAL REPORT
For the Fiscal Year Ended December 31, 2001

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SORTA

Southwest Ohio Regional Transit Authority

414 Walnut Street, Suite 408
Cincinnati, Ohio 45202-3913
513/651-3020

March 29, 2002

Board of Trustees of the Southwest Ohio Regional Transit Authority and Residents of Hamilton County, Ohio:

TrusteesPeter D. Gomsak, Jr.
ChairmanTimothy R. Williams
Vice ChairmanEdward J. Babbitt
Martíné R. Dunn
Richard M. Haines
Robert L. Harris
Diane F. Price
Donald L. Schott
Elizabeth A. StiversRobert J. Kaufman
Secretary-Treasurer

The Comprehensive Annual Financial Report (CAFR) of the Southwest Ohio Regional Transit Authority (SORTA or Metro) for the fiscal year ended December 31, 2001, is hereby respectfully submitted. This CAFR was prepared by the Department of Accounting and Budget and represents SORTA's commitment to provide accurate, concise and high-quality financial information to its Board of Trustees, interested parties and residents in its service area.

This CAFR contains financial statements and statistical data which provide full disclosure of all of SORTA's material financial operations. The financial statements, supplemental schedules, statistical information, and all data contained herein are the representations of SORTA's management. SORTA's management bears the responsibility for the accuracy, completeness and fairness of this CAFR presentation.

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to SORTA for its comprehensive annual financial report for the fiscal year ended December 31, 2000. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily-readable and efficiently-organized comprehensive annual financial report, whose contents conform to program standards. Such a CAFR must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. SORTA received a Certificate of Achievement for its last submission to GFOA (fiscal year ended 2000) as well as the previous nine years. We believe our current report continues to conform to the Certificate of Achievement program requirements, and we are submitting it to GFOA.

This CAFR is divided into the following three sections:

- **Introductory Section** contains this letter of transmittal, a list of the members of the Board of Trustees and Administration, and a Table of Organization.
- **Financial Section** includes the Independent Auditors' Report, the financial statements (with related footnotes) for the fiscal years ended December 31, 2001 and 2000, and actual revenues, expenses, and changes in equity for the fiscal year ended December 31, 2001, compared to the budgeted amounts.
- **Statistical Section** provides financial, economic, and demographic information which is useful for indicating trends for comparative fiscal periods.

REPORTING ENTITY

General

SORTA's reporting entity has been defined in accordance with Governmental Accounting Standards Board (GASB) Statement No. 14. Accordingly, the financial statements contained within this comprehensive annual financial report include only the accounts and transactions of SORTA. A complete discussion of SORTA's reporting entity is included in Note 1 to the financial statements.

SORTA was created under Chapter 306 of the Ohio Revised Code by a resolution of the Hamilton County Board of Commissioners adopted on October 2, 1968. SORTA's service area is comprised of 219 square miles in Hamilton County, 18 square miles in Clermont County, 16 square miles in Warren County and 7 square miles in Butler County. This service area encompasses 13 townships, 16 villages and 22 cities, including the City of Cincinnati.

Commencement of Operations and Funding

Voters approved a City of Cincinnati income tax increase for transit in November 1972, which permitted the City's purchase of the privately-owned Cincinnati Transit Inc. bus system. On February 8, 1973, an agreement (the City/SORTA agreement) was executed providing terms for the operation of the transit system and delineating the obligations of SORTA and the City of Cincinnati. SORTA's operation of the service commenced August 15, 1973.

SORTA receives operating and capital assistance from the U.S. Department of Transportation under the Urban Mass Transportation Act of 1964 (the Act), as amended. Among other requirements of the Act, state and local governments must provide a proportionate share of funds and/or support (as defined by the Federal Transit Administration guidelines) for operating and capital assistance. In this regard, under the terms of the City/SORTA agreement, the City provides operating and capital assistance to SORTA from revenues derived from the income tax designated for transit operations. Operating assistance provided represents SORTA's net loss before such assistance, excluding depreciation and losses on the disposal of assets purchased with capital grants.

Facilities

SORTA's seven facilities are located at:

- **414 Walnut Street, Suite 408, a leased facility in downtown Cincinnati, is the office of the SORTA staff and Board of Trustees.**
- **1014 Vine Street, Suite 2000, a leased facility in downtown Cincinnati, houses Metro's administrative offices.**
- **120 East Fourth Street, a leased facility in downtown Cincinnati, operated jointly with the Transit Authority of Northern Kentucky (TANK) and provides customer services, bus rider information, and sales services.**
- **Bond Hill Operating Division, 4700 Paddock Road, provides indoor storage for up to 145 buses and light maintenance work areas.**
- **Queensgate Operating Division and Maintenance Support Facility, 1401 Bank Street, provides indoor storage for up to 280 buses. Both heavy and light maintenance is performed at this location. The radio control room is also housed at this facility.**

- **Silverton Assessment and Training Center, 7000 Montgomery Road.** This facility is for assessment and training for people with disabilities.
- **Paratransit Operating Facility, 1801 Transpark Drive.** This is the site from which our specialized transportation service for customers who are unable to use fixed route service operates. This is a purchased transportation service.

Services

SORTA, through its operating division, Metro, provides fixed-route, demand-response (Access), and special-event services in Hamilton County, Ohio. Some fixed-route service is also provided in adjacent Butler County, Clermont County and Warren County. A detailed discussion of SORTA's services is listed below:

- **51 Metro fixed bus routes, most of which are multi-branch, provide 125 local or express services: 42 local services operating seven days a week; 9 local services operating six days a week (Monday through Saturday); 28 local services operating five days a week (Monday through Friday); and 47 commuter express services, operating primarily during weekday rush hours.**
- **Metro's fixed-route service hours are: weekdays, from 4:18 a.m. to 1:34 a.m. the next day; Saturdays, 4:44 a.m. to 1:13 a.m. the next day; and Sundays and holidays, 5:09 a.m. to 1:12 a.m. the next day.**
- **SORTA estimates that it will provide approximately 949,000 hours of Metro fixed-route bus service in 2002, which will yield approximately 13.5 million vehicle miles of operation, including nonrevenue miles. In 2001, Metro provided 874,000 hours of fixed route service, yielding 13.6 million vehicle miles of operation, including nonrevenue miles and 24.8 million rides.**
- **Based on a review of 1990 Census data, it is estimated that 80% of the residents of the service area live within three-quarters of a mile of Metro fixed-route bus services.**
- **Access, a demand-responsive, shared-ride service for persons with disabilities, is managed and operated by a private contractor which uses SORTA's fleet of 45 lift-equipped vehicles and 7 ambulatory vehicles. SORTA's Access Manager provides oversight for this service. SORTA projects that in 2002 it will provide approximately 225,000 passenger trips and more than 2.5 million vehicle miles of Access service. In 2001, Access provided 253,124 passenger trips and 2.8 million vehicle miles. This decrease is caused by budgeting only at the guaranteed funding level.**

Management, Board of Trustees

SORTA is managed by a Board of Trustees (the "Board") which is vested by Ohio law with the powers necessary to manage SORTA. The legislation and agreements establishing SORTA provide for a nine-member Board serving overlapping three-year terms. All board members are appointed by the Hamilton County Board of Commissioners and four members are recommended by the Mayor of the City of Cincinnati with the advice and consent of City Council.

Administration

The administration of SORTA, subject to the policies and supervision of its Board of Trustees, is directed by a general manager. The senior staff is selected by the general manager. A Table of Organization which depicts the key functional responsibilities is shown on page 14 of this Introductory Section.

ECONOMIC CONDITION AND OUTLOOK

General

Hamilton County (SORTA's primary service area) is located in the southwest corner of Ohio and the City of Cincinnati is located within the county, sitting at its southern boundary on the Ohio River. The Cincinnati Metropolitan Statistical Area (MSA) consists of thirteen counties: Brown, Butler, Clermont, Hamilton, and Warren in Ohio; Boone, Campbell, Gallatin, Grant, Kenton, and Pendleton in Kentucky; and Dearborn and Ohio in Indiana. The MSA population is 1,979,202. Hamilton County's population of 845,303 comprises more than 40% of the thirteen-county total.

Hamilton County is served by diversified transportation facilities. Interstate Highway I-275 forms an outerbelt surrounding Cincinnati; Interstate Highways I-71, I-74, and I-75 intersect in the county. Six U.S. highways and ten state highways also cross the county. Greater Cincinnati serves as a hub for air, rail, trucking, and river traffic.

The strength of the local economy is in its diversity. The Greater Cincinnati region is ranked as one of the ten most diversified economies in the United States. Cincinnati's centrally located market, high worker productivity, low office rental rates, expanding airport facilities, and well-maintained infrastructure have attracted a healthy influx of increased business investment in the area. These conditions are expected to continue.

The Cincinnati area unemployment rate for 2001 was 3.6%, compared with a national average of 4.8%. Non-manufacturing employment continued the steady gains that have been achieved since 1982. Cincinnati's strong export-oriented transportation, consumer goods, and chemical and machine tool industries are in an excellent position to take advantage of opportunities expected to occur as worldwide demands for these products increase.

Population

Population in SORTA's principal service area since 1960 has been as follows:

<u>Year</u>	<u>Cincinnati</u>	<u>Hamilton County</u>
1960	502,550	864,121
1970	452,524	924,018
1980	385,497	873,224
1990	364,040	867,881
2000	331,285	845,303

Source: U.S. Bureau of the Census

Recent population changes in Hamilton County do not appear to have had a substantial effect on SORTA's ridership. SORTA's motor bus ridership has remained fairly stable since 1986, averaging about 26 million rides per year. Prior to 1996, ridership had been declining about a million passengers per year for a three-year period. We experienced a decline of 1.6 million passengers in 2001, due to the economy and local civil disturbance.

Employment

The following table shows comparative unemployment statistics for Hamilton County, the State of Ohio and the United States for the last five years:

Average Unemployment Rates			
Year	Hamilton County	Ohio	U.S.
1997	3.6%	4.6%	4.9%
1998	3.5%	4.3%	4.5%
1999	3.6%	4.3%	4.2%
2000	3.6%	4.1%	4.0%
2001	3.6%	4.3%	4.8%

Source: Ohio Bureau of Employment Services

Housing and Building Permits

According to the most recent U.S. Bureau of Census figures, the median value in 1990 of owner-occupied urban homes in Hamilton County was \$72,200, compared with \$44,900 for urban housing in Ohio and \$47,200 in the United States. Between 1970 and 1990, the number of housing units in Hamilton County increased 16%, from 311,289 to 361,421. (2000 Census data on Housing is not available until May 2002).

MAJOR INITIATIVES

Recent Developments

Highlights of the 2001 year of operations include the following:

- Provided 24.8 million rides on Metro.
- Provided 253,124 trips on Access.
- Secured Federal funding for seventh annual Summer Clean Air Fare promotion to reduce ozone pollution.
- Received 51 new Gillig Phantom coaches.
- Video and audio monitoring systems were installed on 80 Metro buses in order to improve safety and security for passengers and drivers.
- Phase II of *MetroMoves* was unveiled and Transportation Management Design, Inc. from San Diego was hired to lead phase II consultants. Metro employees started to spread the word to over 200 community and civic groups through the Spring and Summer.
- Artwork for the Riverfront Transit Center, a downtown underground transit terminal, was unveiled showcasing the work of local artist Chad Scholten.
- Metro raised the fares on its express commuter routes by 25¢ and the zone 3 fare to 60¢.

Future Projects

Other initiatives planned or undertaken in 2002 include:

- Metro will take the delivery of 38 new Gillig Phantom coaches in its continuing fleet update program.
- Phase II of *MetroMoves* will begin to review and refine specific costs, routing, and timelines. Transportation Management Design, Inc. is expected to present Metro with a report in late Spring 2002. The Regional Rail Plan is one of the key features of *MetroMoves* including light rail, commuter rail and streetcar options for the east and west corridors.
- Metro's new Riverfront Transit Center will have its grand opening in time to provide transit service for those attending the Billy Graham Mission June 27-30, 2002.
- The re-design of Government Square, Metro's major downtown transit hub, was unveiled, and funding is being sought for the \$8 million project.
- Metro has purchased 450 bike racks to be installed on all buses starting in May and continuing through the end of June 2002.
- A major renovation of Metro's paratransit facility at 1801 Transpark Drive is being planned for later in 2002.

FINANCIAL INFORMATION

Internal Control Structure

The management of SORTA is responsible for establishing and maintaining an internal control structure designed to ensure that SORTA's assets are protected from loss, theft, or misuse. Its responsibility is also to ensure that accurate accounting data is compiled to allow for the preparation of financial statements in conformity with accounting principles generally accepted in the United States of America.

In developing and evaluating SORTA's accounting system, emphasis is placed on the adequacy of internal controls. Internal accounting controls are designed to provide reasonable, but not absolute, assurance regarding the protection of assets against loss from unauthorized use or disposition, and the reliability of financial records used to prepare financial statements. The concept of "reasonable assurance" recognizes that the cost of the control should not exceed the benefits likely to be derived, and that the evaluation of costs and benefits requires estimates and judgments by management.

All internal control evaluations occur within the above framework. Management believes that SORTA's internal accounting controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions. Management also believes that the data, as presented herein, is accurate in all material respects, that it presents fairly the financial position, results of operations and cash flows of SORTA, and that all disclosures necessary to enable the reader to obtain an understanding of SORTA's financial affairs have been included.

Basis of Accounting

SORTA's accounting records are maintained on the accrual basis. The activities are accounted for in a single enterprise (proprietary-type) fund.

Budgetary Controls

The annual accrual-basis operating budget and capital budget are proposed by SORTA's management and adopted by the Board of Trustees in a public meeting. The annual budget is prepared using overall guidelines established after consideration of SORTA's long-range financial plan. All capital and operating items exceeding \$25,000 receive Board approval prior to purchase. The long-range plan, updated annually, projects revenue sources over the next five years and establishes service levels and growth commensurate with such revenue limits.

SORTA maintains budgetary control by not permitting total operating expenses and expenditures for individual capital projects to exceed their appropriations without approval by the Board of Trustees. Management ensures that expenses and capital expenditures stay within the total appropriation. On a monthly basis, the Board reviews budget variations. It is the responsibility of each department to administer its operations in such a manner as to ensure that the use of funds is consistent with the goals and programs authorized by the Board of Trustees.

Financial Operating Results

Revenues

SORTA's revenues are classified by source and described as shown below:

	Revenues by Source (Thousands of Dollars)		Increase/(Decrease)	
	2001	2000	Amount	Percent
City Income Tax-Transit Fund	\$29,410	\$22,265	\$7,145	32.1
Passenger Fares (1)	21,532	21,042	490	2.3
Federal Assistance (1)	12,780	17,183	(4,403)	(25.6)
State Assistance (1)	2,249	4,332	(2,083)	(48.1)
Investment Income	3,130	2,981	149	5.0
Auxiliary Transportation Revenue	574	762	(188)	(24.7)
Non-Transportation Revenue	414	491	(77)	(15.7)
TOTAL	\$70,089	\$69,056	\$ 1,033	1.5

Note 1: For purposes of the table above, Passenger Fares include farebox revenues, special transit fares along with subsidies received from FTA (\$1,140,925 in 2001, and \$1,036,025 in 2000), ODOT (\$338,833 in 2001, and \$331,965 in 2000), Cincinnati Public Schools (\$4,262,152 in 2001, and \$3,826,232 in 2000), certain local government units (\$986,634 in 2001, and \$737,987 in 2000) to support farebox discounts offered at certain times during the year. These subsidies are classified as Non-Operating Revenues in the Authority's General Purpose Financial Statements.

City Income Tax-Transit Fund revenues increased as additional amounts of operating assistance were needed from the Transit Fund to balance revenues and expenses. The Transit Fund was established to hold monies generated by a 0.3% income tax paid by all individuals who work or live in the City of Cincinnati.

Passenger Fares are comprised of farebox revenues, special transit fares, Federal Transit Administration (FTA) Clean Air Fare assistance, Ohio Department of Transportation (ODOT) elderly and handicapped assistance, revenues under a contractual agreement with the Cincinnati Board of Education to add extra service on regular route service on school days and revenues under contractual agreements with Hamilton County, Butler County, Warren County, Deerfield Township, and City of Mason to provide express service to those areas. The increase in 2001 was due to higher fares on express routes and an increase in the School Board subsidy.

Federal Assistance funds are received from the Federal Transit Administration (FTA). The trend is a decreasing Federal involvement in operating assistance; however, the 2001 decrease is due to a decline in certain capital funds used to cover preventative maintenance expenditures.

State Assistance funds are received from the Ohio Department of Transportation (ODOT) for reimbursement of preventative maintenance, capital lease expenditures, ADA expenses and state fuel taxes. The decrease is due to reduced state funding available.

Other Revenues consist of investment income, auxiliary transportation revenues, and non-transportation revenues. Investment income is earned on invested funds, and the increase in 2001 was due to having more cash to invest, due to receipt of local funding for future capital purchases. Auxiliary transportation revenue represents fees collected for advertising placed on buses. Non-transportation revenues include all other various miscellaneous income items.

Operating Expenses

Operating Expenses by Object Class (Other Than Depreciation and Amortization) (Thousands of Dollars)

	<u>2001</u>	<u>2000</u>	<u>Increase/(Decrease)</u>	
			<u>Amount</u>	<u>Percent</u>
Labor	\$35,050	\$33,927	\$1,123	3.3
Fringe Benefits	13,339	12,574	765	6.1
Materials and Supplies Consumed	7,953	10,480	(2,527)	(24.1)
Services	3,044	3,387	(343)	(10.1)
Utilities	1,074	1,080	(6)	(0.6)
Casualty and Liability	1,724	260	1,464	563.1
Taxes	849	859	(10)	(1.2)
Purchased Transportation Services	5,167	4,398	769	17.5
Leases and Rentals	479	477	2	0.4
Miscellaneous	1,410	1,614	(204)	(12.6)
TOTAL	\$70,089	\$69,056	\$1,033	1.5

Total operating expenses, excluding depreciation and amortization, increased in 2001 by 3.8%. The growth of expenses in 2001 is mainly due to increases in labor costs, fringe benefits, casualty and liability, and purchased transportation. Noteworthy changes occurred in several areas:

Labor is SORTA's major investment area as shown by the amount of funds expended. This expense increased in part due to contractual requirements and the new Parking Meeter service.

Fringe Benefits increase is due to increased labor expense, the discontinuation by the Public Employee Retirement System of Ohio of reduced employer rates and increased health insurance premiums, partially offset by value of stock received due to the Anthem demutualization.

Materials and Supplies decreased due to completion of the Neoplan fleet restoration.

Services decreased primarily due to decreased consulting services.

Casualty and Liability increased due to higher insurance expense and claims experience.

Taxes decreased due to decreased property taxes.

Purchased Transportation expenses increased primarily due to contractual increases and additional JobBus expenses for service provided by other local suppliers.

Miscellaneous expenses decreased primarily due to decreased advertising and promotion expenses.

SORTA's operating expenses, other than depreciation, can also be classified by functional category, as shown below:

Operating Expenses by Function (Other Than Depreciation)
(Thousands of Dollars)

	<u>2001</u>	<u>2000</u>	<u>Increase/(Decrease)</u>	
			<u>Amount</u>	<u>Percent</u>
Transportation	\$38,680	\$36,448	\$2,232	6.1
Vehicle Maintenance	14,152	17,295	(3,143)	(18.2)
Facility Maintenance	2,222	2,260	(38)	(1.7)
General and Administrative	15,035	13,053	1,982	15.2
TOTAL	\$70,089	\$69,056	\$1,033	1.5

Transportation expenses are those costs incurred in operating SORTA's revenue vehicles and include wages and fringe benefits for bus operators, diesel fuel and related state fuel taxes, and demand-response services purchased from a private contractor. The increase in this area is due to increased labor and fringe benefits, purchased transportation costs and diesel fuel costs.

Vehicle Maintenance expenses include wages and fringe benefits for maintenance personnel and related materials and supplies consumed in the maintenance of all buses and service vehicles. The decrease in this area is due to normal wage increases partially offset by reduced maintenance costs due to completion of the Neoplan fleet restoration.

Facility Maintenance expenses include wages and fringe benefits for maintenance and janitorial personnel, materials and supplies consumed, and utilities required for the upkeep of SORTA's two main operating facilities. The slight decrease in this area is due to savings from unfilled positions.

General and Administrative expenses consist of administrative and supervisory salaries and fringe benefits, public liability and property damage claims, contracted professional services, leases and rentals, and miscellaneous expenses required to support all operational activities. The increase in this area is due mainly to normal wage increases, as well as property damage claims.

Financial Operating Results

SORTA's net expenses over revenues (before capital grant activities) for the year ended December 31, 2001 were \$9 million, which is equal to the depreciation expense for the year. This results from the application of SORTA's agreement with the City of Cincinnati which enables SORTA to receive operating assistance from the City Income Tax-Transit Fund equal to SORTA's net loss before such assistance, excluding depreciation/amortization and loss on disposal of assets purchased with capital grants. During year ended 2001 SORTA recognized \$17.1 million of capital grant revenues, in connection with the acquisition of revenue vehicles and other assets.

Retirement Plans

All SORTA employees are covered under the Public Employees Retirement System of Ohio (PERS), a statewide public retirement (including disability retirement) system.

Employees contribute to PERS at a statutory rate of 8.5% of earnable salary or compensation, and SORTA contributes 13.55% of the same base for 2001. The contribution rate for 2002 is 13.55% of qualifying wages. These contribution rates are actuarially determined and statutorily mandated.

SORTA has a "pickup" (assume and pay) program with respect to all of the statutorily required contributions of employees. Under the pickup program, employee compensation is reduced by the amount of the contributions to PERS that is paid by SORTA on behalf of the employees. In addition, Federal and state income taxes are deferred on the compensation until the amounts are withdrawn from PERS. PERS is not subject to the funding and vesting requirements of the Federal Employee Retirement Income Security Act of 1974.

PERS was created by and operates pursuant to the Ohio Revised Code. The Ohio General Assembly could decide to amend the format of PERS and could revise the contribution rates or basis of contributions made by SORTA as well as the plan's benefit levels.

Federal law requires SORTA employees hired after March 31, 1986, to participate in the Federal Medicare program, which requires matching employer and employee contributions, each being 1.45% of the taxable wages. Otherwise, SORTA employees are not currently covered under the Federal Social Security Act.

SORTA also administers a private pension plan under which benefits are no longer being accrued.

Other Post-employment Benefits

PERS also provides post-retirement health care coverage to those employees who retire with ten or more years of qualifying Ohio service credit as well as health care coverage for disability recipients and primary survivor recipients. A portion of each employer's contribution to PERS is set aside to fund these benefits (4.3% of wages in 2001).

SORTA also provides post-employment health care to former employees of Cincinnati Transit Inc. who do not qualify for PERS health care benefits. SORTA became self-insured for these benefits March 1, 1997.

All bargaining unit retirees are provided with a \$1,500 life insurance benefit which is funded through the purchase of group insurance.

A liability of approximately \$277,000 is recorded on SORTA's balance sheet at December 31, 2001, which represents the present value of the estimated future health and life insurance costs that are expected to be paid for current employees as well as those who are presently retired.

Cash Management and Investments

SORTA utilizes a cash management and investment procedure which attempts to maximize the financial return (while minimizing risk of loss) on all available funds. Cash balances are invested within the constraints imposed by SORTA's investment policy and the Ohio Revised Code after obtaining competitive quotations. In accordance with these provisions, only banks located in Ohio and domestic building and loan associations are eligible to hold public deposits. The provisions also permit SORTA to invest its monies in certificates of deposit, savings accounts, money market

accounts, the state treasurer's investment pool ("STAROhio"), and obligations of the United States government or certain agencies thereof. SORTA may also enter into repurchase agreements for a period not exceeding thirty days with banks located in the State of Ohio with which SORTA has signed a Master Repurchase Agreement.

All deposits and investments are either covered by Federal depository insurance, surety bonds, held by SORTA's agent in SORTA's name or covered by a pledged collateral pool not held in SORTA's name.

Risk Management

SORTA is self-insured for public liability and property damage claims. Claims are normally paid with SORTA's general operating revenues. The City Income Tax-Transit Fund has \$2 million of its balance restricted to satisfy potential catastrophic or extraordinary losses (in excess of \$100,000).

SORTA, starting January 1, 1995, became self-insured for Worker's Compensation benefits. SORTA carries liability insurance to cover any claim in excess of \$250,000, through December 31, 2001 and \$350,000 thereafter.

SORTA is insured for general health and hospitalization benefits as well as life and accidental death and dismemberment benefits.

Blanket insurance coverage is maintained for property and equipment. In addition, SORTA has insurance to protect against internal losses.

OTHER INFORMATION

Independent Audit

SORTA's independent auditing firm, Deloitte & Touche LLP, has rendered an unqualified audit report on SORTA's financial statements for the fiscal year ended December 31, 2001.

SORTA also participates in the Federal single audit program, which consists of a single audit of all Federally-funded programs administered by SORTA. As a requirement for continued funding eligibility, participation in the single audit program is mandatory for most local governments, including SORTA. The single audit performed by Deloitte & Touche LLP met the requirements set forth by the State of Ohio and the Federal Single Audit Act of 1984 (as amended) and related OMB Circular A-133. The independent auditors' reports issued thereon noted no instances of direct and material noncompliance by SORTA with applicable state or federal laws or regulations for the fiscal year ended December 31, 2001.

Certificate of Achievement Program

It is the intention of SORTA's management to submit this and future CAFR's for review under the GFOA's "Certificate of Achievement for Excellence in Financial Reporting" program. Management believes the current report conforms to the program requirements and expects that participation will result in continued improvement in SORTA's financial reporting in future years.

Acknowledgements

The publication of this report is a reflection of the level of excellence and professionalism SORTA's Department of Accounting and Budget has attained. It demonstrates the extent of SORTA's accountability to its taxpayers and creditors.

This report would not have been possible without the determination and high standards of the entire staff of the Department of Accounting and Budget. Special thanks is extended to the Communications Department staff for their assistance. SORTA wishes to thank all who contributed to this project.



Paul C. Jablonski
CEO & General Manager



Barry E. Frank
Assistant General Manager,
Administration

**Southwest Ohio Regional Transit Authority
Board of Trustees and Administration as of December 31, 2001**

Members of the Board of Trustees

Peter D. Gomsak, Jr., chairman
Timothy R. Williams, vice chairman
Edward J. Babbitt
Martiné R. Dunn
Richard M. Haines
Robert L. Harris
Diane F. Price
Edwin J. Rigaud
Donald L. Schott
Elizabeth A. Stivers

Staff

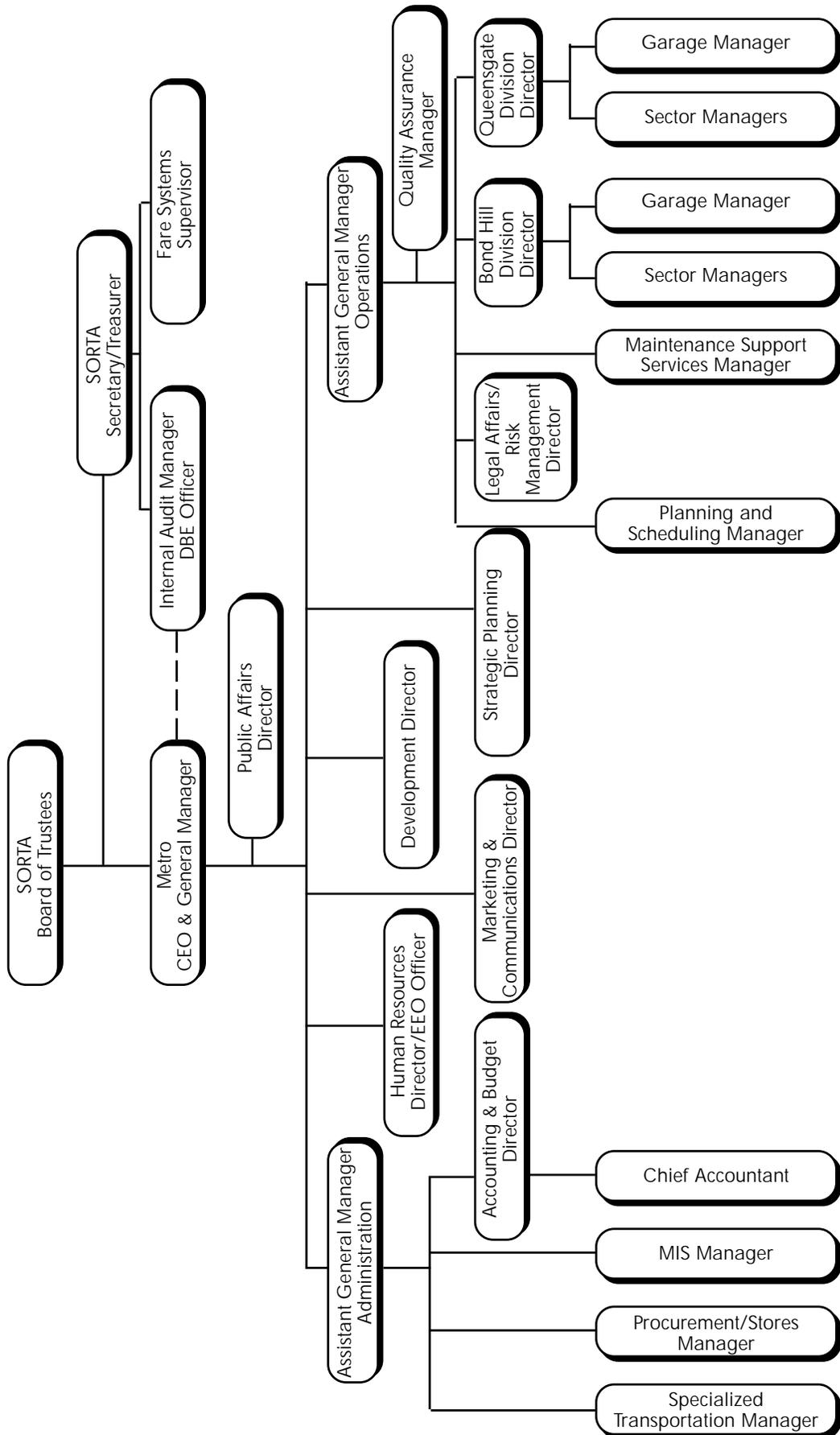
Robert J. Kaufman, secretary/treasurer

Administration

Paul C. Jablonski, CEO & general manager
Michael L. Brown, assistant general manager, Operations
Barry E. Frank, assistant general manager, Administration

Vaughn B. Davis, director, Human Resources/EEO officer
William Desmond, director and counsel, Legal Affairs/Risk Management
Don DeVore, manager, Maintenance Support Services
Sallie L. Hilvers, director, Public Affairs
Cathy Hugenberg, director, Accounting and Budget
Ted C. Meyer, manager, Planning and Scheduling
Mary Moning, manager, Access
Carl L. Palmer, director, Development
Rita D. Potts, director, Marketing and Communications
Timothy J. Reynolds, director, Strategic Planning
Jerry Roetting, manager, Procurement
Carlos R. Rowland, director, Queensgate Operating Division
William R. Spraul, director, Bond Hill Operating Division
Thomas J. Vogelpohl, manager, Management Information Services

**Southwest Ohio Regional Transit Authority
Table of Organization**



Certificate of Achievement for Excellence in Financial Reporting

Presented to

Southwest Ohio Regional Transit Authority

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
December 31, 2000

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Timothy A. Brown
President

Jeffrey L. Essler
Executive Director

INDEPENDENT AUDITORS' REPORT

**Board of Trustees
Southwest Ohio Regional Transit Authority
Cincinnati, Ohio**

We have audited the accompanying balance sheets of the Southwest Ohio Regional Transit Authority (the "Authority") as of December 31, 2001 and 2000, and the related statements of revenues, expenses, and changes in equity and of cash flows for the years then ended. These general purpose financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose 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, such general purpose financial statements present fairly, in all material respects, the financial position of the Authority as of December 31, 2001 and 2000, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2B to the general purpose financial statements, effective January 1, 2001, the Authority implemented Government Auditing Standards Board Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions* and, retroactively, restated its general purpose financial statements as of and for the year ended December 31, 2000 for the change.

Our audits were conducted for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The supplemental schedule of revenues, expenses, and changes in equity - budget and actual (GAAP basis) for the year ended December 31, 2001 is presented for purpose of additional analysis and is not a required part of the Authority's general purpose financial statements. This schedule is the responsibility of the Authority's management. Such schedule has been subjected to the auditing procedures applied in our audit of the general purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.

The statistical data on pages 36-49 is presented for purposes of additional analysis and is not a required part of the general purpose financial statements of the Authority. Such additional information has not been subjected to the auditing procedures applied in the audits of the general purpose financial statements, and, accordingly, we express no opinion on it.

Deloitte & Touche LLP

March 29, 2002

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Southwest Ohio Regional Transit Authority

**Balance Sheets
as of December 31, 2001 and 2000**

ASSETS	2001	2000
Current assets:		
Cash and cash equivalents (Note 4)	\$13,232,301	\$15,575,249
Investments (Note 4)	34,626,749	27,976,429
Receivables:		
Federal assistance	4,125,596	1,538,009
State assistance	2,397,253	3,384,743
Other	2,340,383	2,005,211
Inventory of materials and supplies	1,043,336	1,021,208
Prepaid expenses and other current assets	<u>124,196</u>	<u>100,755</u>
Total current assets	<u>57,889,814</u>	<u>51,601,604</u>
Restricted assets:		
Cash and investments (Notes 4 and 7)	6,788,634	3,436,492
Receivables for capital assistance	<u>128,132</u>	<u>488,576</u>
Total restricted assets	<u>6,916,766</u>	<u>3,925,068</u>
Property, facilities and equipment (Notes 5 and 7):		
Land and buildings	14,651,434	14,436,400
Improvements	6,892,379	6,395,917
Revenue vehicles	96,957,006	84,277,415
Other equipment	<u>23,339,402</u>	<u>21,699,156</u>
Total	141,840,221	126,808,888
Less allowance for depreciation and amortization	<u>65,515,069</u>	<u>58,606,077</u>
Property, facilities, and equipment-net	<u>76,325,152</u>	<u>68,202,811</u>
Total assets	<u>\$141,131,732</u>	<u>\$123,729,483</u>

(continued)

The notes to the general purpose financial statements are an integral part of the general purpose financial statements.

Southwest Ohio Regional Transit Authority

Balance Sheets (continued)
as of December 31, 2001 and 2000

LIABILITIES AND EQUITY	2001	2000
Current liabilities:		
Accounts payable	\$2,453,828	\$2,735,955
Accrued payroll	849,000	720,199
Accrued payroll taxes and other benefits (Note 8)	4,066,474	3,487,674
Current portion of estimated claims payable (Note 9)	1,650,000	700,000
Other current liabilities	3,024,281	1,832,394
Advance from City of Cincinnati		
Income Tax-Transit Fund (Note 3):		
For current operations	6,961,819	5,854,518
For capital purposes	<u>25,314,775</u>	<u>31,048,787</u>
Total current liabilities	<u>44,320,177</u>	<u>46,379,527</u>
Liabilities payable from restricted assets:		
Capital expenditures payable	633,883	572,066
Deferred capital grants	5,466,776	3,117,289
Deferred assistance	<u>235,713</u>	<u>235,713</u>
Total liabilities payable from restricted assets	<u>6,336,372</u>	<u>3,925,068</u>
Other liabilities:		
Estimated claims payable, net of current portion (Note 9)	3,844,570	3,493,237
Capital lease obligation (Note 7)	10,012,718	1,376,358
Accrued pension cost (Note 8)	<u>292,743</u>	<u>352,482</u>
Total other liabilities	<u>14,150,031</u>	<u>5,222,077</u>
Total liabilities	<u>64,806,580</u>	<u>55,526,672</u>
Equity (Notes 3 and 11):		
Contributed capital - capital grants		
Federal	59,822,389	59,822,389
State	4,101,683	4,101,683
Local	<u>5,961,134</u>	<u>5,961,134</u>
Total	<u>69,885,206</u>	<u>69,885,206</u>
Retained earnings (deficit)	<u>6,439,946</u>	<u>(1,682,395)</u>
Total equity	<u>76,325,152</u>	<u>68,202,811</u>
Total liabilities and equity	<u>\$141,131,732</u>	<u>\$123,729,483</u>

(concluded)

The notes to the general purpose financial statements are an integral part of the general purpose financial statements.

Southwest Ohio Regional Transit Authority

**Statements of Revenues, Expenses and Changes in Equity
for the years ended December 31, 2001 and 2000**

	2001	2000
Operating revenues:		
Passenger fares for transit service	\$14,474,633	\$14,728,474
Special transit fares	328,381	380,958
Auxiliary transportation revenue	<u>574,118</u>	<u>762,095</u>
Total	<u>15,377,132</u>	<u>15,871,527</u>
Operating expenses other than depreciation:		
Labor	35,050,061	33,926,817
Fringe benefits (Note 4B)	13,339,444	12,573,991
Materials and supplies consumed	7,953,349	10,479,961
Services	3,044,121	3,386,760
Utilities	1,073,508	1,079,877
Casualty and liability	1,723,949	259,725
Taxes	849,209	859,210
Purchased transportation services	5,166,966	4,397,879
Leases and rentals	478,845	477,269
Miscellaneous	<u>1,409,339</u>	<u>1,614,470</u>
Total	<u>70,088,791</u>	<u>69,055,959</u>
Depreciation and Amortization (Note 5)	<u>9,011,366</u>	<u>8,749,894</u>
Total operating expenses	<u>79,100,157</u>	<u>77,805,853</u>
Operating loss	<u>(63,723,025)</u>	<u>(61,934,326)</u>
Non-operating revenues:		
Federal maintenance grants and reimbursements (Note 6)	13,920,354	18,218,890
State maintenance grants, reimbursements and special fare assistance (Note 6)	2,588,311	4,663,757
Local operating grants and special fare assistance (Note 6)	5,248,786	4,564,219
Investment income-net (Note 7)	3,130,394	2,980,631
Non-transportation revenue	<u>413,503</u>	<u>491,459</u>
Total	<u>25,301,348</u>	<u>30,918,956</u>
Loss before operating assistance provided by City of Cincinnati Income Tax-Transit Fund	(38,421,677)	(31,015,370)
Operating assistance from the City of Cincinnati Income Tax-Transit Fund (Note 3)	<u>29,410,311</u>	<u>22,265,476</u>
Net loss before capital grant activity	(9,011,366)	(8,749,894)
Capital grant revenue (Note 2B)	<u>17,133,707</u>	<u>7,067,499</u>
Increase (decrease) in equity during the year	8,122,341	(1,682,395)
Equity, beginning of year	<u>68,202,811</u>	<u>69,885,206</u>
Equity, end of year	<u>\$76,325,152</u>	<u>\$68,202,811</u>

The notes to the general purpose financial statements are an integral part of the general purpose financial statements.

Southwest Ohio Regional Transit Authority

Statements of Cash Flows
for the years ended December 31, 2001 and 2000

	2001	2000
Cash flows from operating activities:		
Operating loss	\$(63,723,025)	\$(61,934,326)
Adjustments to reconcile to net cash used in operating activities:		
Depreciation and amortization expense	9,011,366	8,749,894
Equity securities received from insurance company (Note 4B)	(1,582,168)	—
Non-transportation revenue	413,503	491,459
Effect of changes in assets and liabilities:		
Other receivables	(335,172)	(253,282)
Inventory of materials and supplies	(22,128)	(140,343)
Prepaid expenses and other current assets	(23,441)	(26,690)
Accounts payable	(282,127)	765,459
Accrued payroll, related taxes and other benefits	707,601	(459,184)
Estimated claims payable	1,301,333	96,185
Other liabilities	1,132,148	1,033,865
Total adjustments	<u>10,320,915</u>	<u>10,257,363</u>
Net cash used in operating activities	<u>(53,402,110)</u>	<u>(51,676,963)</u>
Cash flows from noncapital financing activities:		
Transfer from City of Cincinnati Income Tax-Transit Fund	30,270,349	26,200,644
Other local operating assistance received	5,248,786	4,564,219
Federal maintenance and other assistance received	11,332,767	16,680,881
State maintenance and other assistance received	4,534,702	4,708,147
Net cash provided by noncapital financing activities	<u>51,386,604</u>	<u>52,153,891</u>
Cash flows from capital and related financing activities:		
Capital grants and other assistance received:		
City of Cincinnati Income Tax-Transit Fund	7,424,568	11,199,045
Federal, state and other local	6,003,790	4,916,905
Proceeds from capital lease obligation	8,636,360	—
Acquisition of fixed assets	(17,102,264)	(7,036,372)
Interest paid under capital leases	(372,755)	(67,744)
Net cash provided by capital and related financing activities	<u>4,589,699</u>	<u>9,011,834</u>
Cash flows from investing activities:		
Net cash payments for investments	(8,089,311)	(911,801)
Income received from investments	3,172,170	2,654,036
Net cash provided by (used in) investing activities	<u>(4,917,141)</u>	<u>1,742,235</u>
Net increase (decrease) in cash and cash equivalents	(2,342,948)	11,230,997
Cash and cash equivalents, beginning of year	<u>15,575,249</u>	<u>4,344,252</u>
Cash and cash equivalents, end of year (Note 4)	<u><u>\$13,232,301</u></u>	<u><u>\$ 15,575,249</u></u>
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES		
Increase in fair value of investments	<u><u>\$330,983</u></u>	<u><u>\$394,339</u></u>

Southwest Ohio Regional Transit Authority

Notes to General Purpose Financial Statements for the years ended December 31, 2001 and 2000

1. Organization and Reporting Entity

A. Organization

The Southwest Ohio Regional Transit Authority ("SORTA" or the "Authority") is responsible for the operation of the Greater Cincinnati public transit system. SORTA is organized under Sections 306.30 through 306.53 of the Ohio Revised Code and is not subject to income taxes. SORTA, which is the policy-making body for the transit system known as Metro, operates under an agreement with the City of Cincinnati (the "City") (see Note 3).

B. Reporting Entity

The Authority has adopted the provisions of Statement No. 14 of the Governmental Accounting Standards Board, "The Financial Reporting Entity". Accordingly, the accompanying financial statements include only the accounts and transactions of the Authority. Under the criteria specified in Statement No. 14, the Authority has no component units nor is it considered a component unit of the City of Cincinnati or Hamilton County, Ohio. The Authority is, however, considered to be a related organization to Hamilton County by virtue of the fact that SORTA's Board of Trustees is appointed by the Hamilton County Board of Commissioners.

These conclusions regarding the financial reporting entity are based on the concept of financial accountability. The Authority is not financially accountable for any other organization nor is the City or Hamilton County accountable for SORTA. 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 accompanying financial statements were prepared in accordance with accounting principles generally accepted in the United States of America which require the accrual basis of accounting. Under this basis of accounting, revenues and expenses are recognized in the period earned or incurred. All transactions are accounted for in a single enterprise fund. In accordance with Statement No. 20 of the Governmental Accounting Standards Board, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting," the Authority has elected not to apply the provisions of the Statements and Interpretations of the Financial Accounting Standards Board issued after November 30, 1989. The Authority will continue applying all applicable pronouncements issued by the Governmental Accounting Standards Board ("GASB").

The measurement focus is on the determination of revenues, expenses, financial position, and cash flows as the identification of these items is necessary for appropriate capital maintenance, public policy, management control, accountability, and the calculation of amounts due under the City/SORTA agreement (see Note 3).

Southwest Ohio Regional Transit Authority**Notes to General Purpose Financial Statements
for the years ended December 31, 2001 and 2000 (continued)****B. Nonexchange Transactions**

Effective January 1, 2001, the Authority implemented GASB Statement No. 33, "Accounting and Financial Reporting for Nonexchange Transactions". In general, GASB Statement No. 33 establishes accounting and financial reporting standards about when to report the results of nonexchange transactions involving financial or capital resources. In a nonexchange transaction, an entity gives (or receives) value without directly receiving or giving equal value in return. The Authority's principal nonexchange transactions involve the receipt of monies from the City Income Tax-Transit Fund (see Note 3) along with federal, state and local grants for operating assistance as well as the acquisition of property, facilities and equipment. Substantially all of the Authority's nonexchange transactions represent reimbursement-type grants, which are recorded as revenue in the period the related expenditures are incurred. Any monies received in advance of the period in which the related expenditures are incurred, are recorded as restricted assets and as deferred revenue until the expenditures are incurred.

The principal change in accounting that resulted from GASB Statement No. 33 is the requirement that the Authority report capital grants as revenues rather than contributed capital. As part of the implementation of GASB Statement No. 33, the Authority also ceased its practice of closing depreciation expense recognized on assets funded through capital grants to contributed capital. As required under GASB Statement No. 33, the Authority has retroactively restated its general purpose financial statements as of and for the year ended December 31, 2000 for the change, which increased the Authority's contributed capital approximately \$1.7 million and increased its retained deficit by a corresponding amount. The accounting change had no impact on the Authority's total equity or net loss before capital grant activity.

C. Passenger Fares

Passenger fares are recorded as revenue at the time services are performed and revenues pass through the farebox.

D. Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the Authority considers all highly liquid investments (including restricted assets and SORTA's investment in the State Treasury Asset Reserve of Ohio ("STAROhio")) with a maturity of three months or less when purchased to be cash equivalents.

E. Investments

The Authority's investments (including cash equivalents) are recorded at fair value (based on quoted market prices) except that short-term, highly liquid debt investments, with a remaining maturity at the time of purchase of one year or less are reported at amortized cost.

The Authority has invested funds in STAROhio, an investment pool managed by the State Treasurer's office which allows governments within the state to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price, which is the price at which the investment could be sold.

Southwest Ohio Regional Transit Authority

**Notes to General Purpose Financial Statements
for the years ended December 31, 2001 and 2000 (continued)**

F. Inventory of Materials and Supplies

Materials and supplies are stated at cost, which is determined using the average cost method.

G. Restricted Assets

Restricted assets consist of funds received under various capital grants from the Federal Transit Administration ("FTA"), the Ohio Department of Transportation ("ODOT"), and the local matching share received from the City Income Tax-Transit Fund. Restricted assets also include funds received under a master lease-purchase agreement and not yet expended. These assets are restricted for capital and other project expenditures.

H. Property and Depreciation

Property, facilities, and equipment are stated at cost and include expenditures which substantially increase the utility or useful lives of existing assets. Maintenance parts are expensed when placed in service. Routine maintenance and repairs are expensed as incurred.

Assets acquired with capital grants or under capital lease are also included in property, facilities, and equipment, and depreciation/amortization of the cost of those assets is included in the Statements of Revenues, Expenses and Changes in Equity.

Amortization/depreciation is computed using the straight-line method over the estimated useful lives of the respective assets, as follows:

Description	Years
Improvements	15
Revenue vehicles	4-12
Other equipment	3-10

I. Claims

As described in Note 9, SORTA is self-insured for public liability, personal injury, third-party property damage, and workers' compensation claims. SORTA recognizes a liability for such claims if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated.

The liability recorded includes the estimated incremental expenses to be incurred to settle the claims, including legal fees. Claims liabilities are based on evaluations of individual claims and a review of experience with respect to the probable number and nature of claims arising from losses that have been incurred but have not yet been reported. The claims liabilities represent the estimated ultimate cost of settling the claims, including the effects of inflation and other societal and economic factors. Estimated future recoveries on

Southwest Ohio Regional Transit Authority

**Notes to General Purpose Financial Statements
for the years ended December 31, 2001 and 2000 (continued)**

settled and unsettled claims, such as subrogations, if any, are evaluated in terms of their estimated realizable value and deducted from the liability for unpaid claims. Any adjustments resulting from the actual settlement of the claims are reflected in earnings at the time the adjustments are determined.

J. Compensated Absences

Vacation pay is accrued and charged to expense as earned. Because rights to sick pay do not vest, SORTA recognizes such costs when they are incurred.

K. Budgetary Accounting and Control

SORTA's annual budget is prepared on the accrual basis of accounting. The budget includes amounts for current year revenues and expenses as well as new capital projects.

The Authority maintains budgetary control by not permitting total operating expenses (excluding depreciation) and expenditures for individual capital projects to exceed revenue sources without approval by the Board of Trustees. No budget amendments were passed for 2001 and 2000. All budget amounts lapse at year end.

L. Reclassification

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

3. Federal Grants and Local Reimbursements

SORTA receives operating and capital assistance from the U.S. Department of Transportation under the Urban Mass Transportation Act of 1964 (the "Act"), as amended. Among other requirements of the Act, state and local governments must provide a proportionate share of funds and/or support (as defined by the Federal Transit Administration guidelines) for operating and capital assistance.

In addition to federal and state operating and capital assistance, funding is also provided by a portion of the City income tax approved by the residents of the City and designated for transit operations. Operating assistance provided from the City Income Tax-Transit Fund represents SORTA's net loss before such assistance, excluding depreciation/amortization and losses on the disposal of assets purchased with capital grants. Any portion unremitted for the year is recorded as a receivable. Any overadvanced amount for the year is recorded as an advance from the City Income Tax-Transit Fund or as deferred capital grants representing the Authority's matching local share requirements under the Act.

An agreement between the City and SORTA requires the City to maintain a transit fund into which the proceeds of the income tax designated for transit operations are deposited. This fund provides all necessary local (other than operating revenues) operating and capital assistance to SORTA. The agreement also contains certain provisions regarding service standards and fares. This agreement is of indefinite duration but may be terminated by

Southwest Ohio Regional Transit Authority

**Notes to General Purpose Financial Statements
for the years ended December 31, 2001 and 2000 (continued)**

providing 180 days written notice to the other party. If terminated, the City will assume all outstanding commitments that SORTA incurred in carrying out the agreement.

4. Cash and Investments

The investment and deposit of Authority monies are governed by the provisions of the Ohio Revised Code and the Authority's established policies. Accordingly, only banks located in Ohio and domestic building and loan associations are eligible to hold public deposits. The Authority is also permitted to invest its monies in certificates of deposit, savings accounts, money market accounts, the State Treasurer's investment pool (STAROhio), and obligations of the United States government and certain agencies thereof. The Authority may also enter into repurchase agreements for a period not exceeding thirty days with banks located within the State of Ohio with which the Authority has signed a Master Repurchase Agreement. At the time of making an investment, the Authority's Treasurer must reasonably expect that the investment can be held until maturity. To the extent possible, the Treasurer will attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow requirement, the Treasurer will not directly invest in securities maturing more than five years from the settlement date of purchase. The weighted average maturity of all securities cannot exceed two years.

Public depositories must give security for all public funds on deposit. These institutions may either specifically collateralize individual accounts in excess of amounts insured by the Federal Deposit Insurance Corporation (FDIC), may pledge a pool of government securities valued at least 105% of the total value of public monies on deposit at the institution, or may deposit surety company bonds which when executed shall be for an amount in excess of collateral requirements. 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. State law does not require security for public deposits and investments to be maintained in the Authority's name.

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.

As of December 31, 2001, the Authority maintained restricted cash and investments of \$6,788,634, and unrestricted cash and investments of \$47,859,050. The total cash and investments of \$54,647,684 consisted of \$22,948,917 in deposits and \$31,698,767 in investments.

Southwest Ohio Regional Transit Authority

Notes to General Purpose Financial Statements
for the years ended December 31, 2001 and 2000 (continued)

A. Deposits

At December 31, 2001, the carrying amount of the Authority's deposits was \$22,948,917 and the bank balance was \$25,067,135 (primarily consisting of certificates of deposit), \$25,033,145 of which was covered by federal depository insurance or surety bonds provided by a commercial insurance company and \$33,990 was uninsured and uncollateralized as defined by the GASB. However, the \$33,990 was covered by a pledged collateral pool not held in the Authority's name, as permitted under Ohio law.

B. Investments

The Authority's investments are detailed below and are categorized in accordance with the criteria established by the GASB to indicate the level of credit risk assumed as of December 31, 2001. Category 1 includes investments that are insured or registered for which the securities are held by the Authority or its agent in the Authority's name. Category 2 includes investments that are uninsured and unregistered for which the securities are held by the counterparty's trust department or agent in the Authority's name. Category 3 includes uninsured and unregistered investments for which securities are held by the counterparty or by its trust department or agent but not in the Authority's name.

Description	Category			Carrying Amount	Fair Value
	1	2	3		
U.S. Government & Agency securities	\$14,717,520	\$ —	\$ —	\$14,717,520	\$14,823,199
Equity Securities	1,825,313	—	—	1,825,313	1,825,313
STAROhio				15,155,934	15,155,934
Total				\$31,698,767	\$31,804,446

The equity securities were received in connection with the demutualization of Anthem Blue Cross and Blue Shield Company. The fair value of the securities on the date they were received of \$1,582,168 was recorded as a reduction of fringe benefits expense in the Statement of Revenue, Expenses and Changes in Equity for the year ended December 31, 2001.

The Authority's investment in STAROhio has not been categorized as to credit risk because it represents an investment pool that is not evidenced by securities that exist in physical or book entry form. STAROhio is an investment pool created pursuant to Ohio statutes and managed by the Treasurer of the State of Ohio. STAROhio is not registered with the Securities and Exchange Commission as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price which is the price at which the investment could be redeemed on December 31, 2001.

The Authority's deposits and investments are included in the accompanying balance sheets under the captions "Cash and cash equivalents", "Investments", and "Cash and investments".

Southwest Ohio Regional Transit Authority

**Notes to General Purpose Financial Statements
for the years ended December 31, 2001 and 2000 (continued)**

5. Property, Facilities, and Equipment

Prior to 1986, under terms of the operating agreement with the City, SORTA agreed to operate transportation equipment and certain operating facilities which had been purchased by the City primarily under FTA and ODOT capital grants.

During 1986, the City transferred the title to existing transit system physical assets, except for real estate, construction projects and certain assets which had been conveyed to a bank under a sale and leaseback arrangement.

If the assets not conveyed by the City in 1986 (real estate, construction projects, and certain other assets having an estimated aggregate cost of approximately \$28.3 million at December 31, 2001) had been owned by SORTA, the provision for depreciation for the years ended December 31, 2001 and 2000 would have increased approximately \$650,000 in each year.

In case of termination of the City/SORTA operating agreement, all assets operated by SORTA for the City are to be returned to the City.

6. Grants, Reimbursements, and Special Fare Assistance

Grants, reimbursements, and special fare assistance included in the Statements of Revenues and Expenses and Changes in Equity for the years ended December 31, 2001 and 2000 consist of the following:

	2001	2000
Federal:		
Federal Highway Administration Surface Transportation Program	—	\$1,093,739
FTA-Maintenance and Other Assistance	<u>\$13,920,354</u>	<u>17,125,151</u>
Total	<u>\$13,920,354</u>	<u>\$18,218,890</u>
State:		
ODOT-Fuel Tax Reimbursement	\$808,371	\$796,074
ODOT-Elderly and Handicapped Grant	338,833	331,965
ODOT-Maintenance and Other Assistance	<u>1,441,107</u>	<u>3,535,718</u>
Total	<u>\$2,588,311</u>	<u>\$4,663,757</u>
Local:		
Cincinnati Board of Education Contract	\$4,262,152	\$3,826,232
Hamilton County	372,218	360,960
Warren County	107,735	101,500
Butler County	226,255	86,074
Deerfield Township	39,435	38,646
Clermont County	120,918	28,319
City of Mason	13,435	12,646
City of Sharonville	—	8,750
Other	<u>106,638</u>	<u>101,092</u>
Total	<u>\$5,248,786</u>	<u>\$4,564,219</u>

Southwest Ohio Regional Transit Authority

Notes to General Purpose Financial Statements
for the years ended December 31, 2001 and 2000 (continued)

7. Lease Commitments

SORTA leases its administrative offices under lease agreements which are accounted for as operating leases. Rent expense under these leases, which includes certain short-term leases, was approximately \$254,000 in 2001 and \$246,000 in 2000. At December 31, 2001, the minimum future payments under leases with terms extending beyond one year are as follows:

<u>Year</u>	<u>Amount</u>
2002	\$ 256,660
2003	235,821
2004	245,032
2005	256,217
2006	266,650
Thereafter	712,255
Total	<u>\$1,972,635</u>

SORTA also leases 68 revenue vehicles under two master lease-purchase agreements with local financial institutions. Based on the terms of the agreements, they have been accounted for as capital leases. The capitalized cost and accumulated amortization recorded for these vehicles amounted to \$9,432,324 and \$867,404, respectively, at December 31, 2001. Unspent proceeds of the capital leases totaling \$580,394 are included in restricted cash and investments in the accompanying balance sheet as of December 31, 2001.

One of the agreements calls for semi-annual payments of interest with the entire principal balance of \$1,376,358 due April 29, 2003; the other agreement calls for annual payments of interest with the entire principal balance of \$8,636,360 due April 6, 2006. Future minimum lease payments under the capital leases are as follows:

<u>Year</u>	<u>Amount</u>
2002	\$483,669
2003	1,826,156
2004	417,064
2005	415,925
2006	9,052,284
Total minimum lease payments	12,195,098
Less amount representing interest	<u>2,182,380</u>
Present value of net minimum lease payments	<u>\$10,012,718</u>

During the years ended December 31, 2001 and 2000, the Authority recognized \$372,755 and \$67,744, respectively, of interest expense under its capital leases.

Southwest Ohio Regional Transit Authority

**Notes to General Purpose Financial Statements
for the years ended December 31, 2001 and 2000 (continued)**

8. Retirement Benefits

A. Public Employees Retirement System of Ohio

Plan Description. Effective July 1, 1991, all employees of the Authority are required to be members of the Public Employees Retirement System of Ohio ("PERS"), a cost-sharing, multiple-employer defined benefit pension plan. PERS provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State statute per Chapter 145 of the Ohio Revised Code. PERS issues a stand-alone financial report that includes financial statements and required supplementary information. The financial report may be obtained by making a written request to the Public Employees Retirement System of Ohio, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 466-2085 or 1-800-222-PERS (7377).

Funding Policy. The Ohio Revised Code provides statutory authority for employee and employer contributions. Employees other than law enforcement personnel are required to contribute 8.5% of their covered payroll to PERS. The 2001 and 2000 employer contribution rate for local government employer units was 13.55% and 10.84%, respectively, of covered payroll including 4.3% that is used to fund postretirement health care benefits. The employer contribution rate for 2000 reflects a temporary 20% rollback of the rate by PERS. The Authority's total contributions to PERS for pension benefits (excluding the amount relating to postretirement benefits) for the years ended December 31, 2001, 2000 and 1999 were \$3,520,000, \$2,402,000, and \$3,257,000, respectively, equal to 100% of the required contribution for each year.

B. Private Pension Plans

Plan Description. Certain retirees (42 at January 1, 2002) continue to participate in the private pension plans which originated under the privately owned transit system (Cincinnati Transit, Inc.) acquired by the City in 1973. SORTA administers these single-employer, defined benefit pension plans and is reimbursed by the City for the costs of the plans (Note 3). The pension costs of the private plans are expected to decline in future years. The private pension plans do not issue stand-alone financial reports.

Funding policy. SORTA has elected to pay benefits when due. As a result, the net pension obligation calculated below has not been discounted to take into consideration interest on contributions.

Annual Pension Cost and Net Pension Obligation. SORTA's annual pension cost and net pension obligation pertaining to the private pension plans as of and for the years ended December 31, 2001, 2000 and 1999 were determined using the unit credit actuarial cost method as follows:

Southwest Ohio Regional Transit Authority

Notes to General Purpose Financial Statements
for the years ended December 31, 2001 and 2000 (continued)

	2001	2000	1999
Annual required contribution	—	—	—
Interest on net pension obligation	—	—	—
Actuarial adjustment to net pension obligation	<u>\$4,881</u>	<u>—</u>	<u>\$(142,444)</u>
Annual pension cost	4,881	—	(142,444)
Contribution/benefit payments made	<u>(64,620)</u>	<u>\$(73,581)</u>	<u>(104,798)</u>
Decrease in net pension obligation	(59,739)	(73,581)	(247,242)
Net pension obligation beginning of year	<u>352,482</u>	<u>426,063</u>	<u>673,305</u>
Net pension obligation end of year	<u>\$292,743</u>	<u>\$352,482</u>	<u>\$426,063</u>

The net pension obligation was actuarially determined using a mortality assumption obtained from the Unisex Pension Table for 1984 and the 2001 and 2000 amounts are recognized as non-current liabilities on the accompanying balance sheets. Because future benefit increases are not assured and are not expected to be material, this factor was not considered in the determination of the net pension obligation and annual pension cost.

C. Other Postemployment Benefits

Benefits Provided Through PERS. In addition to the pension benefits described previously, PERS provides postretirement 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 also available. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit ("OPEB") as described in GASB Statement No. 12.

A portion of each employer's contribution to PERS is set aside for the funding of post-retirement health care. The Ohio Revised Code provides statutory authority requiring public employers to fund postretirement health care through their contributions to PERS. The portion of the employer contribution rate used to fund health care for 2001 and 2000 was 4.3% of covered payroll. During 2001 and 2000, \$1,637,000 and \$1,579,000, respectively, of SORTA's total contribution to PERS was used for postretirement benefits. At December 31, 2001, the Authority was not responsible for paying premiums, contributions, or claims for OPEB under PERS for any retirees, terminated employees, or other beneficiaries.

The OPEB is advance-funded on an actuarially determined basis through employer contributions and investment earnings thereon. The principal assumptions used for the 2000 actuarial computations (latest available) were as follows:

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.

Southwest Ohio Regional Transit Authority

**Notes to General Purpose Financial Statements
for the years ended December 31, 2001 and 2000 (continued)**

Assets Valuation Method. For actuarial valuation purposes, a smoothed market approach is used. Under this approach assets are adjusted annually to reflect 25% of 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%.

At December 31, 2000 (latest information available), there were 411,076 active participants contributing to the plan. The Authority's actuarially required OPEB contribution for 2000 equalled the actual amount contributed to PERS by SORTA. In addition, at December 31, 2000, the actuarial value of the plan's net assets available for OPEB approximated \$11.7 billion and the actuarial accrued liability and the unfunded actuarial accrued liability, based on the actuarial method used, were \$14.4 billion and \$2.7 billion, respectively.

The contributions allocated to retiree health care, along with investment income on allocated assets and periodic adjustments in health care provisions, are expected to be sufficient to sustain the program indefinitely.

Other Benefits Provided. In addition to the other postemployment benefits provided by PERS, SORTA also provides postemployment health care benefits to former employees of Cincinnati Transit, Inc., who do not qualify for PERS health care benefits, and a \$1,500 life insurance benefit to each retired hourly employee. The life insurance benefits are provided through group insurance arrangements which are funded by SORTA through payment of monthly insurance premiums. The health care benefits were previously provided by group insurance arrangements which were funded by SORTA through payment of monthly insurance premiums. Effective March 1, 1997, SORTA became self-insured for such health care benefits. As of December 31, 2001, 7 individuals were receiving health care benefits and 308 individuals were eligible to receive life insurance benefits.

SORTA has recorded the following accrued liabilities in accrued payroll taxes and other benefits on its balance sheet for these postemployment benefits at December 31:

	<u>2001</u>	<u>2000</u>
Health care benefits	\$ 39,471	\$ 86,044
Life insurance benefits	\$237,103	\$228,163

These liabilities represent the present value of the estimated future health care benefits and life insurance premiums that are expected to be paid for retirees who were eligible for benefits as of each of the dates indicated. The liability for life insurance benefits includes a provision for estimated amounts which will be paid for existing employees.

Southwest Ohio Regional Transit Authority

**Notes to General Purpose Financial Statements
for the years ended December 31, 2001 and 2000 (continued)**

These liabilities were determined based on the following assumptions:

	2001	2000
Medical inflation assumptions	**	**
Future annual increases in life insurance premiums	2.00%	2.00%
Remaining life expectancy*	Individually Determined	
Medical		
Life	14.6 yrs.	14.6 yrs.
Interest factor	6.00%	6.00%

* Based on U.S. National Center for Health Statistics, *Vital Statistics of the U.S.* 1994 (most recent available).

** 7.5% in 2002, decreasing to 5% in 2006 and thereafter.

The total expense recognized by the Authority for postemployment benefits not provided under PERS was less than \$40,000 for each of the years ended December 31, 2001 and 2000.

9. Risk Management

SORTA is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or acts of God. Blanket insurance coverage has been obtained to cover damage or destruction to the Authority's property and SORTA is self-insured for public liability, personal injury, and third-party property damage claims. In addition, the City of Cincinnati has appropriated \$2,000,000 of funds held in the City Income Tax-Transit Fund (see Note 3). These funds may be used to fund individual claims against SORTA to the extent that each claim is in excess of \$100,000 per incident. Claims expense and a liability are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated.

Employee health care benefits are provided under a group insurance arrangement and, on January 1, 1995, the Authority became self-insured for workers' compensation benefits. Prior to 1995, SORTA was insured through the State of Ohio for workers' compensation benefits. The State of Ohio Bureau of Workers' Compensation continues to be liable for all claims prior to January 1, 1995. As shown below, the estimated amount due for workers' compensation claims is included in the accrual for estimated claims payable. SORTA carries liability insurance to cover any workers' compensation claim in excess of \$250,000 through December 31, 2001, and \$350,000 thereafter. The workers' compensation liability includes an amount for claims that may have been incurred but not reported. The claims liability has been calculated on an actuarial basis considering the effects of inflation, recent claim settlement trends including frequency and amount of pay-outs, and other economic factors. Unpaid workers' compensation claims are discounted at 5.5%.

The changes in the liabilities for self-insured risks for the years ended December 31, 2001 and 2000 are as follows:

Southwest Ohio Regional Transit Authority

**Notes to General Purpose Financial Statements
for the years ended December 31, 2001 and 2000 (continued)**

	<u>Workers' Compensation</u>	<u>Public Liability and Property Damage</u>	<u>Total</u>
Balance January 1, 2000	\$3,413,052	\$ 684,000	\$4,097,052
Claims net of changes in estimates	404,403	331,392	735,795
Payments	<u>(348,903)</u>	<u>(290,707)</u>	<u>(639,610)</u>
Balance December 31, 2000	3,468,552	724,685	4,193,237
Claims net of changes in estimates	619,763	1,832,976	2,452,739
Payments	<u>(516,315)</u>	<u>(635,091)</u>	<u>(1,151,406)</u>
Balance December 31, 2001	<u>\$3,572,000</u>	<u>\$ 1,922,570</u>	<u>\$5,494,570</u>

The liabilities above represent the Authority's best estimates based upon available information.

Settled claims have not exceeded the Authority's commercial insurance coverage for any of the past three years.

10. Contingencies and Commitments

A. Litigation and Claims

It is the Authority's policy, within certain limits (see Note 9), to act as self-insurer for certain insurable risks consisting primarily of public liability, property damage, and workers' compensation. At December 31, 2001, SORTA had been named in various public liability and property damage claims and suits, some of which seek significant damages. The ultimate outcome of those matters cannot be determined; however, it is the opinion of management that any resulting liability to the Authority in excess of the amount provided for in the accompanying balance sheets, and which is not covered by insurance, will not have a material adverse effect on the Authority's financial position.

B. Federal and State Grants

Under the terms of the Authority's various grants, periodic audits are required where certain costs could be questioned as not being eligible expenditures under the terms of the grants. At December 31, 2001, there were no questioned costs that had not been resolved with appropriate federal and state agencies. Questioned costs could still be identified during audits to be conducted in the future. In the opinion of SORTA's management, no material grant expenditures will be disallowed.

C. Outstanding Commitments

The Authority has outstanding commitments to purchase revenue vehicles at December 31, 2001 of \$10.1 million. These contracts are being financed primarily through federal grant programs.

Southwest Ohio Regional Transit Authority

Notes to General Purpose Financial Statements
for the years ended December 31, 2001 and 2000 (continued)

11. Equity

The activity in the components of the Authority's equity (as restated-see Note 2B) during the years ended December 31, 2001 and 2000 was as follows:

	<u>Contributed Capital</u>	<u>Retained Earnings</u>	<u>Total Equity</u>
Balance January 1, 2000	\$69,885,206		\$69,885,206
Excess of expenses over revenues		<u>\$(1,682,395)</u>	<u>(1,682,395)</u>
Balance at December 31, 2000	69,885,206	(1,682,395)	68,202,811
Excess of revenues over expenses		<u>8,122,341</u>	<u>8,122,341</u>
Balance at December 31, 2001	<u>\$69,885,206</u>	<u>\$6,439,946</u>	<u>\$76,325,152</u>

12. New Accounting Standards

The GASB has issued Statement No. 34, "Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments," Statement No. 37, "Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments: Omnibus," and Statement No. 38, "Certain Financial Statement Disclosures." These statements revise accounting and reporting standards for general purpose external financial reporting by governmental units. These statements are effective for the Authority's year ending December 31, 2003. The Authority has not completed an analysis of the impact of these statements on its reported financial condition and results of operations.

13. Subsequent Event

Effective February 1, 2002, SORTA entered into a master lease-purchase agreement to lease 38 revenue vehicles. Based on the terms of the agreement, it will be accounted for as a capital lease. The capitalized cost of the vehicles and related capital lease obligation resulting from the transaction approximate \$10 million. Future minimum lease payments (including interest) will be approximately \$.5 million through 2010 and approximately \$10.5 million in 2011.

Southwest Ohio Regional Transit Authority

**Supplemental Schedule of Revenues, Expenses and Changes in Equity—
Budget and Actual (GAAP Basis)
for the year ended December 31, 2001**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Operating revenues	<u>\$16,042,373</u>	<u>\$15,377,132</u>	<u>(\$665,241)</u>
Operating expenses other than depreciation and amortization:			
Labor	34,851,285	35,050,061	(198,776)
Fringe benefits	15,424,418	13,339,444	2,084,974
Materials and supplies consumed	7,224,999	7,953,349	(728,350)
Services	3,131,478	3,044,121	87,357
Utilities	1,004,653	1,073,508	(68,855)
Casualty and liability	1,201,510	1,723,949	(522,439)
Taxes	821,199	849,209	(28,010)
Purchased transportation services	4,773,572	5,166,966	(393,394)
Leases and rentals	482,877	478,845	4,032
Miscellaneous	<u>1,174,424</u>	<u>1,409,339</u>	<u>(234,915)</u>
Total	70,090,415	70,088,791	1,624
Depreciation and amortization	<u>9,300,000</u>	<u>9,011,366</u>	<u>288,634</u>
Total operating expenses	<u>79,390,415</u>	<u>79,100,157</u>	<u>290,258</u>
Operating loss	<u>(63,348,042)</u>	<u>(63,723,025)</u>	<u>(374,983)</u>
Non-operating revenues:			
Local operating grants and special fare assistance	33,815,108	34,659,097	843,989
Federal maintenance grants and reimbursements	13,310,306	13,920,354	610,048
State maintenance grants, reimbursements and special fare assistance	3,672,201	2,588,311	(1,083,890)
Investment income-net	1,500,000	3,130,394	1,630,394
Non-transportation revenue	<u>280,880</u>	<u>413,503</u>	<u>132,623</u>
Total	<u>52,578,495</u>	<u>54,711,659</u>	<u>2,133,164</u>
Net loss before capital grant activity	<u>(10,769,547)</u>	<u>(9,011,366)</u>	<u>1,758,181</u>
Capital grant revenue	<u>18,433,089</u>	<u>17,133,707</u>	<u>(1,299,382)</u>
Increase in equity during the year	<u>7,663,542</u>	<u>8,122,341</u>	<u>458,799</u>
Equity, beginning of year	<u>68,202,811</u>	<u>68,202,811</u>	<u>0</u>
Equity, end of year	<u>\$75,866,353</u>	<u>\$76,325,152</u>	<u>\$458,799</u>

Southwest Ohio Regional Transit Authority

**Revenues by Source—Last Ten Years
(in Thousands)**

	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
OPERATING REVENUES										
Passenger fares for transit service (1)	\$13,903	\$15,952	\$16,478	\$17,056	\$17,579	\$17,921	\$18,585	\$19,679	\$20,661	\$21,204
Special transit fares	294	292	322	394	307	323	328	528	381	328
Auxiliary transportation revenue	328	318	337	428	501	495	607	572	762	574
Total operating revenues	14,525	16,562	17,137	17,878	18,387	18,739	19,520	20,779	21,804	22,106
NON-OPERATING REVENUES										
Federal grants and reimbursements (1)	4,374	4,502	5,084	4,815	3,523	3,722	10,624	13,282	17,183	12,780
State grants and reimbursements (1)	4,189	4,376	4,443	4,434	4,310	4,306	6,541	4,394	4,332	2,249
Investment income	436	467	592	825	863	1,055	1,372	1,635	2,981	3,130
Non-transportation revenues	36	154	107	245	416	453	296	288	491	414
Sub-total	9,035	9,499	10,226	10,319	9,112	9,536	18,833	19,599	24,987	18,573
Local operating assistance	26,470	24,395	25,377	26,354	28,483	28,668	22,185	22,456	22,265	29,410
Total non-operating revenues	35,505	33,894	35,603	36,673	37,595	38,204	41,018	42,055	47,252	47,983
TOTAL REVENUES	\$50,030	\$50,456	\$52,740	\$54,551	\$55,982	\$56,943	\$60,538	\$62,834	\$69,056	\$70,089

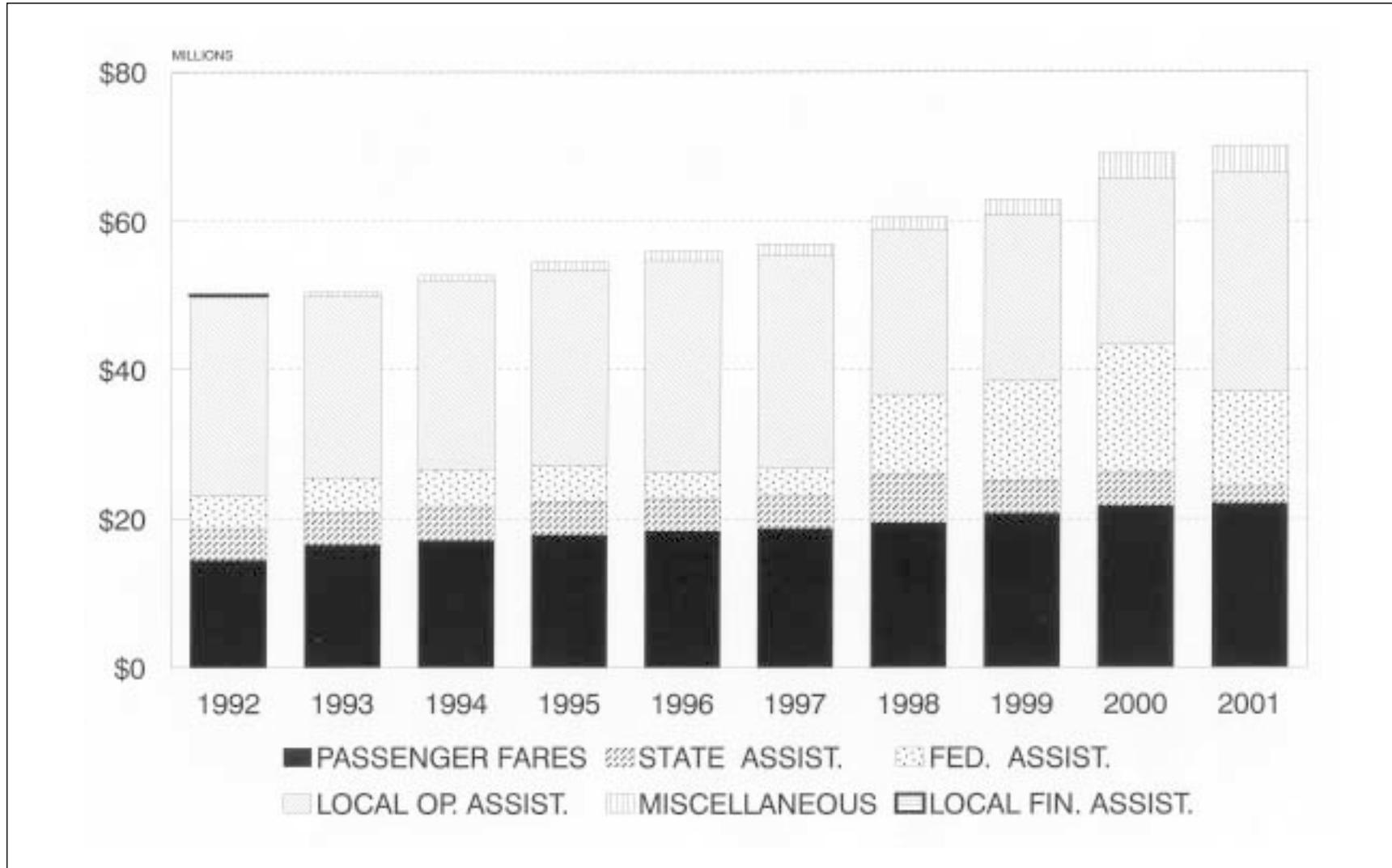
Amounts are presented in accordance with accounting principles generally accepted in the United States of America.

Source: Derived from SORTA's independently audited annual financial statements, except for passenger revenue, and State grants and reimbursements.

Note 1: For purposes of the table above, Passenger Fares include farebox revenues, special transit fares along with subsidies received from FTA, ODOT, Cincinnati Public Schools, certain local government units to support farebox discounts offered at certain times during the year. Subsidies are classified as Non-Operating Revenues in the Authority's General Purpose Financial Statements.

Southwest Ohio Regional Transit Authority

Revenues by Source—Last Ten Years



Source: Derived from SORTA's independently audited annual financial statements.

Southwest Ohio Regional Transit Authority

**Revenues and Operating Assistance—Comparison to Industry Trend Data
Last Ten Years**

TRANSPORTATION INDUSTRY (1):

YEAR	OPERATING AND OTHER REVENUE			OPERATING ASSISTANCE			TOTAL REVENUES
	PASSENGER	OTHER (2)	TOTAL	STATE & LOCAL (3)	FEDERAL	TOTAL	
1992	37.5%	4.9%	42.4%	51.7%	5.9%	57.6%	100.0%
1993	36.8%	4.4%	41.2%	53.2%	5.6%	58.8%	100.0%
1994 (4)	37.6%	12.6%	50.2%	44.7%	5.1%	49.8%	100.0%
1995 (4)	37.3%	15.4%	52.7%	42.8%	4.5%	47.3%	100.0%
1996 (4)	38.7%	15.3%	54.0%	42.9%	3.1%	46.0%	100.0%
1997 (4)	38.7%	16.9%	55.6%	41.1%	3.3%	44.4%	100.0%
1998 (4)	37.8%	17.5%	55.3%	41.1%	3.6%	44.7%	100.0%
1999 (4)	37.3%	16.4%	53.7%	42.4%	3.9%	46.3%	100.0%
2000 (4)	36.1%	17.4%	53.5%	42.4%	4.1%	46.5%	100.0%
2001	*	*	*	*	*	*	*

SOUTHWEST OHIO REGIONAL TRANSIT AUTHORITY:

YEAR	OPERATING AND OTHER REVENUE			OPERATING ASSISTANCE			TOTAL REVENUES
	PASSENGER	OTHER (2)	TOTAL	STATE & LOCAL (3)	FEDERAL	TOTAL	
1992	28.4%	1.6%	30.0%	61.3%	8.7%	70.0%	100.0%
1993	32.2%	1.9%	34.1%	57.0%	8.9%	65.9%	100.0%
1994	31.9%	2.0%	33.9%	56.5%	9.6%	66.1%	100.0%
1995	32.0%	2.7%	34.7%	56.5%	8.8%	65.3%	100.0%
1996	31.9%	3.1%	35.0%	58.6%	6.4%	65.0%	100.0%
1997	32.0%	3.5%	35.5%	57.9%	6.6%	64.5%	100.0%
1998	31.2%	3.8%	35.0%	47.4%	17.6%	65.0%	100.0%
1999	32.2%	4.0%	36.2%	42.7%	21.1%	63.8%	100.0%
2000	30.5%	6.1%	36.6%	38.5%	24.9%	63.4%	100.0%
2001	30.7%	5.9%	36.6%	45.2%	18.2%	63.4%	100.0%

* Information not available

(1) Source: The American Public Transit Association, "APTA 2001 Transit Fact Book".

(2) Includes auxiliary transportation revenues, interest income, and other non-transportation revenues.

(3) Includes local income tax revenues, state operating grants, state fuel tax reimbursements.

(4) "Local" includes taxes levied directly by the transit agency and other subsidies from local governments such as bridge and tunnel tolls and non-transit parking lot funds. Beginning 1994, such funds reclassified from "local" to "other".

Southwest Ohio Regional Transit Authority

City Income Tax–Transit Fund (In Thousands)

YEAR	BEGINNING BALANCE	.3% INCOME TAX COLLECT	OTHER RECEIPTS	DISTRIBUTIONS TO SORTA (3)	OTHER DISTRIBUTIONS	ENDING BALANCE (1) (2)
1992	\$13,894	\$25,893	\$671	\$29,106	\$590	\$10,762
1993	10,762	26,741	337	27,447	709	9,684
1994	9,684	27,392	410	23,646	591	13,249
1995	16,479 (4)	29,021	692	28,800	721	16,671
1996	16,671	30,106	642	30,949	641	15,829
1997	15,829	31,819	413	35,969	788	11,304
1998	11,331 (5)	33,980	403	29,473	759	15,482
1999	15,482	35,407	413	34,879	842	15,581
2000	15,581	35,594	460	37,400	1,220	13,015
2001	13,015	35,904	318	37,695	1,618	\$9,924
		<u>\$311,857</u>	<u>\$4,759</u>	<u>\$315,364</u>	<u>\$8,479</u>	

Source: City of Cincinnati, "Combining Statement of Revenue, Expenditures and Changes in Fund Balance".

(1) Balances include a \$2,000,000 self-insurance reserve.

(2) Balance includes an additional \$2,000,000 working-capital reserve.

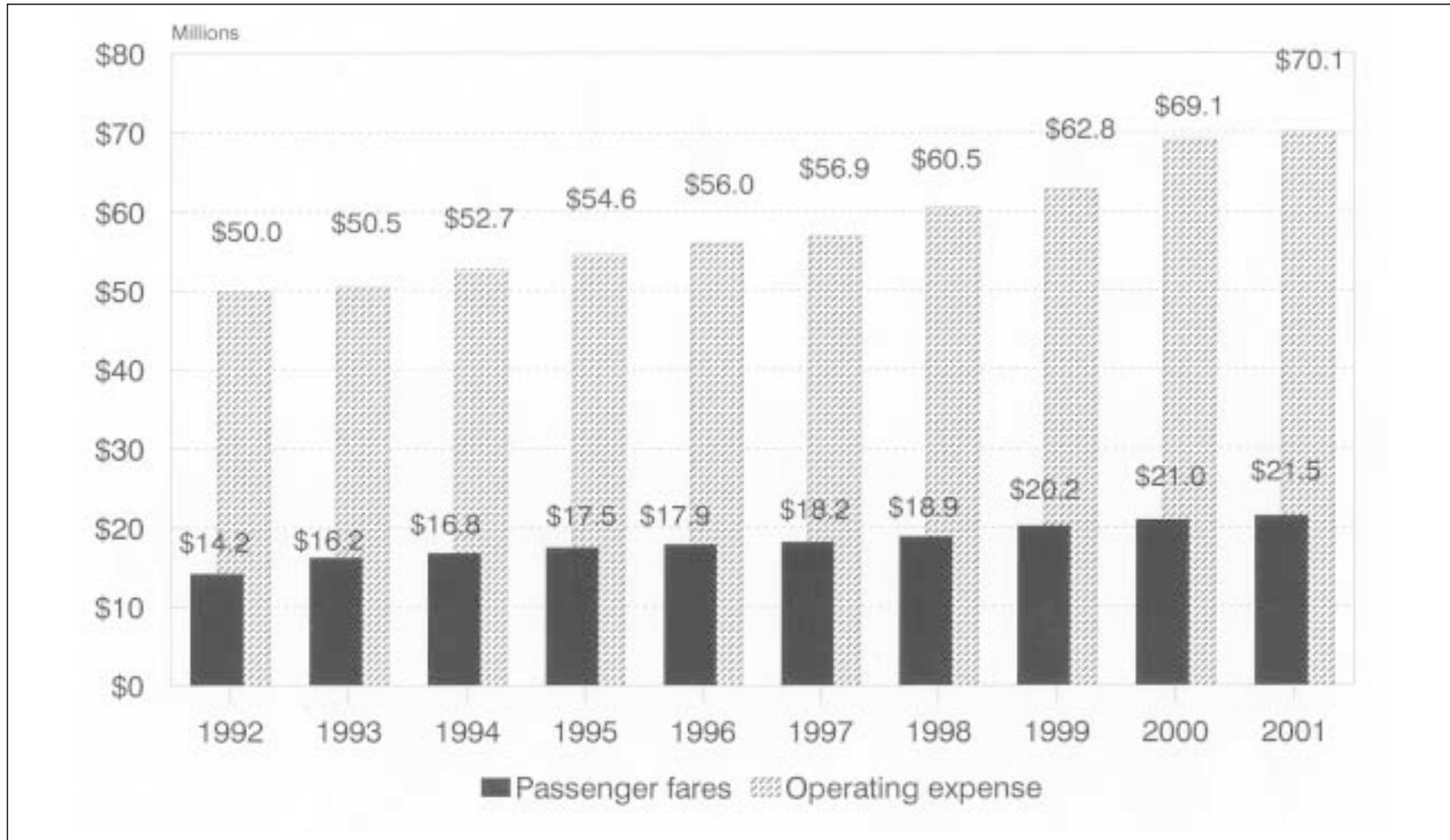
(3) Includes operating and capital assistance.

(4) In 1995, the City of Cincinnati made a change in accounting principle to conform to GASB No. 22, "Accounting for Taxpayer-Assessed Tax Revenues in Governmental Funds." The cumulative effect of this change increased the beginning 1995 balance by \$3,230,000.

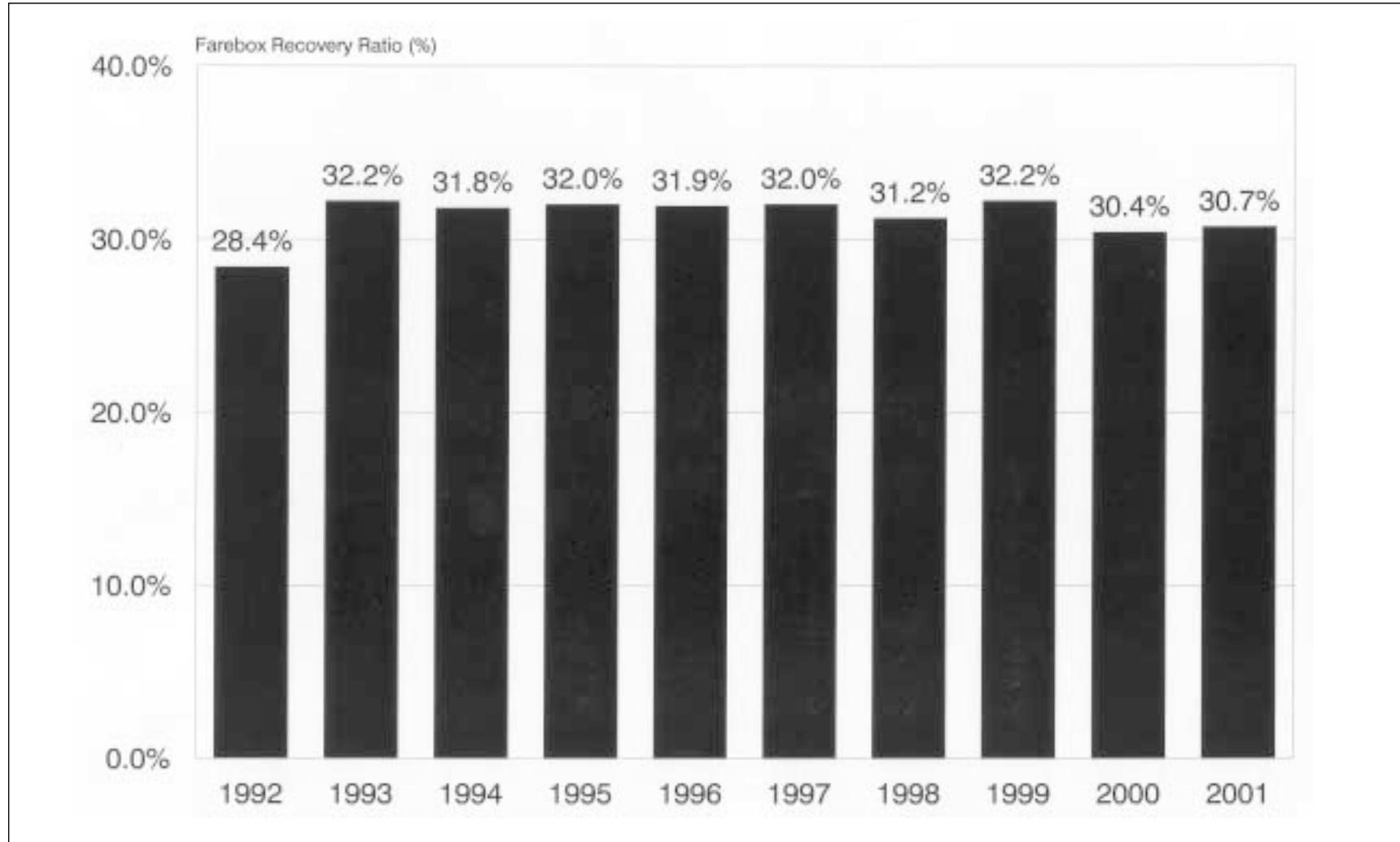
(5) In 1998, the City of Cincinnati made a change in accounting principle to conform to GASB No. 31 "Accounting and Financial Reporting for Certain Investments and for External Investment Pools." The cumulative effect of this change increased the beginning 1998 balance by \$27,000.

Southwest Ohio Regional Transit Authority

Passenger Fares vs. Operating Expenses—Last Ten Years



Source: Derived from SORTA's independently audited annual financial statements.
Passenger fares include passenger and special transit revenues, subsidies from FTA, ODOT, Cincinnati Public Schools and certain local governments to support farebox discounts offered at certain times during the year; operating expenses exclude depreciation and amortization.

Southwest Ohio Regional Transit Authority**Passenger Fares Recovery Ratio—Last Ten Years**

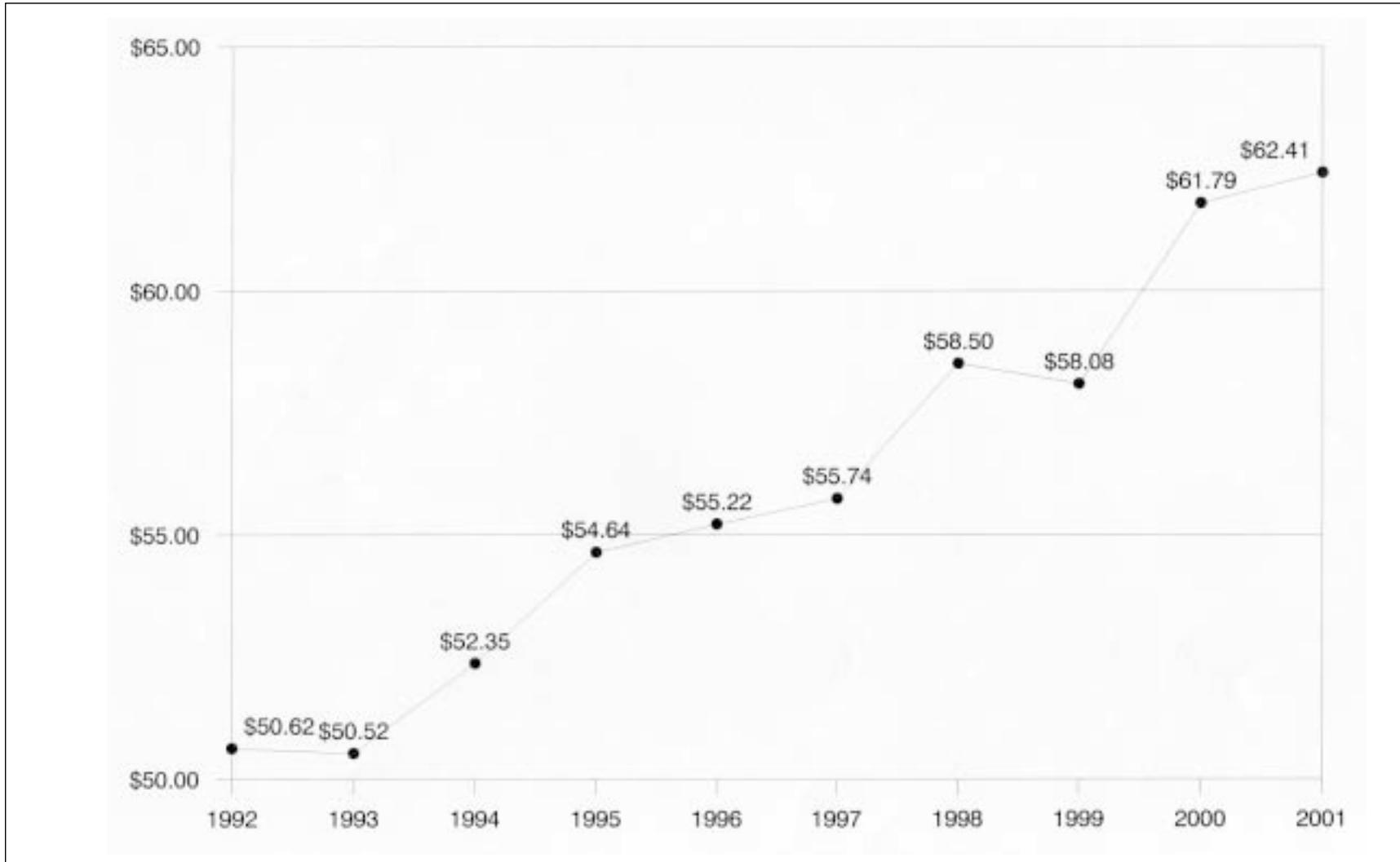
Source: SORTA's independently audited annual financial statements.
Recovery ratio is calculated as passenger fares divided by operating expenses excluding depreciation and amortization.

Southwest Ohio Regional Transit Authority

**Expenses by Object Class—Last Ten Years
(In Thousands)**

	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
OPERATING EXPENSES OTHER THAN DEPRECIATION AND AMORTIZATION:										
Labor	\$24,577	\$25,446	\$26,531	\$27,586	\$28,420	\$29,190	\$30,552	\$31,992	\$33,927	\$35,050
Fringe benefits	12,731	11,970	12,134	12,430	12,445	12,592	12,711	12,704	12,574	13,339
Materials and supplies consumed	5,702	5,812	6,184	6,407	6,478	6,396	7,313	7,439	10,480	7,953
Services	2,229	2,029	2,019	2,361	2,316	2,379	2,553	2,612	3,387	3,044
Utilities	793	977	997	857	979	982	919	929	1,080	1,074
Casualty and liability	428	366	267	399	487	252	317	410	260	1,724
Taxes	720	747	770	770	796	779	776	825	859	849
Purchased transportation services	2,126	2,351	2,594	2,776	3,027	3,262	3,733	4,323	4,398	5,167
Leases and rentals	410	377	379	402	478	459	483	518	477	479
Miscellaneous	314	381	865	563	556	652	1,181	1,082	1,614	1,410
Total	50,030	50,456	52,740	54,551	55,982	56,943	60,538	62,834	69,056	70,089
DEPRECIATION AND AMORTIZATION	4,154	4,184	4,275	4,428	5,635	6,434	7,203	8,595	8,750	9,011
TOTAL EXPENSES	\$54,184	\$54,640	\$57,015	\$58,979	\$61,617	\$63,377	\$67,741	\$71,429	\$77,806	\$79,100

*Amounts are presented in accordance with accounting principles generally accepted in the United States of America.
Source: SORTA's independently audited annual financial statements.*

Southwest Ohio Regional Transit Authority**Operating Expenses per Vehicle Hour—Last Ten Years**

Source: SORTA's annual "National Transit Database", filed with the Federal Transit Administration.
Operating expenses exclude depreciation and amortization.

Southwest Ohio Regional Transit Authority

**Operating Expenses—Comparison to Industry Trend Data
Last Ten Years**

TRANSPORTATION INDUSTRY (1):

<u>YEAR</u>	<u>LABOR AND FRINGES</u>	<u>MATERIALS AND SUPPLIES</u>	<u>SERVICES</u>	<u>UTILITIES</u>	<u>CASUALTY AND LIABILITY</u>	<u>PURCHASED TRANSPOR- TATION</u>	<u>OTHER</u>	<u>TOTAL OPERATING EXPENSES (2)</u>
1992	73.2%	9.4%	5.6%	3.7%	3.3%	8.9%	-4.1%	100.0%
1993	71.1%	8.8%	5.3%	3.6%	3.4%	10.4%	-2.6%	100.0%
1994	70.7%	8.9%	4.7%	3.6%	3.4%	10.9%	-2.2%	100.0%
1995	72.3%	9.1%	5.0%	3.5%	2.9%	9.2%	-2.0%	100.0%
1996	71.6%	9.3%	5.1%	3.6%	2.8%	9.9%	-2.3%	100.0%
1997	72.2%	9.4%	5.6%	3.7%	2.7%	9.1%	-2.7%	100.0%
1998	71.7%	9.4%	6.0%	3.5%	2.4%	10.1%	-3.1%	100.0%
1999	70.9%	9.2%	5.9%	3.3%	2.2%	11.5%	-3.0%	100.0%
2000	69.8%	10.0%	5.7%	3.2%	2.2%	12.2%	-3.1%	100.0%
2001	*	*	*	*	*	*	*	*

SOUTHWEST OHIO REGIONAL TRANSIT AUTHORITY (3):

<u>YEAR</u>	<u>LABOR AND FRINGES</u>	<u>MATERIALS AND SUPPLIES</u>	<u>SERVICES</u>	<u>UTILITIES</u>	<u>CASUALTY AND LIABILITY</u>	<u>PURCHASED TRANSPOR- TATION</u>	<u>OTHER</u>	<u>TOTAL OPERATING EXPENSES (2)</u>
1992	74.6%	11.4%	4.4%	1.6%	0.9%	4.2%	2.9%	100.0%
1993	74.2%	11.5%	4.0%	1.9%	0.7%	4.7%	3.0%	100.0%
1994	73.4%	11.7%	3.8%	1.9%	0.5%	4.9%	3.8%	100.0%
1995	73.4%	11.7%	4.3%	1.6%	0.7%	5.1%	3.2%	100.0%
1996	73.0%	11.6%	4.1%	1.7%	0.9%	5.4%	3.3%	100.0%
1997	73.4%	11.2%	4.2%	1.7%	0.5%	5.7%	3.3%	100.0%
1998	71.5%	12.1%	4.2%	1.5%	0.5%	6.2%	4.0%	100.0%
1999	71.1%	11.8%	4.2%	1.5%	0.6%	6.9%	3.9%	100.0%
2000	67.3%	15.2%	4.9%	1.5%	0.4%	6.4%	4.3%	100.0%
2001	69.0%	11.4%	4.3%	1.5%	2.5%	7.4%	3.9%	100.0%

* Information not available

(1) Source: The American Public Transit Association, "APTA 2001 Transit Fact Book".

(2) Total operating expenses exclude depreciation and amortization.

(3) Source: SORTA'S independently audited annual financial statements.

Southwest Ohio Regional Transit Authority

Operating Statistics—Last Ten Years

	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
SYSTEM RIDERSHIP (1)										
Motor bus.....	27,689,248	25,806,479	24,989,892	23,764,650	26,239,055	25,996,644	28,566,152	26,172,056	26,400,888	24,813,422
Demand responsive.....	194,252	202,634	222,534	215,506	216,960	230,357	242,888	226,598 (4)	236,752	253,124
AVERAGE WEEKDAY SYSTEM RIDERSHIP (1)										
Motor bus.....	94,285	85,261	85,034	77,730	86,500	90,017	93,279	86,376	85,747	82,416
Demand responsive.....	666	700	765	738	740	793	832	728	816	870
VEHICLE MILES OPERATED (1)										
Motor bus.....	12,144,706	12,260,167	12,129,283	12,231,173	12,516,103	12,492,183	12,769,451	13,543,419	13,706,584	13,572,038
Demand responsive	1,764,810	1,835,665	1,975,755	1,917,722	1,920,317	2,038,774	2,267,177	2,413,173	2,893,723	2,844,335
AVERAGE WEEKDAY VEHICLE MILES OPERATED (1)										
Motor bus.....	40,793	41,499	41,050	41,360	42,470	42,459	43,499	46,335	46,775	46,201
Demand responsive.....	6,077	6,342	6,791	6,643	6,551	7,020	7,763	8,321	9,975	9,771
REVENUE MILES (1)										
Motor bus.....	10,408,833	10,444,936	10,405,281	10,519,097	10,788,011	10,895,126	10,978,364	11,612,657	11,705,868	11,663,582
Demand responsive	1,579,602	1,588,013	1,695,507	1,672,442	1,677,714	1,806,841	1,920,731	2,015,836	2,421,249	2,382,661
PASSENGER MILES (1)										
Motor bus.....	140,348,119	126,688,506	111,324,305	121,753,846	118,637,594	134,204,888	150,363,410	138,470,307	152,886,096	148,412,646
Demand responsive.....	2,002,738	2,022,287	2,465,677	2,530,040	2,484,192	2,581,351	3,106,359	2,436,564	2,397,049	2,662,800

(Continued)

Southwest Ohio Regional Transit Authority

Operating Statistics—Last Ten Years (Continued)

	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
VEHICLE HOURS OPERATED (1)										
Motor bus.....	887,732	891,130	890,683	889,337	902,343	902,193	906,628	940,030	954,812	954,499
Demand responsive.....	100,719	107,695	116,686	109,322	111,393	119,433	128,169	141,785	162,691	168,479
VEHICLE REVENUE HOURS (1)										
Motor bus.....	768,971	765,818	758,185	816,646	827,640	829,616	825,332	861,945	873,696	874,376
Demand responsive.....	91,608	90,911	98,242	96,455	99,404	103,563	113,699	119,390	134,722	138,253
DIESEL FUEL CONSUMPTION (IN GALLONS) (1).....										
	3,356,211	3,362,623	3,361,759	3,382,606	3,372,176	3,250,342	3,214,609	3,368,953	3,456,053	3,497,718
FLEET REQUIREMENTS (DURING PEAK HOURS) (1)										
Motor bus.....	323	323	325	325	331	331	338	358	362	360
Demand responsive.....	28	28	30	30	30	34	40	40	46	46
TOTAL REVENUE VEHICLES DURING PERIOD (1)										
Motor bus.....	379	379	378	379	389	389	426	426	438	481
Demand responsive.....	33	33	33	36	36	41	42	49	52	94
NUMBER OF FULL TIME EMPLOYEES (2).....										
	810	810 (3)	806 (3)	807	810 (3)	798 (3)	836 (3)	844 (3)	818 (3)	831 (3)

Sources:

- (1) SORTA's annual "National Transit Database", filed with the Federal Transit Administration.
- (2) SORTA's annual Management Plan.
- (3) Human Resources Department "Personnel Distribution-Department Breakdown" report.
- (4) SORTA's "General Manager's Report".

Southwest Ohio Regional Transit Authority

Fare Rate Structure as of December 31, 2001

CASH OR TOKEN FARES

Weekday peak hours (6 to 9 am and 3 to 6 pm)	\$0.80
Weekday non peak hours	0.65
Weekday zone fare (zone 2)	0.30
Weekday zone fare (zone 3)	0.60
Downtowner midday shuttle (Monday - Friday)	0.25
Parking Meeter shuttle (Monday - Friday)	0.25
Weekend flat rate (no zone fares apply)	0.50
Weekday Transfers	0.10
Access weekday (1)	1.00
Access weekend (1)	0.75
Express Services (Monday - Friday)	1.75
Harrison Express Service (Monday - Friday)	2.00

MONTHLY PASSES

MetroCard A Pass (zone one, weekdays only)	32.00
MetroCard B Pass (two zones, weekdays only)	44.00
MetroCard C Pass (three zones, weekdays only)	70.00
Metro/Tank Pass (zone one, weekdays only)	50.00
Fare Deal (2) (three zones, seven days a week)	19.00
Weekend Pass	8.00

DISCOUNT FARES

Fare Deal (2) flat rate (no zone fares apply)	0.40
Children under 45" flat rate (no zone fares apply)	0.40

(1) Demand-responsive, wheelchair lift-equipped paratransit vehicles.

(2) Photo identification card, good in all three zones, for riders 65 and over, Medicare enrolled and people with disabilities.

(3) Three zones - 1) City of Cincinnati 2) Hamilton County outside City 3) Clermont County.

Source: SORTA's "The New Metro Fares" brochure, published November 1, 1993 and "Metro's Services for Older Adults and Riders with Disabilities" brochure, published January 1, 1996.

Southwest Ohio Regional Transit Authority

Demographic Statistics

<u>YEAR(1)</u>	<u>POPULATION</u>	<u>MEDIAN AGE</u>	<u>MEDIAN INCOME</u>
1960	864,121	30.3	\$5,483
1970	924,018	*	\$10,486
1980	873,224	30.0	\$10,673
1990	867,881	32.7	\$15,354
2000	845,303	35.5	*

<u>YEAR</u>	<u>K-12 SCHOOL ENROLLMENT(2)</u>	<u>UNEMPLOYMENT RATE(3)</u>
1992	167,390	5.6%
1993	169,087	5.5%
1994	168,848	4.8%
1995	170,896	4.1%
1996	173,951	4.1%
1997	172,778	3.6%
1998	173,669	3.5%
1999	171,552	3.6%
2000	172,112	3.6%
2001	165,922	3.6%

Note: All information presented is for Hamilton County, Ohio.

* Information not available

Source:

(1) U.S. Bureau of the Census.

(2) MDR'S School Directory - Ohio.

(3) Ohio Bureau of Employment Services.

Southwest Ohio Regional Transit Authority

Miscellaneous Statistics

Date of creation of SORTA by Hamilton County Board of Commissioners	October 2, 1968
Date agreement signed to take over operation of Cincinnati Transit, Inc.	February 8, 1973
Date SORTA took over operations	August 15, 1973
Form of government	Board of Trustees, with contracted management services
Number of Trustees	9
County in which SORTA operates	Hamilton County, Ohio with small parts of Butler County, Ohio, Clermont County, Ohio and Warren County, Ohio
Type of tax support	City of Cincinnati income tax 0.3%
Size of service area (square miles)	262
Miles of route	625
Number of routes	51
Wheelchair lift-equipped standard buses	225
Average system speed (miles per hour)	
Motor bus	14.2
Demand responsive	16.9
Customer information calls answered	562,662



STATE OF OHIO
OFFICE OF THE AUDITOR

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SOUTHWEST OHIO REGIONAL TRANSIT AUTHORITY

HAMILTON 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 16, 2002**