SOUTHWEST OHIO REGIONAL TRANSIT AUTHORITY

Single Audit Report
for the Year Ended
December 31, 2000

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

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Board of Trustees
Southwest Ohio Regional Transit Authority
Cincinnati, Ohio

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, 2000 to December 31, 2000. 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.

JIM PETRO
Auditor of State

June 19, 2001

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Deloitte & Touche

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, 2000 and 1999, and the related statements of revenues, expenses, and changes in equity and of cash flows for the years then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Authority as of December 31, 2000 and 1999, 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.

Our audits were performed for the purpose of forming an opinion on the basic financial statements of the Authority taken as a whole. The accompanying supplemental schedule of expenditures of federal awards for the year ended December 31, 2000 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 basic 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 basic financial statements and, in our opinion, is fairly stated, in all material respects, when considered in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 28, 2001, 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.

Deloitte & Touche LLP

March 28, 2001
(April 6, 2001 as to Note 12)

Deloitte
Touche
Tohmatsu

Southwest Ohio Regional Transit Authority

Balance Sheets
as of December 31, 2000 and 1999

ASSETS	2000	1999
Current assets:		
Cash and investments (Note 4)	$43,551,678	$30,106,781
Receivables:		
Federal assistance	1,538,009	—
State assistance	3,384,743	3,429,133
Other	2,005,211	1,751,929
Inventory of materials and supplies	1,021,208	880,865
Prepaid expenses and other current assets	100,755	74,065
Total current assets	51,601,604	36,242,773
Restricted assets:		
Cash and investments (Note 4)	3,436,492	4,344,252
Receivables for capital assistance	488,576	436,655
Total restricted assets	3,925,068	4,780,907
Property, facilities and equipment (Notes 5 and 7):		
Land and buildings	14,436,400	12,187,192
Improvements	6,395,917	5,808,561
Revenue vehicles	84,277,415	84,147,850
Other equipment	21,699,156	21,214,861
Total	126,808,888	123,358,464
Less allowance for depreciation and amortization	58,606,077	53,473,259
Property, facilities, and equipment-net	68,202,811	69,885,205
Total assets	$123,729,483	$110,908,885

(continued)

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

Southwest Ohio Regional Transit Authority

Balance Sheets (continued)
as of December 31, 2000 and 1999

LIABILITIES AND EQUITY	2000	1999
Current liabilities:		
Accounts payable	$2,735,955	$1,970,496
Accrued payroll	720,199	567,076
Accrued payroll taxes and other benefits	3,487,674	4,099,981
Current portion of estimated claims payable (Note 9)	700,000	700,000
Other current liabilities	1,832,394	724,948
Advance from City of Cincinnati		
Income Tax-Transit Fund (Note 3):		
For current operations	5,854,518	1,919,350
For capital purposes	31,048,787	21,061,448
Total current liabilities	46,379,527	31,043,299
Liabilities payable from restricted assets:		
Capital expenditures payable	572,066	499,574
Deferred capital grants	3,117,289	4,045,620
Deferred assistance	235,713	235,713
Total liabilities payable from restricted assets	3,925,068	4,780,907
Other liabilities:		
Estimated claims payable, net of current portion (Note 9)	3,493,237	3,397,052
Capital lease obligation (Note 7)	1,376,358	1,376,358
Accrued pension cost (Note 8)	352,482	426,063
Total other liabilities	5,222,077	5,199,473
Total liabilities	55,526,672	41,023,679
Equity:		
Contributed capital - capital grants (Note 3)		
Federal	57,189,608	59,822,389
State	3,881,139	4,101,683
Local	7,132,064	5,961,134
Total	68,202,811	69,885,206
Retained earnings (Note 3)	—	—
Total equity	68,202,811	69,885,206
Total liabilities and equity	$123,729,483	$110,908,885

(concluded)

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

Southwest Ohio Regional Transit Authority

Statements of Revenues, Expenses and Changes in Equity for the years ended December 31, 2000 and 1999

	2000	1999
Operating revenues:		
Passenger fares for transit service	$14,728,474	$14,282,855
Special transit fares	380,958	528,375
Auxiliary transportation revenue	762,095	572,506
Total	15,871,527	15,383,736
Operating expenses other than depreciation:		
Labor	33,926,817	31,992,297
Fringe benefits	12,573,991	12,703,822
Materials and supplies consumed	10,479,961	7,439,502
Services	3,386,760	2,611,856
Utilities	1,079,877	929,169
Casualty and liability	259,725	409,857
Taxes	859,210	824,618
Purchased transportation services	4,397,879	4,323,178
Leases and rentals	477,269	517,616
Miscellaneous	1,614,470	1,081,775
Total	69,055,959	62,833,690
Depreciation and Amortization (Note 5)	8,749,894	8,595,250
Total operating expenses	77,805,853	71,428,940
Operating loss	(61,934,326)	(56,045,204)
Non-operating revenues:		
Federal maintenance grants and reimbursements (Note 6)	18,218,890	14,327,161
State maintenance grants, reimbursements and special fare assistance (Note 6)	4,663,757	4,715,673
Local operating grants and special fare assistance (Note 6)	4,564,219	4,027,698
Investment income	2,980,631	1,634,891
Non-transportation revenue	491,459	288,212
Total	30,918,956	24,993,635
Loss before operating assistance provided by City of Cincinnati Income Tax-Transit Fund	(31,015,370)	(31,051,569)
Operating assistance from the City of Cincinnati Income Tax-Transit Fund (Note 3)	22,265,476	22,456,319
Net loss	(8,749,894)	(8,595,250)
Effect of amortization of capital grants	8,749,894	8,595,250
Retained earnings–beginning of year	—	—
Retained earnings–end of year	$ —	$ —

(continued)

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

Southwest Ohio Regional Transit Authority

Statements of Revenues, Expenses and Changes in Equity (continued) for the years ended December 31, 2000 and 1999

	2000	1999
Contributed capital–beginning of year		
Federal	$59,822,389	$60,514,781
State	4,101,683	3,197,969
Local	5,961,134	5,423,527
	69,885,206	69,136,277
Capital grants earned		
Federal	4,633,897	6,615,746
State	295,593	1,358,016
Local	2,138,009	1,370,417
	7,067,499	9,344,179
Amortization of capital grants		
Federal	(7,266,678)	(7,308,138)
State	(516,137)	(454,302)
Local	(967,079)	(832,810)
	(8,749,894)	(8,595,250)
Contributed capital–end of year		
Federal	57,189,608	59,822,389
State	3,881,139	4,101,683
Local	7,132,064	5,961,134
	68,202,811	69,885,206
Equity–end of year	$68,202,811	$69,885,206

(concluded)

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

Southwest Ohio Regional Transit Authority

Statements of Cash Flows
for the years ended December 31, 2000 and 1999

	2000	1999
Cash flows from operating activities:		
Operating loss	$(61,934,326)	$(56,045,204)
Adjustments to reconcile to net cash used in operating activities:		
Depreciation and amortization expense	8,749,894	8,595,250
Non-transportation revenue	491,459	288,212
Effect of changes in assets and liabilities:		
Other receivables	(253,282)	(516,491)
Inventory of materials and supplies	(140,343)	38,200
Prepaid expenses and other current assets	(26,690)	297,654
Accounts payable	765,459	338,488
Accrued payroll, related taxes and other benefits	(459,184)	260,019
Estimated claims payable	96,185	408,576
Other liabilities	1,033,865	(382,174)
Total adjustments	10,257,363	9,327,734
Net cash used in operating activities	(51,676,963)	(46,717,470)
Cash flows from noncapital financing activities:		
Transfer from City of Cincinnati Income Tax-Transit Fund	26,200,644	23,346,876
Other local operating assistance received	4,564,219	4,027,698
Federal maintenance and other assistance received	16,680,881	14,327,161
State maintenance and other assistance received	4,708,147	1,286,540
Net cash provided by noncapital financing activities	52,153,891	42,988,275
Cash flows from capital and related financing activities:		
Capital grants and other assistance received:		
City of Cincinnati Income Tax-Transit Fund	11,199,045	11,531,994
Federal, state and other local	4,916,905	8,089,378
Acquisition of fixed assets	(7,036,372)	(12,025,711)
Net cash provided by capital and related financing activities	9,079,578	7,595,661
Cash flows from investing activities:		
Net cash payments for investments	(911,801)	(10,322,579)
Income received from investments	2,586,292	1,874,730
Net cash provided by (used in) investing activities	1,674,491	(8,447,849)
Net increase (decrease) in cash and cash equivalents	11,230,997	(4,581,383)
Cash and cash equivalents, beginning of year	4,344,252	8,925,635
Cash and cash equivalents, end of year (Note 4)	$ 15,575,249	$ 4,344,252

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

Notes to Financial Statements for the years ended December 31, 2000 and 1999

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.

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).

Notes to Financial Statements for the years ended December 31, 2000 and 1999 (continued)

B. Grants and Assistance

Federal, state, and local grants for the acquisition of property, facilities, and equipment (capital grants) are held as restricted assets and as deferred capital grants until the expenditures are incurred. Such grants are credited to capital as the related expenditures are incurred. Capital grants are amortized to retained earnings in the amount of the annual depreciation on assets acquired with capital grants. Grants for operating assistance are generally recorded as revenue in the period to which the grant applies, or, for cost reimbursement grants, in the period the related expenditures are incurred.

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) 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 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 the State Treasury Asset Reserve of Ohio ("STAROhio"). STAROhio is 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.

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. 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 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, as provided by law, 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 and expenditures for individual capital projects to exceed their respective appropriations without approval by the Board of Trustees. No budget amendments were passed for 2000 and 1999. All appropriations lapse at year end.

L. Reclassification

Certain prior year amounts have been reclassified to conform to the 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 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 110% 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, 2000, the Authority maintains restricted cash and investments of $3,436,492, and unrestricted cash and investments of $43,551,678. The total cash and investments of $46,988,170 consists of $12,948,781 in deposits and $34,039,389 in investments. For purposes of the Statement of Cash Flows, total cash and cash equivalents at December 31, 2000 is composed of $12,948,781 in deposits and SORTA's investment in STAROhio of $2,626,468.

A. Deposits

At December 31, 2000, the carrying amount of the Authority's deposits was $12,948,781 and the bank balance was $14,599,678 (primarily consisting of certificates of deposit), $14,520,381 of which was covered by federal depository insurance or surety bonds provided by a commercial insurance company and $79,297 was uninsured and uncollateralized as defined by the GASB. However, the $79,297 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, 2000. 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 1	Category 2	Category 3	Carrying Amount	Fair Value
U.S. Government securities	$31,412,921	$ —	$ —	$31,412,921	$31,591,631
STAROhio				2,626,468	2,626,468
Total				$34,039,389	$34,218,099

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.

The Authority's deposits and investments are included in the accompanying balance sheets under the caption "Cash and investments".

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, 2000) had been owned by SORTA, the provision for depreciation for the years ended December 31, 2000 and 1999 would have increased approximately $650,000 in each year.

Notes to Financial Statements for the years ended December 31, 2000 and 1999 (continued)

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.

During 2000, the Authority paid $2 million to the City for an easement, which will enable the Authority to utilize the Riverfront Transit Center (the "Transit Center") being constructed by the City. Once the project is complete, the Transit Center will enable SORTA to expand its service to the Riverfront area to accommodate the development occurring in this portion of the City. The payment was capitalized as part of the Authority's property, facilities and equipment.

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, 2000 and 1999 consist of the following:

	2000	1999
Federal:		
FTA-Planning Assistance	—	$50,259
Federal Highway Administration Surface Transportation Program	$1,093,739	1,457,590
FTA-Maintenance and Other Assistance	17,125,151	12,819,312
Total	$18,218,890	$14,327,161
State:		
ODOT-Fuel Tax Reimbursement	$796,074	$761,369
ODOT-Elderly and Handicapped Grant	331,965	321,845
ODOT-Maintenance and Other Assistance	3,535,718	3,632,459
Total	$4,663,757	$4,715,673
Local:		
Cincinnati Board of Education Contract	$3,826,232	$3,563,701
Hamilton County	360,960	338,603
Warren County	101,500	100,193
Butler County	86,074	2,753
Deerfield Township	38,646	11,224
Clermont County	28,319	—
City of Mason	12,646	11,224
City of Sharonville	8,750	—
Other	101,092	—
Total	$4,564,219	$4,027,698

Notes to Financial Statements
for the years ended December 31, 2000 and 1999 (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 $246,000 in 2000 and $274,000 in 1999. At December 31, 2000, the minimum future payments under leases with terms extending beyond one year are as follows:

Year	Amount
2001	$253,797
2002	256,660
2003	235,821
2004	245,032
2005	256,217
Thereafter	978,905
Total	$2,226,432

SORTA also leases six revenue vehicles under a master lease-purchase agreement. Based on the terms of the agreement, it has been classified as a capital lease. The capitalized cost and accumulated amortization recorded for these vehicles amounted to $1,376,358 and $286,971 respectively, at December 31, 2000.

The agreement calls for semi-annual payments of interest with the entire principal balance due April 29, 2003. Future minimum lease payments under the capital leases are as follows:

Year	Amount
2001	$ 67,744
2002	67,744
2003	1,410,231
Total minimum lease payments	1,545,719
Less amount representing interest	169,361
Present value of net minimum lease payments	$1,376,358

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 2000 and 1999 employer contribution rate for local government employer units was 10.84% and 13.55%, respectively, of covered payroll including 4.3% and 4.2%, respectively, 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, 2000, 1999 and 1998 were $2,402,000, $3,257,000, and $3,106,000, respectively, equal to 100% of the required contribution for each year.

B. Private Pension Plans

Plan Description. Certain retirees (49 at January 1, 2001) 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, 2000, 1999 and 1998 were determined using the unit credit actuarial cost method as follows:

	2000	1999	1998
Annual required contribution	—	—	—
Interest on net pension obligation	—	—	—
Actuarial adjustment to net pension obligation	—	$(142,444)	—
Annual pension cost	—	(142,444)	—
Contribution/benefit payments made	$(73,581)	(104,798)	$(125,657)
Decrease in net pension obligation	(73,581)	(247,242)	(125,657)
Net pension obligation beginning of year	426,063	673,305	798,962
Net pension obligation end of year	$352,482	$426,063	$673,305

The net pension obligation was actuarially determined using a mortality assumption obtained from the Unisex Pension Table for 1984 and the 2000 and 1999 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 retirants 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 postretirement 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 2000 and 1999 was 4.3% and 4.2%, respectively, of covered payroll. During 2000 and 1999, $1,579,000 and $1,463,000, respectively, of SORTA's total contribution to PERS was used for postretirement benefits. At December 31, 2000, 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 1999 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.

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 1999 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%.

Notes to Financial Statements for the years ended December 31, 2000 and 1999 (continued)

At December 31, 1999 (latest information available), there were 401,339 active participants contributing to the plan. The Authority's actuarially required OPEB contribution for 1999 equalled the actual amount contributed to PERS by SORTA. In addition, at December 31, 1999, the actuarial value of the plan's net assets available for OPEB approximated $10.8 billion and the actuarial accrued liability and the unfunded actuarial accrued liability, based on the actuarial method used, were $12.5 billion and $1.7 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, 2000, 10 individuals were receiving health care benefits and 293 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:

	2000	1999
Health care benefits	$ 86,044	$ 75,995
Life insurance benefits	$228,163	$221,606

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.

Notes to Financial Statements for the years ended December 31, 2000 and 1999 (continued)

These liabilities were determined based on the following assumptions:

	2000	1999
Medical inflation assumptions	**	**
Future annual increases in life insurance premiums	2.00%	2.00%
Remaining life expectancy*		
Medical	Individually Determined	
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).
** 8% in 2001, 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, 2000 and 1999.

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. 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 6%.

Notes to Financial Statements
for the years ended December 31, 2000 and 1999 (continued)

The changes in the liabilities for self-insured risks for the years ended December 31, 2000 and 1999 are as follows:

	Workers' Compensation	Public Liability and Property Damage	Total
Balance January 1, 1999	$3,169,096	$ 519,380	$3,688,476
Claims net of changes in estimates	584,903	547,874	1,132,777
Payments	(340,947)	(383,254)	(724,201)
Balance December 31, 1999	3,413,052	684,000	4,097,052
Claims net of changes in estimates	404,403	331,392	735,795
Payments	(348,903)	(290,707)	(639,610)
Balance December 31, 2000	$3,468,552	$ 724,685	$4,193,237

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, 2000, 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, 2000, 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, 2000 of $7.1 million. These contracts are being financed primarily through federal grant programs.

Notes to Financial Statements
for the years ended December 31, 2000 and 1999 (continued)

11. New Accounting Standards

The Governmental Accounting Standards Board has issued Statement No. 33, "Accounting and Financial Reporting for Nonexchange Transactions" and Statement No. 34, "Basic Financial Statements–and Management's Discussion and Analysis–for State and Local Governments". These statements establish accounting standards for non-exchange transactions such as grants and other assistance provided to the Authority by other governmental units and revise accounting and reporting standards for general purpose external financial reporting by governmental units. Statement No. 33 is effective for the Authority's year ending December 31, 2001 and Statement No. 34 is effective for the year ending December 31, 2003. The Authority has not completed an analysis of the impact of these two statements on its reported financial condition and results of operations.

12. Subsequent Event

Effective April 6, 2001, SORTA entered into a master lease-purchase agreement to lease 24 revenue vehicles and 40 paratransit 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 are expected to approximate $8.6 million. Future minimum lease payments (including interest) will be approximately $.4 million in 2002 through 2005 and approximately $9.1 million in 2006.

Southwest Ohio Regional Transit Authority

Supplemental Schedule of Expenditures of Federal Awards for the year ended December 31, 2000

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	$ 20,130
		OH-90-X176	11,893
		OH-90-X203	87,824
		OH-90-X233	169,790
		OH-90-X265	2,759,897
		OH-90-X276	125,103
		OH-90-X308	11,924
		OH-90-X319	4,304
		OH-90-X343	12,645,822
		OH-90-X367	3,620,387
Total CFDA #20.507			19,457,074
Passed-through the Ohio Department of Transportation-Federal Transit Administration-Capital Improvements Grant	20.500	OH-03-0164	11,187
		OH-03-0175	2,141,359
			2,152,546
Passed-through the OKI Regional Council of Governments-Federal Transit Administration-Reverse Commute Job Access	20.500	OH-37-X007	182,750
Total CFDA #20.500			2,335,296
Total-U.S. Department of Transportation-Federal Transit Cluster			21,792,370
Federal Highway Administration			
Passed-through the Ohio Department of Transportation-Federal Highway Administration-Highway Planning and Construction Grants	20.205	9168	1,093,739
Passed-through the OKI Regional Council of Governments-Federal Highway Administration-Congestion Mitigation Air Quality Program	20.205	553581	50,000
Total CFDA # 20.205			1,143,739
Total Expenditures of Federal Awards-All U.S. Department of Transportation			$22,936,109

See note to the Supplemental Schedule of Expenditures of Federal Awards

Note to the Supplemental Schedule of Expenditures of Federal Awards for the year ended December 31, 2000

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, 2000. 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.

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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 financial statements of the Southwest Ohio Regional Transit Authority (the "Authority") as of and for the year ended December 31, 2000, and have issued our report thereon dated March 28, 2001 (April 6, 2001 as to Note 12). We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that 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.

Deloitte & Touche LLP

March 28, 2001

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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, 2000. 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, 2000.

Internal Control Over Compliance

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

Our consideration of the 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 28, 2001

Schedule of Findings and Questioned Costs for the Year Ended December 31, 2000

Summary of Auditors' Results

- Type of Report Issued on the Financial Statements as of and for the Year Ended December 31, 2000–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, 2000:
  - Federal Transit Cluster:
    - CFDA #20.500 Federal Transit Capital Improvement Grants
    - CFDA #20.507 Federal Transit Capital and Operating Assistance Formula Grants
- Dollar Threshold Used to Distinguish Between Type A and Type B Programs–$688,083
- 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, 2000

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, 2000

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

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

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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
JUNE 28, 2001