

**SOUTHWEST OHIO REGIONAL  
TRANSIT AUTHORITY**

Single Audit Report  
for the Year Ended  
December 31, 2005





**Auditor of State  
Betty Montgomery**

Board of Trustees  
Southwest Ohio Regional Transit Authority  
1014 Vine Street  
Suite 2000  
Cincinnati, Ohio 45202-1116

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, 2005 through December 31, 2005. 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.

A handwritten signature in cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY  
Auditor of State

July 7, 2006

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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, 2005 and 2004 and the related statements of revenues, expenses, and changes in net assets 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 respective financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the respective financial statements, 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, 2005 and 2004, 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.

Management's Discussion and Analysis on pages 3 - 9 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the Authority's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and we do not express an opinion on it.

Our audit was conducted for the purpose of forming an opinion on the Authority's basic financial statements. The accompanying supplemental schedule of expenditures of federal awards for the year ended December 31, 2005 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 supplemental schedule is the responsibility of the Authority's management. Such information has been subjected to the auditing procedures applied in our audit of the 2005 basic financial statements and, in our opinion, is fairly stated, in all material respects, when considered in relation to the 2005 basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 25, 2006, on our consideration of internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our 2005 audit.

*Deloitte & Touche LLP*

May 25, 2006

## **Southwest Ohio Regional Transit Authority**

### **Management's Discussion and Analysis**

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

#### **Financial Highlights**

- The Authority's total net assets decreased over the course of the year's operations by \$3.8 million due primarily to capital grant revenue being less than current year depreciation and amortization expense.
- Operating revenue for the Authority was \$3.4 million higher totaling \$19.1 million. This 21.9% increase was due to an increase in passenger fares resulting from rate increases in base fares, child fares, Fare Deal and monthly passes, and the elimination of discounted non peak hour and weekend fares.
- The Authority's operating expenses, excluding depreciation and before the grant pass through, increased by \$3.5 million. This 4.8% increase was due to higher fuel costs, higher health care costs, increased casualty and liability expense and a new labor contract with higher hourly wage rates, and was partially offset by the full-year effect of the route rationalization implemented in 2004 which reduced operator hours and gallons of fuel used.
- Transit Fund revenue required from the City of Cincinnati increased \$0.5 million due to lower federal maintenance grants and reimbursements.
- Investment income, net of the decrease in fair market value, increased by \$126,000 or 21.4% due primarily to higher interest rates and offset partially by a decrease in fair value of the investment portfolio.

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

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

#### **Required Financial Statements**

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

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

## Southwest Ohio Regional Transit Authority

### Management's Discussion and Analysis (continued)

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

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

#### Notes to the Financial Statements

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

#### Financial Analysis of the Authority

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

#### Condensed Balance Sheets

##### December 31, 2005, 2004, and 2003 (In Thousands)

	2005	2004	2003
Current assets	\$54,297	\$51,766	\$54,147
Non-current assets	3,719	4,115	4,007
Capital assets-net	<u>74,277</u>	<u>78,068</u>	<u>77,697</u>
<b>Total assets</b>	<u><u>\$132,293</u></u>	<u><u>\$133,949</u></u>	<u><u>\$135,851</u></u>
Current liabilities	\$41,351	\$29,491	\$30,986
Non-current liabilities	<u>16,289</u>	<u>25,971</u>	<u>26,688</u>
<b>Total liabilities</b>	<u><u>57,640</u></u>	<u><u>55,462</u></u>	<u><u>57,674</u></u>
Net assets:			
Invested in capital assets, net of related debt	55,640	59,431	59,061
Restricted	992	879	514
Unrestricted	<u>18,021</u>	<u>18,177</u>	<u>18,602</u>
<b>Total net assets</b>	<u><u>74,653</u></u>	<u><u>78,487</u></u>	<u><u>78,177</u></u>
<b>Total liabilities and net assets</b>	<u><u>\$132,293</u></u>	<u><u>\$133,949</u></u>	<u><u>\$135,851</u></u>

## **Southwest Ohio Regional Transit Authority**

### **Management's Discussion and Analysis (continued)**

The \$8.6 million lease payment due in 2006 is the primary reason for the \$10.9 million increase in current liabilities and the \$8.8 million decrease in non-current liabilities from 2004. Net assets decreased \$3.8 million to \$74.7 million in 2005 from \$78.5 million in 2004, which was a slight increase from \$78.2 million in 2003. The 4.9% decrease in 2005 was the result of the capital grant revenue being less than current year depreciation and amortization expense. The .4% increase in net assets from 2003 to 2004 was due to capital grant revenue in excess of depreciation expense.

By far the largest portion of the Authority's net assets reflect investment in capital assets (e.g., diesel and paratransit buses and operating facilities) less any related debt used to acquire those assets that is still outstanding. The Authority uses these capital assets to provide public transportation service for Hamilton County and small portions of Warren, Clermont and Butler Counties. These assets are not available to liquidate liabilities or for other spending. Included in investments is \$18.6 million that we plan to use to satisfy the capital lease obligation.

**Southwest Ohio Regional Transit Authority**

**Management's Discussion and Analysis (continued)**

**Condensed Statements of Changes in Net Assets**  
**Years Ended December 31, 2005, 2004, and 2003 (In Thousands)**

	2005	2004	2003
<b>Operating revenues:</b>			
Passenger fares for transit service	\$18,088	\$14,852	\$14,758
Special transit fares	562	414	487
Auxiliary transportation revenue	459	412	392
<b>Total</b>	<u>19,109</u>	<u>15,678</u>	<u>15,637</u>
<b>Operating expenses excluding depreciation and grant pass through:</b>			
Labor	35,409	35,758	36,271
Fringe benefits	17,256	16,266	15,971
Materials and supplies consumed	10,597	8,955	8,222
Services	2,755	2,660	2,704
Utilities	1,560	1,302	1,341
Casualty and liability	288	(335)	1,343
Taxes	995	936	896
Purchased transportation services	5,898	5,922	5,840
Leases and rentals	506	467	455
Miscellaneous	519	391	1,311
<b>Total</b>	<u>75,783</u>	<u>72,322</u>	<u>74,354</u>
Depreciation expense	<u>10,606</u>	<u>10,090</u>	<u>9,550</u>
<b>Operating loss before grant pass through</b>	<b>(67,280)</b>	<b>(66,734)</b>	<b>(68,267)</b>
Grant pass through—Riverfront Transit Center	—	—	3,943
Grant pass through—Union Township Park & Ride	—	770	—
<b>Operating loss</b>	<b>(67,280)</b>	<b>(67,504)</b>	<b>(72,210)</b>
<b>Net non-operating revenues (expenses):</b>			
Transit Fund assistance	36,118	35,660	36,808
Federal maintenance grants and reimbursements	12,238	12,995	14,018
State ADA, special fare assistance and fuel tax reimbursement	1,340	1,351	1,307
Investment income	1,111	754	699
Net (decrease) in fair value of investments	(398)	(167)	(259)
Non-transportation revenue	668	585	513
Other	5,596	5,466	5,632
<b>Non-operating revenues and expenses, net before grant pass through</b>	<b>56,673</b>	<b>56,644</b>	<b>58,718</b>

**Southwest Ohio Regional Transit Authority**

**Management's Discussion and Analysis (continued)**

	2005	2004	2003
Transit Fund grant pass through– Riverfront Transit Center	—	—	735
Federal grant pass through–Riverfront Transit Center & Union Township Park & Ride	—	624	3,208
State grant pass through–Union Township Park & Ride	—	146	—
<b>Total</b>	<u>56,673</u>	<u>57,414</u>	<u>62,661</u>
<b>Net loss before capital grant activity</b>	(10,607)	(10,090)	(9,549)
Capital Contributions	6,774	10,400	6,382
<b>Change in net assets</b>	<u>(3,833)</u>	<u>310</u>	<u>(3,167)</u>
<b>Net assets, beginning of year</b>	<u>78,487</u>	<u>78,177</u>	<u>81,344</u>
<b>Net assets, end of year</b>	<u><u>\$74,654</u></u>	<u><u>\$78,487</u></u>	<u><u>\$78,177</u></u>

The Authority's operating revenues increased by \$3.4 million to \$19.1 million in 2005 compared to \$15.7 million in 2004. This 21.9% increase was the result of the fare increase beginning in February that included rate increases in base fares, child fares, Fare Deal, and monthly passes and the elimination of discounted non peak hours and weekend fares. Operating revenues increased .27% between 2003 and 2004 due to increases in zone and transfer charge fares.

The Authority's operating expenses, excluding depreciation, increased by \$2.7 million to \$75.8 million in 2005 from \$73.1 in 2004. This 3.7% increase was due to higher fuel, health care, utility and casualty costs, and a new labor contract. The higher expenses were partially offset by the full-year effect the route rationalization implemented during 2004 as a result of Comprehensive Operational Analysis Study, and decreased federal and state pass through funding for the Union Township Park and Ride.

Operating expenses, excluding depreciation and amortization, in 2004 decreased by \$5.2 million as compared to 2003. \$3.2 million of that decrease was due to decreased federal, state, and local pass through for the Riverfront Transit Center and Union Township for a Park & Ride. The remaining \$2.0 million decrease was a result of reduced operating costs due to route rationalization which was a result of a Comprehensive Operational Analysis Study, along with decreased claims liability and miscellaneous expenses.

Non-operating revenues decreased \$0.7 million from \$57.4 million in 2004 to \$56.7 million in 2005. A decrease of \$0.8 million due to the completion of the federal and state pass through funding for the Union Township Park & Ride and a decrease of \$0.8 million in federal maintenance grants and reimbursement were offset by \$0.5 million increase in Transit Fund assistance, and \$0.4 from higher investment income and increased local operating grants and special fare assistance.

## Southwest Ohio Regional Transit Authority

### Management's Discussion and Analysis (continued)

The 2004 decrease in non-operating revenues of \$5.2 million is related to the decrease in pass through funds for capital projects of \$3.2 million. The remaining \$2.0 million is due to reduced Transit Fund income of \$1.1 million and \$1.0 million reduction in federal maintenance grants and reimbursements offset by small increases in investment income net of fair value adjustment of \$0.1 million.

#### Condensed Statements of Cash Flows for years ended December 31, 2005, 2004 and 2003 (In Thousands)

<b>Cash flows from operating activities:</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>
Receipts from fares and charters	\$18,919	\$15,585	\$15,159
Payments for labor, employee benefits, claims, insurance and to suppliers	<u>(75,155)</u>	<u>(71,781)</u>	<u>(77,341)</u>
<b>Net cash used in operating activities</b>	<u>(56,236)</u>	<u>(56,196)</u>	<u>(62,182)</u>
<b>Cash flow from noncapital financing activities:</b>			
Transfer from City of Cincinnati Income Tax-Transit Fund	36,402	36,758	35,471
Federal, State and other local assistance and reimbursements	<u>19,347</u>	<u>18,964</u>	<u>24,017</u>
<b>Net cash provided by noncapital financing activities</b>	<u>55,749</u>	<u>55,722</u>	<u>59,488</u>
<b>Cash flows from capital and related financing activities:</b>			
Capital grants received:			
City of Cincinnati, federal, state and other local	6,930	8,284	3,794
Additions to capital assets	(6,837)	(10,482)	(5,855)
Interest paid on capital lease obligations	<u>(834)</u>	<u>(865)</u>	<u>(2,301)</u>
<b>Net used in capital and related financing activities</b>	<u>(741)</u>	<u>(3,063)</u>	<u>(4,362)</u>
<b>Cash flows from investing activities:</b>			
Net cash receipts from investment securities	<u>3,553</u>	<u>1,931</u>	<u>(2,657)</u>
Net cash provided (used in) investing activities	<u>3,553</u>	<u>1,931</u>	<u>(2,657)</u>
<b>Net change in cash and cash equivalents</b>	2,325	(1,606)	(9,713)
<b>Cash &amp; cash equivalents at beginning of year</b>	<u>3,693</u>	<u>5,299</u>	<u>15,012</u>
<b>Cash &amp; cash equivalents at end of year</b>	<u>\$6,018</u>	<u>\$3,693</u>	<u>\$5,299</u>

## Southwest Ohio Regional Transit Authority

### Management's Discussion and Analysis (concluded)

In 2005, the net cash used in operating activities was virtually unchanged despite the passenger fare increase and savings from the full-year effect of the route rationalization due to higher fuel, health care, casualty and utility costs, and a new labor contract. Net cash provided by non-capital financing activities remained unchanged with the decrease from the City Transit Fund being offset by an increase in federal, state and other local assistance reimbursement. The net cash used in capital and related financing activities decreased \$2.3 million due to a \$3.6 million decrease in additions to capital assets that is partially offset by \$1.3 million lower capital grants received from federal, state and local sources.

Net cash used for operating activities decreased by \$5.6 million in 2004 as a result of decreased operating expenses along with increased passenger fare revenues. Net cash provided by non-capital financing activities decreased \$3.8 million due to the elimination of the pass through to the City for the Riverfront Transit Center of \$3.9 million offset by the pass through of \$0.8 million in funds for the Union Township Park & Ride, along with a decrease in state maintenance grants, reimbursements of \$0.6 million and special fare assistance and other local operating assistance received of \$0.2 million. Net cash used in capital and related financing activities decreased \$1.7 million as a result of reduced payments on capital lease obligations of \$1.4 million, an increase in capital assets of \$4.6 million offset by increases in capital grants received from the City of \$0.5 million and federal, state, and other local of \$4.4 million.

#### Capital Asset and Debt Administration

**Capital Assets:** The Authority's investment in capital assets amounts to \$74.3 million, net of accumulated depreciation as of December 31, 2005, a decrease of \$3.8 million (4.9%). Capital assets include land and land improvements, revenue producing and service equipment, buildings and structures, shop equipment, office furnishings and computer equipment. Major capital asset expenditures during the current fiscal year include the following:

- Rehabilitation of Government Square, the major transit hub in downtown Cincinnati, totaling \$4.6 million
- Purchase of paratransit buses and vans for Access totaling \$0.4 million
- Purchase and installation of Trapeze, Maximo, and Time and Attendance software packages totaling \$0.7 million.

See Note 5 to the financial statements for more detailed information regarding capital assets.

**Long-term Debt:** The Authority has outstanding leases on buses in the amount of \$18.6 million. This debt consists of an \$8.6 million lease on 24 Gillig buses and 40 paratransit buses which mature in 2006 and a \$10 million lease on 38 Gillig buses which matures in 2011. See Note 7 to the financial statements for more detailed information regarding capital leases.

#### Requests for Information

This financial report is designed to provide a general overview of the Authority's finances for all those with an interest in its finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Director of Accounting and Budget, Southwest Ohio Regional Transit Authority, 1014 Vine Street, Suite 2000, Cincinnati, Ohio, 45202.

**Southwest Ohio Regional Transit Authority**

**Balance Sheets  
as of December 31, 2005 and 2004**

<b>ASSETS</b>	<b>2005</b>	<b>2004</b>
<b>Current assets:</b>		
Cash and cash equivalents (Note 4)	\$2,298,985	\$144,875
Investments (Note 4)	39,934,813	41,940,095
Receivables:		
Federal assistance	6,976,899	6,970,808
State assistance	112,886	292,389
Other	1,345,399	1,101,310
Receivables for capital assistance-restricted	2,125,801	566,577
Inventory of materials and supplies	1,328,139	1,170,783
Prepaid expenses and other current assets	174,259	145,528
<b>Total current assets</b>	<u>54,297,181</u>	<u>52,332,365</u>
<b>Non-current assets:</b>		
Cash and cash equivalents-restricted (Notes 4 and 7)	3,719,306	3,548,794
Capital assets (Notes 5 and 7):		
Land and buildings	14,681,926	14,667,926
Improvements	19,961,669	15,009,693
Revenue vehicles	98,481,847	98,401,445
Other equipment	27,678,367	26,281,419
Total capital assets	<u>160,803,809</u>	<u>154,360,483</u>
Less allowance for depreciation and amortization	<u>86,527,426</u>	<u>76,292,665</u>
Capital assets-net	<u>74,276,383</u>	<u>78,067,818</u>
<b>Total non-current assets</b>	<u>77,995,689</u>	<u>81,616,612</u>
<b>Total assets</b>	<u>\$132,292,870</u>	<u>\$133,948,977</u>

(continued)

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

**Southwest Ohio Regional Transit Authority**  
**Balance Sheets**  
**as of December 31, 2005 and 2004 (continued)**

<b>LIABILITIES AND NET ASSETS</b>	<b>2005</b>	<b>2004</b>
<b>Current liabilities:</b>		
Accounts payable	\$1,596,083	\$1,571,726
Capital expenditures payable	2,650,238	929,582
Accrued payroll	1,336,616	1,307,517
Accrued payroll taxes and other benefits (Note 8)	4,271,667	4,099,343
Current portion of estimated claims payable (Note 9)	762,000	603,500
Current portion of capital lease obligation (Note 7)	8,636,360	—
Other current liabilities	1,480,166	1,652,276
Advance from City of Cincinnati		
Income Tax-Transit Fund (Note 3):		
For current operations	2,658,766	2,375,564
For capital purposes	<u>17,958,914</u>	<u>17,881,408</u>
<b>Total current liabilities</b>	<u>41,350,810</u>	<u>30,420,916</u>
<b>Non-current liabilities:</b>		
Deferred capital grants	2,726,837	2,669,707
Estimated claims payable, net of current portion (Note 9)	3,453,344	3,587,856
Capital lease obligation, net of current portion (Note 7)	10,000,000	18,636,360
Accrued pension cost (Note 8)	<u>108,208</u>	<u>147,097</u>
<b>Total non-current liabilities</b>	<u>16,288,389</u>	<u>25,041,020</u>
<b>Total liabilities</b>	<u>57,639,199</u>	<u>55,461,936</u>
<b>Net assets:</b>		
Invested in capital assets, net of related debt	55,640,023	59,431,458
Restricted	992,469	879,087
Unrestricted	<u>18,021,179</u>	<u>18,176,496</u>
<b>Total net assets</b>	<u>74,653,671</u>	<u>78,487,041</u>
<b>Total liabilities and net assets</b>	<u>\$132,292,870</u>	<u>\$133,948,977</u>

(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 Net Assets  
for the years ended December 31, 2005 and 2004**

	<b>2005</b>	<b>2004</b>
<b>Operating revenues</b>		
Passenger fares for transit service	\$18,087,945	\$14,852,093
Special transit fares	562,248	413,746
Auxiliary transportation revenue	459,224	412,500
<b>Total</b>	<u>19,109,417</u>	<u>15,678,339</u>
 <b>Operating expenses other than depreciation:</b>		
Labor	35,408,619	35,758,546
Fringe benefits	17,255,630	16,266,494
Materials and supplies consumed	10,596,991	8,954,545
Services	2,754,566	2,660,060
Utilities	1,560,567	1,302,292
Casualty and liability	288,402	(335,205)
Taxes	994,653	935,707
Purchased transportation services	5,898,553	5,921,439
Leases and rentals	505,732	466,879
Miscellaneous	519,571	391,401
Grant pass-through—Union Twp. Park & Ride	—	770,000
<b>Total</b>	<u>75,783,284</u>	<u>73,092,158</u>
 Depreciation and amortization (Note 5)	<u>10,606,406</u>	<u>10,089,634</u>
Total operating expenses	<u>86,389,690</u>	<u>83,181,792</u>
 <b>Operating loss</b>	<u>(67,280,273)</u>	<u>(67,503,453)</u>
 <b>Non-operating revenues (expenses):</b>		
Federal maintenance grants and reimbursements (Note 6)	12,238,379	12,995,380
Federal grant pass-through—Union Twp. Park & Ride (Note 6)	—	624,000
State maintenance grants, reimbursements and special fare assistance (Note 6)	1,340,354	1,350,933
State grant pass-through—Union Twp. Park & Ride (Note 6)	—	146,000
Local operating grants and special fare assistance (Note 6)	5,595,410	5,465,770
Investment income-net (Note 7)	1,110,840	753,956
Decrease in fair value of investments	(397,689)	(166,529)
Non-transportation revenue	668,100	584,513
<b>Total</b>	<u>20,555,394</u>	<u>21,754,023</u>

(continued)

**Southwest Ohio Regional Transit Authority**

**Statements of Revenues, Expenses and Changes in Net Assets  
for the years ended December 31, 2005 and 2004 (continued)**

	<b>2005</b>	<b>2004</b>
<b>Loss before operating assistance provided by City of Cincinnati Income Tax-Transit Fund and capital grant activity</b>	\$(46,724,879)	\$(45,749,430)
<b>Operating assistance from the City of Cincinnati Income Tax-Transit Fund (Note 3)</b>	<u>36,118,473</u>	<u>35,659,796</u>
<b>Net loss before capital grant activity</b>	(10,606,406)	(10,089,634)
<b>Capital grant revenue (Notes 2C and 6)</b>	<u>6,773,036</u>	<u>10,399,729</u>
<b>Increase (decrease) in net assets during the year</b>	(3,833,370)	310,095
<b>Net assets, beginning of year</b>	<u>78,487,041</u>	<u>78,176,946</u>
<b>Net assets, end of year</b>	<u><u>\$74,653,671</u></u>	<u><u>\$78,487,041</u></u>

(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, 2005 and 2004**

	<b>2005</b>	<b>2004</b>
<b>Cash flows from operating activities:</b>		
Receipts from fares and charters	\$18,918,644	\$15,585,361
Payments to suppliers	(21,596,276)	(18,674,184)
Payments for labor and employee benefits	(52,405,810)	(51,705,335)
Payments for claims and insurance	<u>(1,152,292)</u>	<u>(1,402,050)</u>
<b>Net cash used in operating activities</b>	<u>(56,235,734)</u>	<u>(56,196,208)</u>
<b>Cash flows from noncapital financing activities:</b>		
Transfer from City of Cincinnati Income Tax-Transit Fund	36,401,675	36,758,165
Federal maintenance grants and reimbursements	12,232,288	12,146,550
State maintenance grants, reimbursements and special fare assistance	1,519,857	1,351,303
Other local operating assistance received	<u>5,595,410</u>	<u>5,465,770</u>
<b>Net cash provided by noncapital financing activities</b>	<u>55,749,230</u>	<u>55,721,788</u>
<b>Cash flows from capital and related financing activities:</b>		
Capital grants received:		
City of Cincinnati Income Tax-Transit Fund	1,270,325	499,386
Federal, state and other local	5,658,826	7,784,398
Additions to capital assets	(6,836,570)	(10,481,597)
Interest paid on capital lease obligation	<u>(833,925)</u>	<u>(864,356)</u>
<b>Net cash used in capital and related financing activities</b>	<u>(741,344)</u>	<u>(3,062,169)</u>
<b>Cash flows from investing activities:</b>		
Net cash receipts from investment securities	1,607,714	337,006
Interest received	<u>1,944,756</u>	<u>1,594,062</u>
<b>Net cash provided by investing activities</b>	<u>3,552,470</u>	<u>1,931,068</u>
<b>Net increase (decrease) in cash and cash equivalents</b>	2,324,622	(1,605,521)
<b>Cash and cash equivalents at beginning of year</b>	<u>\$3,693,669</u>	<u>\$5,299,190</u>
<b>Cash and cash equivalents at end of year</b>	<u>\$6,018,291</u>	<u>\$3,693,669</u>

(continued)

**Southwest Ohio Regional Transit Authority**

**Statements of Cash Flows  
for the years ended December 31, 2005 and 2004 (continued)**

	<b>2005</b>	<b>2004</b>
<b>Reconciliation of operating loss to net cash used in operating activities:</b>		
Operating loss	\$(67,280,273)	\$(67,503,453)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization	10,606,406	10,089,634
Non-transportation revenue	668,100	584,513
Changes in assets and liabilities:		
Other receivables	(244,089)	1,441,995
Restricted-receivables for capital assistance	(1,559,224)	398,742
Inventory of materials and supplies	(157,356)	(106,332)
Prepaid expenses and other current assets	(28,731)	47,701
Accounts payable	24,357	134,795
Capital expenditures payable	1,720,656	(1,630)
Accrued expenses	201,423	166,714
Other liabilities	(210,991)	(357,783)
Estimated claims payable	<u>23,988</u>	<u>(1,091,104)</u>
<b>Net cash used in operating activities</b>	<b><u>\$(56,235,734)</u></b>	<b><u>\$(56,196,208)</u></b>
<b>NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES</b>		
<b>Decrease in fair value of investments</b>	<b><u>\$(397,689)</u></b>	<b><u>\$(166,529)</u></b>

(concluded)

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

## Southwest Ohio Regional Transit Authority

### Notes to the Financial Statements for the years ended December 31, 2005 and 2004

#### 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 (“GASB”), “The Financial Reporting Entity,” as amended by GASB Statement No. 39, “Determining Whether Certain Organizations are Component Units (an amendment of GASB Statement No. 14).” Accordingly, the accompanying financial statements include only the accounts and transactions of the Authority. Under the criteria specified in Statements No. 14 and 39, 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 economic resources measurement focus and the accrual basis of accounting. Revenues and expenses are recognized in the period earned or incurred, regardless of the timing of the related cash flows. All transactions are accounted for in a single enterprise fund. In accordance with GASB Statement No. 20 “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 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 the Financial Statements for the years ended December 31, 2005 and 2004 (continued)

#### B. Net Asset Classifications

GASB Statement No. 34, "Basic Financial Statements—And Managements' Discussion and Analysis—for State and Local Governments: Omnibus," requires the classification of net assets into the following three components:

- Invested in capital assets, net of related debt—consisting of capital assets, net of accumulated depreciation and reduced by the outstanding balance of borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- Restricted—consisting of net assets, the use of which is limited by external constraints imposed by creditors (such as through debt covenants), grantors, contributors, laws or regulations of other governments, constitutional provisions or enabling legislation.
- Unrestricted net assets—consisting of net assets that do not meet the definition of "invested in capital assets, net of related debt" or "restricted."

#### C. Nonexchange Transactions

The Authority follows 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 deferred revenue until the expenditures are incurred.

#### D. Passenger Fares

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

#### E. 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.

#### F. 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.

**Southwest Ohio Regional Transit Authority**

**Notes to the Financial Statements  
for the years ended December 31, 2005 and 2004 (continued)**

The Authority has invested funds in STAROhio, an investment pool managed by the State Treasurer's office that 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.

**G. Inventory of Materials and Supplies**

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

**H. 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.

**I. Capital Assets and Depreciation**

Capital assets 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 capital assets, and depreciation/amortization of the cost of those assets is included in the Statements of Revenues, Expenses and Changes in Net Assets.

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

<b>Description</b>	<b>Years</b>
Buildings	40
Improvements	15
Revenue vehicles	4-12
Other equipment	3-10

**J. 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

## **Southwest Ohio Regional Transit Authority**

### **Notes to the Financial Statements for the years ended December 31, 2005 and 2004 (continued)**

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.

#### **K. 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.

#### **L. 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 amortization) and expenditures for individual capital projects to exceed revenue sources without approval by the Board of Trustees. No budget amendments were passed for 2005 and 2004. All budget amounts lapse at year end.

#### **M. Estimates**

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

#### **N. Reclassifications**

Certain amounts reported in the previous year have been reclassified to conform to the current year presentation.

## **Southwest Ohio Regional Transit Authority**

### **Notes to the Financial Statements for the years ended December 31, 2005 and 2004 (continued)**

#### **3. Federal Grants and Local Reimbursements**

SORTA receives 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 capital assistance. In addition to federal and state 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, 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.

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 that 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

## Southwest Ohio Regional Transit Authority

### Notes to the Financial Statements for the years ended December 31, 2005 and 2004 (continued)

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, 2005, the Authority maintained restricted cash and cash equivalents of \$3,719,306, and unrestricted cash and investments of \$42,233,798. The total cash and investments of \$45,953,104 consisted of \$10,931,617 in deposits and \$35,021,487 in investments.

#### Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. The Authority does have a deposit policy for custodial credit risk.

At December 31, 2005, the carrying amount of the Authority's deposits was \$10,931,617 and the bank balance was \$9,508,916, all of which was covered by federal depository insurance, surety bonds provided by a commercial insurance company, or collateralized with securities held by the Federal Reserve in SORTA's name.

#### Investments

As of December 31, 2005 and 2004, the fair value of the System's investments were as follows:

	2005	2004
U.S. Agency bonds	\$35,017,759	\$36,852,529
Star Treasury Reserve of Ohio (STAROhio)	<u>3,728</u>	<u>3,615</u>
Total investments	<u>\$35,021,487</u>	<u>\$36,856,144</u>

Investments held by the Authority at December 31, 2005 are presented below, categorized by investment type and credit quality rating. Credit quality ratings provide information about the investments' credit risk, which is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

**Southwest Ohio Regional Transit Authority**

**Notes to the Financial Statements  
for the years ended December 31, 2005 and 2004 (continued)**

Investment Type	Fair Value	Not Rated	AAA	AA,A, and BBB	Below BBB
U.S. Agency bonds	\$35,017,759		\$35,017,759		
Star Treasury Reserve of Ohio (STAROhio)	3,728	\$3,728			
<b>Total Investments</b>	<b>\$35,021,487</b>	<b>\$3,728</b>	<b>\$35,017,759</b>	<b>\$0</b>	<b>\$0</b>

The following table presents the Authority's bond investments by length of maturity.

Investment Type	Fair Value	Less Than 1 Year	1 to 5 Years	6 to 10 Years	More Than 10 Years
U.S. Agency bonds	\$35,017,759	\$13,770,598	\$10,803,361	\$10,443,800	\$0
<b>Total Bonds</b>	<b>\$35,017,759</b>	<b>\$13,770,598</b>	<b>\$10,803,361</b>	<b>\$10,443,800</b>	<b>\$0</b>

## 5. Capital Assets

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

	Balance January 1, 2005	Additions	Deletions	Balance December 31, 2005
Capital assets not being depreciated:				
Land	\$13,172,747	\$2,663	—	\$13,175,410
Total capital assets not being depreciated	<u>13,172,747</u>	<u>2,663</u>	<u>—</u>	<u>13,175,410</u>
Capital assets being depreciated:				
Buildings	1,495,179	11,337	—	1,506,516
Improvements	15,009,693	4,951,976	—	19,961,669
Revenue vehicles	98,401,445	387,754	\$307,352	98,481,847
Other equipment	26,281,419	1,482,840	85,892	27,678,367
Total capital assets being depreciated	<u>141,187,736</u>	<u>6,833,907</u>	<u>393,244</u>	<u>147,628,399</u>
Less accumulated depreciation:				
Buildings	198,119	36,388	—	234,507
Improvements	4,329,813	991,702	—	5,321,515
Revenue vehicles	54,480,870	7,271,482	307,352	61,445,000
Other equipment	17,283,863	2,306,834	64,293	19,526,404
Total accumulated depreciation	<u>76,292,665</u>	<u>10,606,406</u>	<u>371,645</u>	<u>86,527,426</u>
Total capital assets being depreciated, net	<u>64,895,071</u>	<u>(3,772,499)</u>	<u>21,599</u>	<u>61,100,973</u>
Total capital assets, net	<u>\$78,067,818</u>	<u>(\$3,769,836)</u>	<u>\$21,599</u>	<u>\$74,276,383</u>

**Southwest Ohio Regional Transit Authority**

**Notes to the Financial Statements  
for the years ended December 31, 2005 and 2004 (continued)**

Capital asset activity for the year ended December 31, 2004 was as follows:

	Balance January 1, 2004	Additions	Deletions	Balance December 31, 2004
Capital assets not being depreciated:				
Land	<u>\$13,165,910</u>	<u>\$6,837</u>	<u>—</u>	<u>\$13,172,747</u>
Total capital assets not being depreciated	<u>13,165,910</u>	<u>6,837</u>	<u>—</u>	<u>13,172,747</u>
Capital assets being depreciated:				
Buildings	1,495,179	—	—	1,495,179
Improvements	13,141,379	1,868,314	—	15,009,693
Revenue vehicles	95,222,413	6,511,502	\$3,332,470	98,401,445
Other equipment	<u>24,281,551</u>	<u>2,094,944</u>	<u>95,076</u>	<u>26,281,419</u>
Total capital assets being depreciated	<u>134,140,522</u>	<u>10,474,760</u>	<u>3,427,546</u>	<u>141,187,736</u>
Less accumulated depreciation:				
Buildings	161,438	36,681	—	198,119
Improvements	3,599,705	730,108	—	4,329,813
Revenue vehicles	50,811,620	7,001,720	3,332,470	54,480,870
Other equipment	<u>15,036,215</u>	<u>2,321,125</u>	<u>73,477</u>	<u>17,283,863</u>
Total accumulated depreciation	<u>69,608,978</u>	<u>10,089,634</u>	<u>3,405,947</u>	<u>76,292,665</u>
Total capital assets being depreciated, net	<u>64,531,544</u>	<u>385,126</u>	<u>21,599</u>	<u>64,895,071</u>
Total capital assets, net	<u>\$77,697,454</u>	<u>\$391,963</u>	<u>\$21,599</u>	<u>\$78,067,818</u>

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 historical cost of approximately \$28.3 million at December 31, 2005) had been owned by SORTA, the provision for depreciation for the years ended December 31, 2005 and 2004 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.

**Southwest Ohio Regional Transit Authority**

**Notes to the Financial Statements  
for the years ended December 31, 2005 and 2004 (continued)**

**6. Grants, Reimbursements, and Special Fare Assistance**

Grants, reimbursements, and special fare assistance included in the Statements of Revenues, Expenses and Changes in Net Assets for the years ended December 31, 2005 and 2004 consist of the following:

	<b>2005</b>	<b>2004</b>
<b>Non-operating revenues:</b>		
<b>Federal:</b>		
FTA-Maintenance and other assistance	<u>\$12,238,379</u>	<u>\$12,995,380</u>
FTA-grant pass-through–Union Twp. Park & Ride	<u>—</u>	<u>\$624,000</u>
<b>State:</b>		
ODOT-Fuel tax reimbursement	\$933,121	\$886,860
ODOT-Elderly and handicapped grant	304,365	312,329
ODOT-Maintenance and other assistance	102,868	151,744
Total	<u>\$1,340,354</u>	<u>\$1,350,933</u>
State grant pass-through–Union Twp. Park & Ride	<u>—</u>	<u>\$146,000</u>
<b>Local:</b>		
Cincinnati Board of Education Contract	\$4,652,616	\$4,580,869
Hamilton County	585,306	533,200
Warren County	32,128	35,823
Deerfield Township	26,830	24,511
City of Mason	26,830	24,511
Other	271,700	266,856
Total	<u>\$5,595,410</u>	<u>\$5,465,770</u>
<b>Capital grant revenue:</b>		
Federal	\$1,285,050	\$6,245,795
State	4,773,415	1,861,285
Local	<u>714,571</u>	<u>2,292,649</u>
Total	<u>\$6,773,036</u>	<u>\$10,399,729</u>

**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 \$272,000 in 2005 and \$260,000 in 2004.

**Southwest Ohio Regional Transit Authority**

**Notes to the Financial Statements  
for the years ended December 31, 2005 and 2004 (continued)**

At December 31, 2005, the minimum future payments under leases with terms extending beyond one year are as follows:

<u>Year</u>	<u>Amount</u>
2006	\$282,341
2007	293,653
2008	305,434
2009	146,907
Total	<u>\$1,028,335</u>

SORTA also leases 102 revenue vehicles under two master lease-purchase agreements with local financial institutions. Based on the terms of the agreements, they have been classified as capital leases. The capitalized cost and accumulated amortization recorded for these vehicles amounted to \$18,587,672 and \$7,283,387, respectively, at December 31, 2005. Unspent proceeds of the capital leases totalling \$48,688 are included in restricted cash and investments in the accompanying balance sheet as of December 31, 2005.

One of the agreements calls for annual payments of interest with the entire principal balance of \$8,636,360 due April 6, 2006; the other agreement calls for semi-annual payments of interest with the entire principal balance of \$10,000,000 due February 1, 2011. Future minimum lease payments under the capital leases are as follows:

<u>Year</u>	<u>Amount</u>
2006	\$9,470,285
2007	418,000
2008	418,000
2009	418,000
2010	418,000
Thereafter	<u>10,209,000</u>
Total minimum lease payments	21,351,285
Less amount representing interest	<u>2,714,925</u>
Present value of net minimum lease payments	18,636,360
Less amount due in 2006	<u>8,636,360</u>
Amount due after 2006	<u>\$10,000,000</u>

During the years ended December 31, 2005 and 2004, the Authority recognized \$833,916 and \$840,107, respectively, of interest expense under its capital leases.

## Southwest Ohio Regional Transit Authority

### Notes to the Financial Statements for the years ended December 31, 2005 and 2004 (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 Ohio Public Employees Retirement System (“OPERS”), a cost-sharing, multiple-employer defined benefit pension plan. Authority to establish and amend benefits is provided by State statute per Chapter 145 of the Ohio Revised Code. OPERS 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) 222-6705 or 1-800-222-PERS (7377).

OPERS administers three separate pension plans as described below:

- The Traditional Pension Plan (“TP”)—a cost-sharing multiple-employer defined benefit pension plan.
- The Member-Directed Plan (“MD”)—a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the MD Plan, members accumulate retirement assets equal to the value of member and (vested) employer contributions plus any investment earnings thereon.
- The Combined Plan (“CO”)—a cost-sharing multiple-employer defined benefit pension plan. Under the CO Plan, employer contributions are invested by OPERS to provide a formula retirement benefit similar in nature to the TP Plan benefit. Member contributions, the investment of which are self-directed by the members, accumulate retirement assets in a manner similar to the MD plan.

OPERS provides retirement, disability, survivor and death benefits and annual cost-of-living adjustments to members of the TP and CO Plans. Members of the MD Plan do not qualify for ancillary benefits.

**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 OPERS. The 2005 and 2004 employer contribution rate for local government employer units was 13.55% of covered payroll including 4.0% in 2005 and 2004 that is used to fund postretirement health care benefits. The Authority’s total contributions to OPERS for pension benefits (excluding the amount relating to postretirement benefits) for the years ended December 31, 2005, 2004 and 2003 were \$3,637,000, \$3,683,000, and \$3,339,000, respectively, equal to 100% of the required contribution for each year.

##### B. Private Pension Plans

**Plan Description.** Certain retirees (21 at January 1, 2006) continue to participate in the private pension plans which originated under the privately owned transit system (Cincinnati

**Southwest Ohio Regional Transit Authority**

**Notes to the Financial Statements  
for the years ended December 31, 2005 and 2004 (continued)**

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, 2005, 2004 and 2003 were determined using the unit credit actuarial cost method as follows:

	<b>2005</b>	<b>2004</b>	<b>2003</b>
Annual required contribution	—	—	—
Interest on net pension obligation	—	—	—
Actuarial adjustment to net pension obligation	\$(8,631)	—	\$(8,546)
Annual pension cost	(8,631)	—	(8,546)
Contribution/benefit payments made	<u>(30,258)</u>	<u>\$(38,006)</u>	<u>(42,499)</u>
Decrease in net pension obligation	(38,889)	(38,006)	(51,045)
Net pension obligation beginning of year	<u>147,097</u>	<u>185,103</u>	<u>236,148</u>
Net pension obligation end of year	<u>\$108,208</u>	<u>\$147,097</u>	<u>\$185,103</u>

The net pension obligation was actuarially determined using a mortality assumption obtained from the Unisex Pension Table for 1994 and the 2005 and 2004 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 OPERS.** The authority provides health care benefits as a post-employment benefit (as defined by GASB Statement No. 12) through its contributions to OPERS. In addition to the pension benefit described in Note 8A, OPERS provides post-retirement health care benefits to qualifying members of both the TP and CO Plans; however, health care benefits are not statutorily guaranteed. Members of the MD Plan do not qualify for ancillary benefits, including post-employment health care coverage. In order to qualify for post-retirement health care coverage, age and service retirees must have 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 OPERS is considered an Other Post-employment Benefit ("OPEB") as described in GASB Statement No. 12.

## Southwest Ohio Regional Transit Authority

### Notes to the Financial Statements for the years ended December 31, 2005 and 2004 (continued)

A portion of each employer's contribution to OPERS is set aside for the funding of post-retirement health care. The Ohio Revised Code provides statutory authority for employer contributions. For the Authority, 4.0% of covered payroll was the portion of the 13.55% total contribution rate for 2005 and 2004, respectively, that was used to fund health care for each year. The Ohio Revised Code provides the statutory authority requiring public employers to fund postretirement health care through their contributions to OPERS.

The assumptions and calculations noted below were based on OPERS' latest actuarial review performed as of December 31, 2004. 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 the unfunded actuarial accrued liability. All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach, assets are adjusted annually to reflect 25% of unrealized market appreciation or depreciation on investment assets. The assumed rate of return on investments for 2004 was 8.0%. An annual increase of 4.0%, compounded annually, is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4.0% base increase, were assumed to range from 0.5% to 6.3%. Health care costs were assumed to increase at the projected wage inflation rate plus an additional factor ranging from 1% to 6% for the next eight years. In subsequent years (nine and beyond) health care costs were assumed to increase at 4% (the projected wage inflation rate).

OPEB provided through OPERS are advance-funded on an actuarially determined basis. The total number of active contributing participants in the TP and CO Plans was 376,109 and 355,287 at December 31, 2005 and 2004, respectively. The Authority's contributions to OPERS for other post-employment benefits for the years ended December 31, 2005 and 2004 were \$1,523,000 and \$1,543,000, respectively, equal to 100% of the required contributions for each year. The actuarial value of OPERS' net assets available for OPEB at December 31, 2004 was \$10.8 billion. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$29.5 billion and \$18.7 billion, respectively.

On September 9, 2004 the OPERS Retirement Board adopted a Health Care Preservation Plan ("HCPP") with an effective date of January 1, 2007. In addition to the HCPP, OPERS has taken additional action to improve the solvency of the Health Care Fund in 2005 by creating a separate investment pool for health care assets. As an additional component of the HCPP, member and employer contribution rates increased as of January 1, 2006, which will allow additional funds to be allocated to the health care plan.

**Southwest Ohio Regional Transit Authority**

**Notes to the Financial Statements  
for the years ended December 31, 2005 and 2004 (continued)**

**Other Benefits Provided.** In addition to the other postemployment benefits provided by OPERS, SORTA also provides postemployment health care benefits to former employees of Cincinnati Transit, Inc., who do not qualify for OPERS 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, 2005, 2 individuals were receiving health care benefits and 416 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>2005</u>	<u>2004</u>
Health care benefits	\$2,392	\$7,244
Life insurance benefits	\$316,875	\$270,629

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.

These liabilities were determined based on the following assumptions:

	2005	2004
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).

\*\* No medical inflation.

The total expense recognized by the Authority for postemployment benefits not provided under OPERS was approximately \$67,000 and (\$6,000) for the years ended December 31, 2005 and 2004, respectively.

**Southwest Ohio Regional Transit Authority**

**Notes to the Financial Statements  
for the years ended December 31, 2005 and 2004 (continued)**

**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 \$3,000,000 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. The present value of the workers' compensation liability is calculated using an interest rate of 4.54%.

The changes in the liabilities for self-insured risks for the years ended December 31, 2005 and 2004 are as follows:

	<u>Workers' Compensation</u>	<u>Public Liability and Property Damage</u>	<u>Total</u>
Balance, January 1, 2004	\$3,559,302	\$1,723,158	\$5,282,460
Claims, net of changes in estimates	652,652	(370,003)	282,649
Payments	<u>(499,661)</u>	<u>(874,092)</u>	<u>(1,373,753)</u>
Balance, December 31, 2004	3,712,293	479,063	4,191,356
Claims, net of changes in estimates	840,568	335,712	1,176,280
Payments	<u>(783,552)</u>	<u>(368,740)</u>	<u>(1,152,292)</u>
Balance, December 31, 2005	<u>\$3,769,309</u>	<u>\$446,035</u>	<u>\$4,215,344</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.

## Southwest Ohio Regional Transit Authority

### Notes to the Financial Statements for the years ended December 31, 2005 and 2004 (continued)

#### 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, 2005, 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, 2005, 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.

#### 11. New Accounting Pronouncements

During March 2003, the GASB issued Statement No. 40, "Deposits and Investment Risk Disclosures (an amendment of GASB Statement No. 3)." This Statement addresses disclosures related to common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. As an element of interest rate risk, this Statement requires certain disclosures of investments that have fair values that are highly sensitive to changes in interest rates. Deposit and investment policies related to the risks identified in this Statement also should be disclosed. The provisions of this Statement are effective for SORTA in 2005. See Note 4.

During November 2003, the GASB issued Statement No. 42, "Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries." This Statement establishes accounting and financial reporting standards for impairment of capital assets. Under provisions of this Statement, a capital asset is considered impaired when its service has declined significantly and unexpectedly. This Statement also clarifies and establishes accounting requirements for insurance recoveries. The provisions of this Statement were implemented by SORTA in 2005. This statement has no impact on the Authority.

During August 2004, the GASB issued Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions," which addresses how state and local governments should account for and report their costs and obligations related to postemployment healthcare and other nonpension benefits. Collectively, these benefits are commonly referred to as other postemployment benefits, or OPEB. Statement 45 also establishes disclosure requirements for information about the

## **Southwest Ohio Regional Transit Authority**

### **Notes to the Financial Statements for the years ended December 31, 2005 and 2004 (concluded)**

plans in which an employer participates, the funding policy followed, the actuarial valuation process and assumptions, and, for certain employers, the extent to which the plan has been funded over time. Statement 45 will not be effective for SORTA until the year ended December 31, 2008, and as such, the Authority has not determined the impact that this statement will have on its financial statements.

During December 2004, the GASB issued Statement No. 46, "Net Assets Restricted by Legislation, an amendment of GASB Statement No. 34." This statement clarifies that a legally enforceable enabling legislation restriction is one that a party external to a government—such as citizens, public interest groups, or the judiciary—can compel a government to honor. The Statement states that the legal enforceability of an enabling legislation restriction should be reevaluated if any of the resources raised by the enabling legislation are used for a purpose not specified by the enabling legislation or if a government has other cause for reconsideration. Although the determination that a particular restriction is not legally enforceable may cause a government to review the enforceability of other restrictions, it should not necessarily lead a government to the same conclusion for all enabling legislation restrictions. This Statement also specifies the accounting and financial reporting requirements if new enabling legislation replaces existing enabling legislation or if legal enforceability is reevaluated. Finally, this Statement requires governments to disclose the portion of total net assets that is restricted by enabling legislation. The requirements of this Statement are effective for SORTA for 2006, and as such, the Authority has not determined the impact, if any, that this statement will have on its financial statements.

During July 2005, the GASB issued Statement No. 47, "Accounting for Termination Benefits." Statement 47 provides accounting and reporting guidance for state and local governments that offer either voluntary termination benefits (e.g., early retirement incentives) or involuntary termination benefits (i.e., severance). The significant requirements of Statement 47 include the recognition in accrual basis financials as a liability and expense for involuntary termination benefits when (1) a termination plan has been approved by those with the authority to commit the government to the plan, (2) the plan has been communicated to the employees, and (3) the amount can be estimated. A liability and expense for voluntary termination benefits should be recognized when the offer is accepted and the amount can be estimated. Statement 47 also requires employers to disclose a description of the termination benefit arrangements, the cost of the termination benefits, and the significant methods and assumptions used to determine termination benefit liabilities. Statement 47 is effective for SORTA in 2006; as such, the Authority has not determined the impact, if any, this statement will have on its financial statements.

#### **12. Outstanding Commitments**

The Authority has an outstanding commitment to purchase revenue vehicles at December 31, 2005 of \$12.3 million. This contract is being financed primarily through various federal grant programs.

**Southwest Ohio Regional Transit Authority**

**Supplemental Schedule of Expenditures of Federal Awards  
for the year ended December 31, 2005**

Federal Grantor/Pass-through Grantor/ Program Title	Federal CFDA Number	Federal and Pass-through Grant Number	Grant Expenditures
<b>U.S. Department Of Transportation</b>			
Federal Transit Cluster			
Direct Program:			
Federal Transit Administration-Capital and Operating Assistance Formula Grants	20.507	OH-90-X176 OH-90-X203 OH-90-X233 OH-90-X265 OH-90-X319 OH-90-X343 OH-90-X392 OH-90-X455 OH-90-X508 OH-90-X521	\$ 71,524 17,539 42,056 28,511 18,900 32,894 91,138 207,081 8,499,657 <u>3,603,790</u>
<b>Total CFDA #20.507</b>			<u>12,613,090</u>
Direct Program:			
Federal Transit Administration-Capital Improvements Grant	20.500	OH-03-0192 OH-03-0230	3,406 <u>869,743</u>
<b>Total CFDA #20.500</b>			<u>873,149</u>
<b>Total-U.S. Department of Transportation-Federal Transit Cluster</b>			<u>13,486,239</u>
<b>U.S. Department of Homeland Security</b>			
Passed-through the Ohio Department of Public Safety-Emergency Management Agency	97.036	FEMA-3250	<u>8,106</u>
<b>U.S. Department of Treasury</b>			
Internal Revenue Service-Biodiesel Fuel Mixture Excise Tax Refund			<u>55,209</u>
<b>Total Expenditures of Federal Awards</b>			<u>\$13,549,554</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, 2005**

**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 (the "Authority") under programs financed by the U.S. government for the year ended December 31, 2005. 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 INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS 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 basic financial statements of the Southwest Ohio Regional Transit Authority (the "Authority") as of and for the year ended December 31, 2005, and have issued our report thereon dated May 25, 2006. 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 basic 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 basic 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.



May 25, 2006

## 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, 2005. 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, 2005.

### 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*

May 25, 2006

**Southwest Ohio Regional Transit Authority**  
**Schedule of Findings and Questioned Costs**  
**for the Year Ended December 31, 2005**

**Summary of Auditors' Results**

- Type of Report Issued on the Financial Statements as of and for the Year Ended December 31, 2005—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, 2005:
  - 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— \$406,487
  - 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, 2005**

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, 2005**

<b>BOARD OF TRUSTEES</b>	
Chairman	Benjamin Gettler
Trustees	Robert W. Buechner Robert L. Harris Stephan M. Louis Thomas A. Luken Daniel S. Peters Melody Sawyer Richardson Lamont Taylor Timothy R. Williams

<b>ADMINISTRATION</b>	
CEO & General Manager	Michael H. Setzer
Assistant General Manager – Administration & Secretary-Treasurer	H. Theodore Bergh
Assistant General Manager – Operations	Michael L. Brown



Southwest Ohio Regional Transit Authority  
Hamilton County, Ohio

**COMPREHENSIVE ANNUAL FINANCIAL REPORT**

For the Fiscal Year Ended December 31, 2005

Benjamin Gettler  
Chairman  
Board of Trustees

Michael H. Setzer  
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, 2005

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Southwest Ohio Regional Transit Authority

1014 Vine Street, Suite 2000  
Cincinnati, Ohio 45202-1116  
513/632-9226

**Trustees**

Benjamin Gettler  
**Chairman**

Lamont Taylor  
**Vice Chairman**

Robert W. Buechner  
Robert L. Harris  
Stephan M. Louis  
Thomas A. Luken  
Daniel S. Peters  
Melody Sawyer Richardson  
Timothy R. Williams

May 25, 2006

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

The Comprehensive Annual Financial Report (CAFR) of the Southwest Ohio Regional Transit Authority (SORTA or Metro) for the fiscal year ended December 31, 2005, 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, 2004. 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 2004) as well as the previous thirteen 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, Management's Discussion and Analysis, the financial statements (with related footnotes) for the years ended December 31, 2005 and 2004, and the supplemental schedule of revenues, expenses, and changes in net assets—budget and actual for the year ended December 31, 2005.
- **Statistical Section** provides financial, economic, and demographic information which is useful for indicating trends for comparative fiscal periods.



Metro is a non-profit public service of Southwest Ohio Regional Transit Authority

## REPORTING ENTITY

### General

SORTA's reporting entity has been defined in accordance with Governmental Accounting Standards Board (GASB) Statement No. 14 "The Financial Reporting Entity", as amended by GASB Statement No. 39, "Determining Whether Certain Organizations are Component Units (an amendment of 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 211 square miles in Hamilton County, 21 square miles in Clermont County, 16 square miles in Warren County and 5 square miles in Butler County. This service area encompasses 9 townships, 13 villages and 19 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 six facilities are located at:

- **1014 Vine Street, Suite 2000**, a leased facility in downtown Cincinnati, houses Metro's administrative offices, along with the office of SORTA staff and Board of Trustees.
- **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 135 local or express services: 48 local services operating seven days a week; 56 local services operating six days a week (Monday through Saturday); 87 local services operating five days a week (Monday through Friday); and 48 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, 4:41 a.m. to 1:14 a.m. the next day; and Sundays and holidays, 5:12 a.m. to 1:12 a.m. the next day.
- SORTA estimates that it will provide approximately 911,000 hours of Metro fixed-route bus service in 2006, which will yield approximately 13 million vehicle miles of operation, including nonrevenue miles. In 2005, Metro provided 907,000 hours of fixed route service, yielding 12.9 million vehicle miles of operation, including nonrevenue miles, and 25.9 million rides.
- Based on a review of 2000 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 2006 it will provide approximately 268,000 passenger trips and approximately 2.7 million vehicle miles of Access service. In 2005, Access provided 258,000 passenger trips and 2.5 million vehicle miles.

## 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/CEO. SORTA contracts with Professional Transit Management for the general manager/CEO. The senior staff is selected by the general manager/CEO. A Table of Organization which depicts the key functional responsibilities is shown on page 11 of this Introductory Section.

## ECONOMIC CONDITION AND OUTLOOK

### General

Hamilton County (SORTA's primary service area) is situated in the southwest corner of Ohio. The county seat is the City of Cincinnati, which is located on the southern boundary of the state on the Ohio River. The Cincinnati Metropolitan Statistical Area (MSA) consists of 13 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 in 2002 was 2,040,746. Hamilton County's population of 845,303 comprises more than 40 percent of the 13-county total.

With respect to economic strength, Hamilton County is fortunate to have weathered the post-9/11 downturn that swept the nation with minimal negative impacts. A number of factors have contributed to this resilience:

- **Access.** The region is a hub for a variety of transportation modes. There is a major international and several regional airports as well as active river, rail and trucking freight facilities. Further aiding in personal mobility and the distribution of goods are four interstate highways, six U.S. highways and 10 state highways.
- **Diversity.** Small businesses prosper alongside major corporations in an economy that is increasingly high tech and globally oriented. This diverse economy shelters the region from boom-and-bust cycles experienced by other cities. More than 370 *FORTUNE 500* firms have a presence in Cincinnati, and eight have their headquarters here: AK Steel, American Financial, Ashland Inc., Cinergy Corp., Federated Department Stores, Fifth Third Bancorp, The Kroger Company and Procter & Gamble. Businesses of this stature are supported by service providers that are among the nation's best - from financial institutions and telecommunications to legal counsel, accounting and marketing services.
- **Housing.** Low interest rates combined with a low cost of living and availability of land due to suburban development have led to a boom in both construction of new homes and the sale of existing ones.

One negative must be noted: Hamilton County is ranked eighth among the nation's counties in population decline during the 1990s, with a loss of 20,925 people over the past decade. On the bright side, many of these people migrated to the northern suburbs and still work and spend in Hamilton County.

Unemployment in Hamilton County, which has stayed below the nation for many years, has now crossed over to being above the national average. The Cincinnati area unemployment rate for 2005 was 5.7 percent, compared with a national average of 5.1 percent. This has been largely due to job losses in manufacturing. Predictions by the Economic Advisory Committee of the Greater Cincinnati Chamber of Commerce call for the local unemployment rate to fall to 5.0 percent in 2006.

## 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 been averaging between 24 million and 29 million rides per year over the past 10 years. Metro experienced an increase of 2.8 million passengers in 2005 due to the rising cost of fuel.

## Employment

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

<b>Average Unemployment Rates</b>			
<u>Year</u>	<u>Hamilton County (1)</u>	<u>Ohio (1)</u>	<u>U.S. (2)</u>
2001	3.6%	4.3%	4.8%
2002	5.1%	5.7%	5.8%
2003	5.1%	6.1%	6.0%
2004	5.6%	6.1%	5.5%
2005	5.7%	5.9%	5.1%

Source: (1) Ohio Bureau of Employment Services

(2) U.S. Department of Labor, Bureau of Labor Statistics

## Housing and Building Permits

According to the most recent U.S. Bureau of Census figures, the median value in 2000 of owner-occupied homes in Hamilton County was \$111,400, compared with \$103,700 for housing in Ohio and \$119,600 in the United States. Between 1970 and 2000, the number of housing units in Hamilton County increased 20%, from 311,289 to 373,393.

## **MAJOR INITIATIVES**

### **Recent Developments**

Highlights from Metro's operations in 2005 include the following:

- Provided 25.9 million passenger trips on Metro fixed route service.
- Provided 258,000 passenger trips on Access paratransit service.
- Started construction on the redesigned Government Square, Metro's main transit hub in downtown Cincinnati.
- Developed a three-year business plan based on SORTA's Mission Statement and Operating Principles. The goal of the Business Plan is to provide "High Value" to customers and the community.

### **Future Projects**

Initiatives planned or undertaken in 2006 include:

- Completion of the construction phase of the redesign of Government Square, Metro's transit hub in downtown Cincinnati.
- Completion of construction for Anderson Lake park & ride, in partnership with Anderson Township.
- Implementation by Metro's management team of the Business Plan, focusing on "High Value" quality service.
- Introduction of free wireless internet service at Government Square, Anderson Lake park & ride and two museums served by Metro Rt. 1.
- Taking delivery of 40 new Gillig Phantom 40-foot low floor transit coaches.

## **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 systems, 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**

Please refer to Management's Discussion and Analysis in the Financial Section for discussion on Financial Operating Results.

### **Retirement Plans**

All SORTA employees are covered under the Ohio Public Employees Retirement System (OPERS), a statewide public retirement (including disability retirement) system. Employees contribute to OPERS at a statutory rate of 8.5% of earnable salary or compensation, and SORTA contributes 13.55% of the same base for 2005. 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 OPERS 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 OPERS. OPERS is not subject to the funding and vesting requirements of the Federal Employee Retirement Income Security Act of 1974.

OPERS was created by and operates pursuant to the Ohio Revised Code. The Ohio General Assembly could decide to amend the format of OPERS 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**

OPERS 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 OPERS is set aside to fund these benefits (4% of wages in 2005).

SORTA also provides post-employment health care to former employees of Cincinnati Transit Inc. who do not qualify for OPERS health care benefits. SORTA became self-insured for these benefits March 1, 1997. Also, 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 \$278,000 is recorded on SORTA's balance sheet at December 31, 2005, 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 cash management and investment procedures which attempt 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.

Substantially 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 specific collateral 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 \$3 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 \$350,000.

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 auditor, Deloitte & Touche LLP, has rendered an unqualified audit report on SORTA's financial statements for the fiscal year ended December 31, 2005.

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 single audit report for the fiscal year ended December 31, 2005 contained no findings.

### **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.



Michael H. Setzer  
CEO/General Manager



H. Theodore Bergh  
Secretary/Treasurer  
Assistant General Manager,  
Administration

Southwest Ohio Regional Transit Authority

**Board of Trustees and Administration as of December 31, 2005**

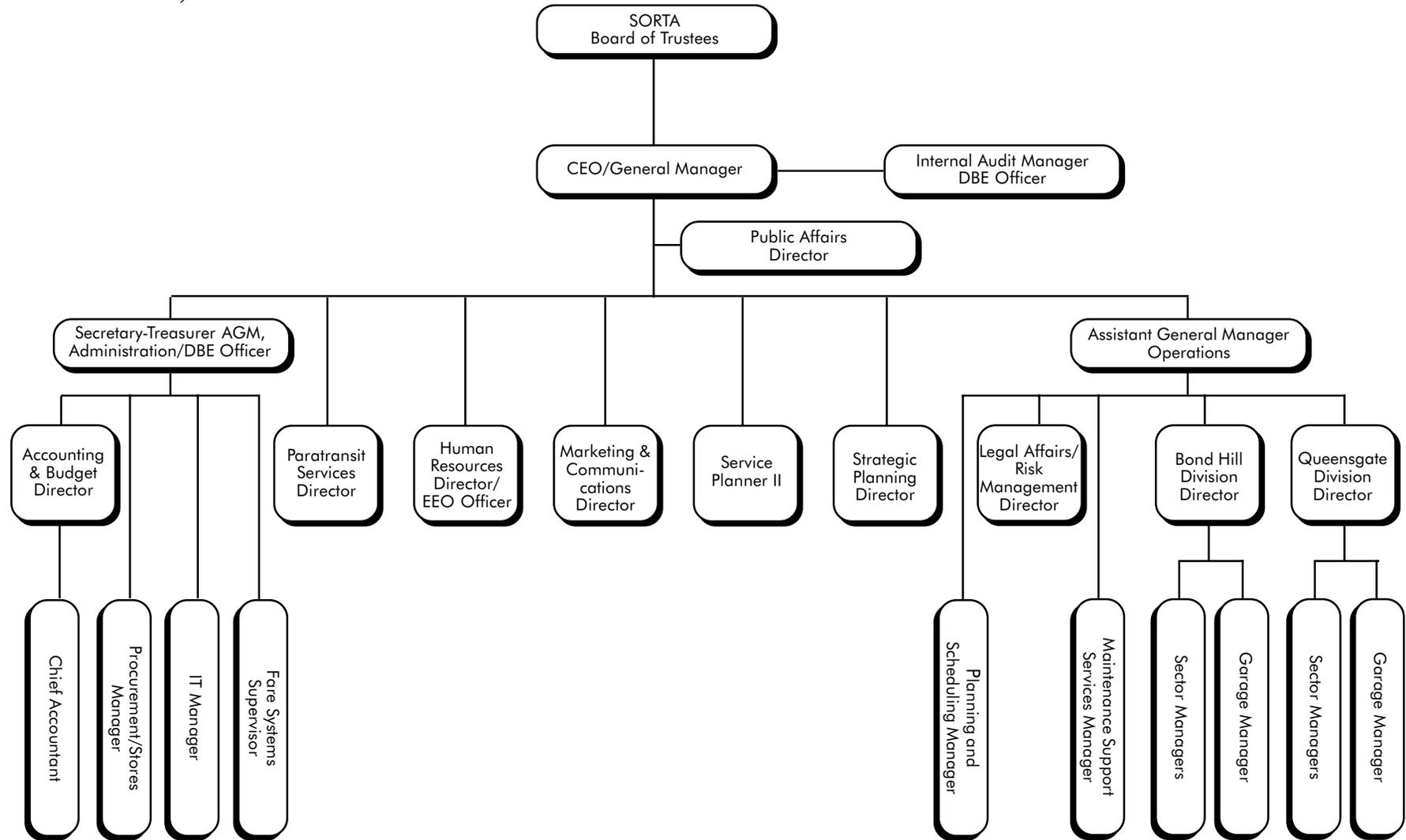
**Members of the Board of Trustees**

Benjamin Gettler, chairman  
Richard M. Haines  
Robert L. Harris  
Stephan M. Louis  
Thomas A. Luken  
Daniel S. Peters  
Melody Sawyer Richardson  
Lamont Taylor  
Timothy R. Williams, Jr.

**Administration**

Michael H. Setzer, CEO & general manager  
Michael L. Brown, assistant general manager, Operations  
H. Theodore Bergh, secretary/treasurer & 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  
Timothy Harrington, manager, Information Technology  
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Mary Moning, director, Access  
Nancy Core, service planner II, Development  
Rita D. Potts, director, Marketing and Communications  
Timothy J. Reynolds, director, Strategic Planning  
Jerry Roetting, manager, Procurement  
William R. Spraul, director, Queensgate Operating Division  
Phillip Lind, director, Bond Hill Operating Division

Southwest Ohio Regional Transit Authority  
**Table of Organization**  
**December 31, 2005**



# 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, 2004

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.



President

Executive Director



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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, 2005 and 2004 and the related statements of revenues, expenses, and changes in net assets 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the respective financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the respective financial statements, 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, 2005 and 2004, 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.

Management's Discussion and Analysis on pages 15 - 21 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the Authority's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and we do not express an opinion on it.

Our audit was conducted for the purpose of forming an opinion on the Authority's basic financial statements. The supplemental schedule of revenues, expenses, and changes in net assets—budget and actual (GAAP basis) for the year ended December 31, 2005 is presented for purpose of additional analysis and is not a required part of the Authority's basic financial statements. This

supplemental schedule is the responsibility of the Authority's management. Such schedule has been subjected to the auditing procedures applied in our audit of the 2005 basic financial statements and, in our opinion, is fairly stated, in all material respects, when considered in relation to the 2005 basic financial statements taken as a whole. The statistical data on pages 46 - 59 have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

*Deloitte & Touche LLP*

May 25, 2006

Southwest Ohio Regional Transit Authority

## Management's Discussion and Analysis

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

### Financial Highlights

- The Authority's total net assets decreased over the course of the year's operations by \$3.8 million due primarily to capital grant revenue being less than current year depreciation and amortization expense.
- Operating revenue for the Authority was \$3.4 million higher totaling \$19.1 million. This 21.9% increase was due to an increase in passenger fares resulting from rate increases in base fares, child fares, Fare Deal and monthly passes, and the elimination of discounted non peak hour and weekend fares.
- The Authority's operating expenses, excluding depreciation and before the grant pass through, increased by \$3.5 million. This 4.8% increase was due to higher fuel costs, higher health care costs, increased casualty and liability expense and a new labor contract with higher hourly wage rates, and was partially offset by the full-year effect of the route rationalization implemented in 2004 which reduced operator hours and gallons of fuel used.
- Transit Fund revenue required from the City of Cincinnati increased \$0.5 million due to lower federal maintenance grants and reimbursements.
- Investment income, net of the decrease in fair market value, increased by \$126,000 or 21.4% due primarily to higher interest rates and offset partially by a decrease in fair value of the investment portfolio.

### Overview of the Financial Statements

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

### Required Financial Statements

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

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

## Southwest Ohio Regional Transit Authority

**Management's Discussion and Analysis (continued)**

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

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

**Notes to the Financial Statements**

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

**Financial Analysis of the Authority**

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

**Condensed Balance Sheets****December 31, 2005, 2004, and 2003 (In Thousands)**

	2005	2004	2003
Current assets	\$54,297	\$51,766	\$54,147
Non-current assets	3,719	4,115	4,007
Capital assets-net	<u>74,277</u>	<u>78,068</u>	<u>77,697</u>
<b>Total assets</b>	<u><u>\$132,293</u></u>	<u><u>\$133,949</u></u>	<u><u>\$135,851</u></u>
Current liabilities	\$41,351	\$29,491	\$30,986
Non-current liabilities	<u>16,289</u>	<u>25,971</u>	<u>26,688</u>
<b>Total liabilities</b>	<u>57,640</u>	<u>55,462</u>	<u>57,674</u>
Net assets:			
Invested in capital assets, net of related debt	55,640	59,431	59,061
Restricted	992	879	514
Unrestricted	<u>18,021</u>	<u>18,177</u>	<u>18,602</u>
<b>Total net assets</b>	<u>74,653</u>	<u>78,487</u>	<u>78,177</u>
<b>Total liabilities and net assets</b>	<u><u>\$132,293</u></u>	<u><u>\$133,949</u></u>	<u><u>\$135,851</u></u>

Southwest Ohio Regional Transit Authority

### **Management's Discussion and Analysis (continued)**

The \$8.6 million lease payment due in 2006 is the primary reason for the \$10.9 million increase in current liabilities and the \$8.8 million decrease in non-current liabilities from 2004. Net assets decreased \$3.8 million to \$74.7 million in 2005 from \$78.5 million in 2004, which was a slight increase from \$78.2 million in 2003. The 4.9% decrease in 2005 was the result of the capital grant revenue being less than current year depreciation and amortization expense. The .4% increase in net assets from 2003 to 2004 was due to capital grant revenue in excess of depreciation expense.

By far the largest portion of the Authority's net assets reflect investment in capital assets (e.g., diesel and paratransit buses and operating facilities) less any related debt used to acquire those assets that is still outstanding. The Authority uses these capital assets to provide public transportation service for Hamilton County and small portions of Warren, Clermont and Butler Counties. These assets are not available to liquidate liabilities or for other spending. Included in investments is \$18.6 million that we plan to use to satisfy the capital lease obligation.

Southwest Ohio Regional Transit Authority

**Management's Discussion and Analysis (continued)****Condensed Statements of Changes in Net Assets  
Years Ended December 31, 2005, 2004, and 2003 (In Thousands)**

	2005	2004	2003
<b>Operating revenues:</b>			
Passenger fares for transit service	\$18,088	\$14,852	\$14,758
Special transit fares	562	414	487
Auxiliary transportation revenue	459	412	392
<b>Total</b>	<u>19,109</u>	<u>15,678</u>	<u>15,637</u>
<b>Operating expenses excluding depreciation and grant pass through:</b>			
Labor	35,409	35,758	36,271
Fringe benefits	17,256	16,266	15,971
Materials and supplies consumed	10,597	8,955	8,222
Services	2,755	2,660	2,704
Utilities	1,560	1,302	1,341
Casualty and liability	288	(335)	1,343
Taxes	995	936	896
Purchased transportation services	5,898	5,922	5,840
Leases and rentals	506	467	455
Miscellaneous	519	391	1,311
<b>Total</b>	<u>75,783</u>	<u>72,322</u>	<u>74,354</u>
Depreciation expense	10,606	10,090	9,550
<b>Operating loss before grant pass through</b>	<u>(67,280)</u>	<u>(66,734)</u>	<u>(68,267)</u>
Grant pass through—Riverfront Transit Center	—	—	3,943
Grant pass through—Union Township Park & Ride	—	770	—
<b>Operating loss</b>	<u>(67,280)</u>	<u>(67,504)</u>	<u>(72,210)</u>
<b>Net non-operating revenues (expenses):</b>			
Transit Fund assistance	36,118	35,660	36,808
Federal maintenance grants and reimbursements	12,238	12,995	14,018
State ADA, special fare assistance and fuel tax reimbursement	1,340	1,351	1,307
Investment income	1,111	754	699
Net (decrease) in fair value of investments	(398)	(167)	(259)
Non-transportation revenue	668	585	513
Other	5,596	5,466	5,632
<b>Non-operating revenues and expenses, net before grant pass through</b>	<u>56,673</u>	<u>56,644</u>	<u>58,718</u>

## Southwest Ohio Regional Transit Authority

**Management's Discussion and Analysis (continued)**

	2005	2004	2003
Transit Fund grant pass through— Riverfront Transit Center	—	—	735
Federal grant pass through—Riverfront Transit Center & Union Township Park & Ride	—	624	3,208
State grant pass through—Union Township Park & Ride	—	146	—
<b>Total</b>	<u>56,673</u>	<u>57,414</u>	<u>62,661</u>
<b>Net loss before capital grant activity</b>	(10,607)	(10,090)	(9,549)
Capital Contributions	6,774	10,400	6,382
<b>Change in net assets</b>	<u>(3,833)</u>	<u>310</u>	<u>(3,167)</u>
<b>Net assets, beginning of year</b>	<u>78,487</u>	<u>78,177</u>	<u>81,344</u>
<b>Net assets, end of year</b>	<u>\$74,654</u>	<u>\$78,487</u>	<u>\$78,177</u>

The Authority's operating revenues increased by \$3.4 million to \$19.1 million in 2005 compared to \$15.7 million in 2004. This 21.9% increase was the result of the fare increase beginning in February that included rate increases in base fares, child fares, Fare Deal, and monthly passes and the elimination of discounted non peak hours and weekend fares. Operating revenues increased .27% between 2003 and 2004 due to increases in zone and transfer charge fares.

The Authority's operating expenses, excluding depreciation, increased by \$2.7 million to \$75.8 million in 2005 from \$73.1 in 2004. This 3.7% increase was due to higher fuel, health care, utility and casualty costs, and a new labor contract. The higher expenses were partially offset by the full-year effect the route rationalization implemented during 2004 as a result of Comprehensive Operational Analysis Study, and decreased federal and state pass through funding for the Union Township Park and Ride.

Operating expenses, excluding depreciation and amortization, in 2004 decreased by \$5.2 million as compared to 2003. \$3.2 million of that decrease was due to decreased federal, state, and local pass through for the Riverfront Transit Center and Union Township for a Park & Ride. The remaining \$2.0 million decrease was a result of reduced operating costs due to route rationalization which was a result of a Comprehensive Operational Analysis Study, along with decreased claims liability and miscellaneous expenses.

Non-operating revenues decreased \$0.7 million from \$57.4 million in 2004 to \$56.7 million in 2005. A decrease of \$0.8 million due to the completion of the federal and state pass through funding for the Union Township Park & Ride and a decrease of \$0.8 million in federal maintenance grants and reimbursement were offset by \$0.5 million increase in Transit Fund assistance, and \$0.4 from higher investment income and increased local operating grants and special fare assistance.

## Southwest Ohio Regional Transit Authority

**Management's Discussion and Analysis (continued)**

The 2004 decrease in non-operating revenues of \$5.2 million is related to the decrease in pass through funds for capital projects of \$3.2 million. The remaining \$2.0 million is due to reduced Transit Fund income of \$1.1 million and \$1.0 million reduction in federal maintenance grants and reimbursements offset by small increases in investment income net of fair value adjustment of \$0.1 million.

**Condensed Statements of Cash Flows  
for years ended December 31, 2005, 2004 and 2003 (In Thousands)**

<b>Cash flows from operating activities:</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>
Receipts from fares and charters	\$18,919	\$15,585	\$15,159
Payments for labor, employee benefits, claims, insurance and to suppliers	<u>(75,155)</u>	<u>(71,781)</u>	<u>(77,341)</u>
<b>Net cash used in operating activities</b>	<u>(56,236)</u>	<u>(56,196)</u>	<u>(62,182)</u>
<b>Cash flow from noncapital financing activities:</b>			
Transfer from City of Cincinnati Income Tax-Transit Fund	36,402	36,758	35,471
Federal, State and other local assistance and reimbursements	<u>19,347</u>	<u>18,964</u>	<u>24,017</u>
<b>Net cash provided by noncapital financing activities</b>	<u>55,749</u>	<u>55,722</u>	<u>59,488</u>
<b>Cash flows from capital and related financing activities:</b>			
Capital grants received:			
City of Cincinnati, federal, state and other local	6,930	8,284	3,794
Additions to capital assets	(6,837)	(10,482)	(5,855)
Interest paid on capital lease obligations	<u>(834)</u>	<u>(865)</u>	<u>(2,301)</u>
<b>Net used in capital and related financing activities</b>	<u>(741)</u>	<u>(3,063)</u>	<u>(4,362)</u>
<b>Cash flows from investing activities:</b>			
Net cash receipts from investment securities	<u>3,553</u>	<u>1,931</u>	<u>(2,657)</u>
Net cash provided (used in) investing activities	<u>3,553</u>	<u>1,931</u>	<u>(2,657)</u>
<b>Net change in cash and cash equivalents</b>	2,325	(1,606)	(9,713)
<b>Cash &amp; cash equivalents at beginning of year</b>	<u>3,693</u>	<u>5,299</u>	<u>15,012</u>
<b>Cash &amp; cash equivalents at end of year</b>	<u><u>\$6,018</u></u>	<u><u>\$3,693</u></u>	<u><u>\$5,299</u></u>

Southwest Ohio Regional Transit Authority

## Management's Discussion and Analysis (concluded)

In 2005, the net cash used in operating activities was virtually unchanged despite the passenger fare increase and savings from the full-year effect of the route rationalization due to higher fuel, health care, casualty and utility costs, and a new labor contract. Net cash provided by non-capital financing activities remained unchanged with the decrease from the City Transit Fund being offset by an increase in federal, state and other local assistance reimbursement. The net cash used in capital and related financing activities decreased \$2.3 million due to a \$3.6 million decrease in additions to capital assets that is partially offset by \$1.3 million lower capital grants received from federal, state and local sources.

Net cash used for operating activities decreased by \$5.6 million in 2004 as a result of decreased operating expenses along with increased passenger fare revenues. Net cash provided by non-capital financing activities decreased \$3.8 million due to the elimination of the pass through to the City for the Riverfront Transit Center of \$3.9 million offset by the pass through of \$0.8 million in funds for the Union Township Park & Ride, along with a decrease in state maintenance grants, reimbursements of \$0.6 million and special fare assistance and other local operating assistance received of \$0.2 million. Net cash used in capital and related financing activities decreased \$1.7 million as a result of reduced payments on capital lease obligations of \$1.4 million, an increase in capital assets of \$4.6 million offset by increases in capital grants received from the City of \$0.5 million and federal, state, and other local of \$4.4 million.

### Capital Asset and Debt Administration

**Capital Assets:** The Authority's investment in capital assets amounts to \$74.3 million, net of accumulated depreciation as of December 31, 2005, a decrease of \$3.8 million (4.9%). Capital assets include land and land improvements, revenue producing and service equipment, buildings and structures, shop equipment, office furnishings and computer equipment. Major capital asset expenditures during the current fiscal year include the following:

- Rehabilitation of Government Square, the major transit hub in downtown Cincinnati, totaling \$4.6 million
- Purchase of paratransit buses and vans for Access totaling \$0.4 million
- Purchase and installation of Trapeze, Maximo, and Time and Attendance software packages totaling \$0.7 million.

See Note 5 to the financial statements for more detailed information regarding capital assets.

**Long-term Debt:** The Authority has outstanding leases on buses in the amount of \$18.6 million. This debt consists of an \$8.6 million lease on 24 Gillig buses and 40 paratransit buses which mature in 2006 and a \$10 million lease on 38 Gillig buses which matures in 2011. See Note 7 to the financial statements for more detailed information regarding capital leases.

### Requests for Information

This financial report is designed to provide a general overview of the Authority's finances for all those with an interest in its finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Director of Accounting and Budget, Southwest Ohio Regional Transit Authority, 1014 Vine Street, Suite 2000, Cincinnati, Ohio, 45202.

Southwest Ohio Regional Transit Authority

**Balance Sheets  
as of December 31, 2005 and 2004**

<b>ASSETS</b>	<b>2005</b>	<b>2004</b>
<b>Current assets:</b>		
Cash and cash equivalents (Note 4)	\$2,298,985	\$144,875
Investments (Note 4)	39,934,813	41,940,095
Receivables:		
Federal assistance	6,976,899	6,970,808
State assistance	112,886	292,389
Other	1,345,399	1,101,310
Receivables for capital assistance-restricted	2,125,801	566,577
Inventory of materials and supplies	1,328,139	1,170,783
Prepaid expenses and other current assets	174,259	145,528
<b>Total current assets</b>	<u>54,297,181</u>	<u>52,332,365</u>
<b>Non-current assets:</b>		
Cash and cash equivalents-restricted (Notes 4 and 7)	3,719,306	3,548,794
Capital assets (Notes 5 and 7):		
Land and buildings	14,681,926	14,667,926
Improvements	19,961,669	15,009,693
Revenue vehicles	98,481,847	98,401,445
Other equipment	27,678,367	26,281,419
Total capital assets	<u>160,803,809</u>	<u>154,360,483</u>
Less allowance for depreciation and amortization	<u>86,527,426</u>	<u>76,292,665</u>
Capital assets-net	<u>74,276,383</u>	<u>78,067,818</u>
<b>Total non-current assets</b>	<u>77,995,689</u>	<u>81,616,612</u>
<b>Total assets</b>	<u>\$132,292,870</u>	<u>\$133,948,977</u>

(continued)

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

Southwest Ohio Regional Transit Authority

**Balance Sheets**  
**as of December 31, 2005 and 2004 (continued)**

<b>LIABILITIES AND NET ASSETS</b>	<b>2005</b>	<b>2004</b>
<b>Current liabilities:</b>		
Accounts payable	\$1,596,083	\$1,571,726
Capital expenditures payable	2,650,238	929,582
Accrued payroll	1,336,616	1,307,517
Accrued payroll taxes and other benefits (Note 8)	4,271,667	4,099,343
Current portion of estimated claims payable (Note 9)	762,000	603,500
Current portion of capital lease obligation (Note 7)	8,636,360	—
Other current liabilities	1,480,166	1,652,276
Advance from City of Cincinnati		
Income Tax-Transit Fund (Note 3):		
For current operations	2,658,766	2,375,564
For capital purposes	<u>17,958,914</u>	<u>17,881,408</u>
<b>Total current liabilities</b>	<u>41,350,810</u>	<u>30,420,916</u>
<b>Non-current liabilities:</b>		
Deferred capital grants	2,726,837	2,669,707
Estimated claims payable, net of current portion (Note 9)	3,453,344	3,587,856
Capital lease obligation, net of current portion (Note 7)	10,000,000	18,636,360
Accrued pension cost (Note 8)	<u>108,208</u>	<u>147,097</u>
<b>Total non-current liabilities</b>	<u>16,288,389</u>	<u>25,041,020</u>
<b>Total liabilities</b>	<u>57,639,199</u>	<u>55,461,936</u>
<b>Net assets:</b>		
Invested in capital assets, net of related debt	55,640,023	59,431,458
Restricted	992,469	879,087
Unrestricted	<u>18,021,179</u>	<u>18,176,496</u>
<b>Total net assets</b>	<u>74,653,671</u>	<u>78,487,041</u>
<b>Total liabilities and net assets</b>	<u>\$132,292,870</u>	<u>\$133,948,977</u>

(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 Net Assets  
for the years ended December 31, 2005 and 2004**

	<b>2005</b>	<b>2004</b>
<b>Operating revenues</b>		
Passenger fares for transit service	\$18,087,945	\$14,852,093
Special transit fares	562,248	413,746
Auxiliary transportation revenue	459,224	412,500
<b>Total</b>	<u>19,109,417</u>	<u>15,678,339</u>
<b>Operating expenses other than depreciation:</b>		
Labor	35,408,619	35,758,546
Fringe benefits	17,255,630	16,266,494
Materials and supplies consumed	10,596,991	8,954,545
Services	2,754,566	2,660,060
Utilities	1,560,567	1,302,292
Casualty and liability	288,402	(335,205)
Taxes	994,653	935,707
Purchased transportation services	5,898,553	5,921,439
Leases and rentals	505,732	466,879
Miscellaneous	519,571	391,401
Grant pass-through—Union Twp. Park & Ride	—	770,000
<b>Total</b>	<u>75,783,284</u>	<u>73,092,158</u>
Depreciation and amortization (Note 5)	<u>10,606,406</u>	<u>10,089,634</u>
Total operating expenses	<u>86,389,690</u>	<u>83,181,792</u>
<b>Operating loss</b>	<u>(67,280,273)</u>	<u>(67,503,453)</u>
<b>Non-operating revenues (expenses):</b>		
Federal maintenance grants and reimbursements (Note 6)	12,238,379	12,995,380
Federal grant pass-through—Union Twp. Park & Ride (Note 6)	—	624,000
State maintenance grants, reimbursements and special fare assistance (Note 6)	1,340,354	1,350,933
State grant pass-through—Union Twp. Park & Ride (Note 6)	—	146,000
Local operating grants and special fare assistance (Note 6)	5,595,410	5,465,770
Investment income-net (Note 7)	1,110,840	753,956
Decrease in fair value of investments	(397,689)	(166,529)
Non-transportation revenue	668,100	584,513
<b>Total</b>	<u>20,555,394</u>	<u>21,754,023</u>

(continued)

Southwest Ohio Regional Transit Authority

**Statements of Revenues, Expenses and Changes in Net Assets  
for the years ended December 31, 2005 and 2004 (continued)**

	2005	2004
<b>Loss before operating assistance provided by City of Cincinnati Income Tax-Transit Fund and capital grant activity</b>	\$(46,724,879)	\$(45,749,430)
<b>Operating assistance from the City of Cincinnati Income Tax-Transit Fund (Note 3)</b>	<u>36,118,473</u>	<u>35,659,796</u>
<b>Net loss before capital grant activity</b>	(10,606,406)	(10,089,634)
<b>Capital grant revenue (Notes 2C and 6)</b>	<u>6,773,036</u>	<u>10,399,729</u>
<b>Increase (decrease) in net assets during the year</b>	(3,833,370)	310,095
<b>Net assets, beginning of year</b>	<u>78,487,041</u>	<u>78,176,946</u>
<b>Net assets, end of year</b>	<u><u>\$74,653,671</u></u>	<u><u>\$78,487,041</u></u>

(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, 2005 and 2004**

	<b>2005</b>	<b>2004</b>
<b>Cash flows from operating activities:</b>		
Receipts from fares and charters	\$18,918,644	\$15,585,361
Payments to suppliers	(21,596,276)	(18,674,184)
Payments for labor and employee benefits	(52,405,810)	(51,705,335)
Payments for claims and insurance	<u>(1,152,292)</u>	<u>(1,402,050)</u>
<b>Net cash used in operating activities</b>	<u>(56,235,734)</u>	<u>(56,196,208)</u>
<b>Cash flows from noncapital financing activities:</b>		
Transfer from City of Cincinnati Income Tax-Transit Fund	36,401,675	36,758,165
Federal maintenance grants and reimbursements	12,232,288	12,146,550
State maintenance grants, reimbursements and special fare assistance	1,519,857	1,351,303
Other local operating assistance received	<u>5,595,410</u>	<u>5,465,770</u>
<b>Net cash provided by noncapital financing activities</b>	<u>55,749,230</u>	<u>55,721,788</u>
<b>Cash flows from capital and related financing activities:</b>		
Capital grants received:		
City of Cincinnati Income Tax-Transit Fund	1,270,325	499,386
Federal, state and other local	5,658,826	7,784,398
Additions to capital assets	(6,836,570)	(10,481,597)
Interest paid on capital lease obligation	<u>(833,925)</u>	<u>(864,356)</u>
<b>Net cash used in capital and related financing activities</b>	<u>(741,344)</u>	<u>(3,062,169)</u>
<b>Cash flows from investing activities:</b>		
Net cash receipts from investment securities	1,607,714	337,006
Interest received	<u>1,944,756</u>	<u>1,594,062</u>
<b>Net cash provided by investing activities</b>	<u>3,552,470</u>	<u>1,931,068</u>
<b>Net increase (decrease) in cash and cash equivalents</b>	2,324,622	(1,605,521)
<b>Cash and cash equivalents at beginning of year</b>	<u>\$3,693,669</u>	<u>\$5,299,190</u>
<b>Cash and cash equivalents at end of year</b>	<u><u>\$6,018,291</u></u>	<u><u>\$3,693,669</u></u>

(continued)

Southwest Ohio Regional Transit Authority

**Statements of Cash Flows  
for the years ended December 31, 2005 and 2004 (continued)**

	<b>2005</b>	<b>2004</b>
<b>Reconciliation of operating loss to net cash used in operating activities:</b>		
Operating loss	\$(67,280,273)	\$(67,503,453)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization	10,606,406	10,089,634
Non-transportation revenue	668,100	584,513
Changes in assets and liabilities:		
Other receivables	(244,089)	1,441,995
Restricted-receivables for capital assistance	(1,559,224)	398,742
Inventory of materials and supplies	(157,356)	(106,332)
Prepaid expenses and other current assets	(28,731)	47,701
Accounts payable	24,357	134,795
Capital expenditures payable	1,720,656	(1,630)
Accrued expenses	201,423	166,714
Other liabilities	(210,991)	(357,783)
Estimated claims payable	<u>23,988</u>	<u>(1,091,104)</u>
<b>Net cash used in operating activities</b>	<u><b>\$(56,235,734)</b></u>	<u><b>\$(56,196,208)</b></u>
<b>NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES</b>		
<b>Decrease in fair value of investments</b>	<u><b>\$(397,689)</b></u>	<u><b>\$(166,529)</b></u>

(concluded)

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

Southwest Ohio Regional Transit Authority

## **Notes to the Financial Statements for the years ended December 31, 2005 and 2004**

### **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 ("GASB"), "The Financial Reporting Entity," as amended by GASB Statement No. 39, "Determining Whether Certain Organizations are Component Units (an amendment of GASB Statement No. 14)." Accordingly, the accompanying financial statements include only the accounts and transactions of the Authority. Under the criteria specified in Statements No. 14 and 39, 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 economic resources measurement focus and the accrual basis of accounting. Revenues and expenses are recognized in the period earned or incurred, regardless of the timing of the related cash flows. All transactions are accounted for in a single enterprise fund. In accordance with GASB Statement No. 20 "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 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 the Financial Statements  
for the years ended December 31, 2005 and 2004 (continued)**

**B. Net Asset Classifications**

GASB Statement No. 34, "Basic Financial Statements—And Managements' Discussion and Analysis—for State and Local Governments: Omnibus," requires the classification of net assets into the following three components:

- Invested in capital assets, net of related debt—consisting of capital assets, net of accumulated depreciation and reduced by the outstanding balance of borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- Restricted—consisting of net assets, the use of which is limited by external constraints imposed by creditors (such as through debt covenants), grantors, contributors, laws or regulations of other governments, constitutional provisions or enabling legislation.
- Unrestricted net assets—consisting of net assets that do not meet the definition of "invested in capital assets, net of related debt" or "restricted."

**C. Nonexchange Transactions**

The Authority follows 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 deferred revenue until the expenditures are incurred.

**D. Passenger Fares**

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

**E. 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.

**F. 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.

Southwest Ohio Regional Transit Authority

**Notes to the Financial Statements  
for the years ended December 31, 2005 and 2004 (continued)**

The Authority has invested funds in STAROhio, an investment pool managed by the State Treasurer’s office that 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.

**G. Inventory of Materials and Supplies**

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

**H. 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.

**I. Capital Assets and Depreciation**

Capital assets 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 capital assets, and depreciation/amortization of the cost of those assets is included in the Statements of Revenues, Expenses and Changes in Net Assets.

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

<b>Description</b>	<b>Years</b>
Buildings	40
Improvements	15
Revenue vehicles	4-12
Other equipment	3-10

**J. 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

Southwest Ohio Regional Transit Authority

## **Notes to the Financial Statements for the years ended December 31, 2005 and 2004 (continued)**

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.

### **K. 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.

### **L. 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 amortization) and expenditures for individual capital projects to exceed revenue sources without approval by the Board of Trustees. No budget amendments were passed for 2005 and 2004. All budget amounts lapse at year end.

### **M. Estimates**

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

### **N. Reclassifications**

Certain amounts reported in the previous year have been reclassified to conform to the current year presentation.

Southwest Ohio Regional Transit Authority

## **Notes to the Financial Statements for the years ended December 31, 2005 and 2004 (continued)**

### **3. Federal Grants and Local Reimbursements**

SORTA receives 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 capital assistance. In addition to federal and state 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, 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.

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 that when executed shall be for an amount in excess of collateral requirements. Repurchase agreements must be secured by the specific

Southwest Ohio Regional Transit Authority

**Notes to the Financial Statements  
for the years ended December 31, 2005 and 2004 (continued)**

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, 2005, the Authority maintained restricted cash and cash equivalents of \$3,719,306, and unrestricted cash and investments of \$42,233,798. The total cash and investments of \$45,953,104 consisted of \$10,931,617 in deposits and \$35,021,487 in investments.

**Deposits**

Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. The Authority does have a deposit policy for custodial credit risk.

At December 31, 2005, the carrying amount of the Authority's deposits was \$10,931,617 and the bank balance was \$9,508,916, all of which was covered by federal depository insurance, surety bonds provided by a commercial insurance company, or collateralized with securities held by the Federal Reserve in SORTA's name.

**Investments**

As of December 31, 2005 and 2004, the fair value of the System's investments were as follows:

	<b>2005</b>	<b>2004</b>
U.S. Agency bonds	\$35,017,759	\$36,852,529
Star Treasury Reserve of Ohio (STAROhio)	<u>3,728</u>	<u>3,615</u>
Total investments	<u>\$35,021,487</u>	<u>\$36,856,144</u>

Investments held by the Authority at December 31, 2005 are presented below, categorized by investment type and credit quality rating. Credit quality ratings provide information about the investments' credit risk, which is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

## Southwest Ohio Regional Transit Authority

## Notes to the Financial Statements for the years ended December 31, 2005 and 2004 (continued)

Investment Type	Fair Value	Not Rated	AAA	AA,A, and BBB	Below BBB
U.S. Agency bonds	\$35,017,759		\$35,017,759		
Star Treasury Reserve of Ohio (STAROhio)	3,728	\$3,728			
<b>Total Investments</b>	<b>\$35,021,487</b>	<b>\$3,728</b>	<b>\$35,017,759</b>	<b>\$0</b>	<b>\$0</b>

The following table presents the Authority's bond investments by length of maturity.

Investment Type	Fair Value	Less Than 1 Year	1 to 5 Years	6 to 10 Years	More Than 10 Years
U.S. Agency bonds	\$35,017,759	\$13,770,598	\$10,803,361	\$10,443,800	\$0
<b>Total Bonds</b>	<b>\$35,017,759</b>	<b>\$13,770,598</b>	<b>\$10,803,361</b>	<b>\$10,443,800</b>	<b>\$0</b>

### 5. Capital Assets

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

	Balance January 1, 2005	Additions	Deletions	Balance December 31, 2005
Capital assets not being depreciated:				
Land	\$13,172,747	\$2,663	—	\$13,175,410
Total capital assets not being depreciated	13,172,747	2,663	—	13,175,410
Capital assets being depreciated:				
Buildings	1,495,179	11,337	—	1,506,516
Improvements	15,009,693	4,951,976	—	19,961,669
Revenue vehicles	98,401,445	387,754	\$307,352	98,481,847
Other equipment	26,281,419	1,482,840	85,892	27,678,367
Total capital assets being depreciated	141,187,736	6,833,907	393,244	147,628,399
Less accumulated depreciation:				
Buildings	198,119	36,388	—	234,507
Improvements	4,329,813	991,702	—	5,321,515
Revenue vehicles	54,480,870	7,271,482	307,352	61,445,000
Other equipment	17,283,863	2,306,834	64,293	19,526,404
Total accumulated depreciation	76,292,665	10,606,406	371,645	86,527,426
Total capital assets being depreciated, net	64,895,071	(3,772,499)	21,599	61,100,973
Total capital assets, net	\$78,067,818	(\$3,769,836)	\$21,599	\$74,276,383

Southwest Ohio Regional Transit Authority

## Notes to the Financial Statements for the years ended December 31, 2005 and 2004 (continued)

Capital asset activity for the year ended December 31, 2004 was as follows:

	Balance January 1, 2004	Additions	Deletions	Balance December 31, 2004
Capital assets not being depreciated:				
Land	<u>\$13,165,910</u>	<u>\$6,837</u>	<u>—</u>	<u>\$13,172,747</u>
Total capital assets not being depreciated	<u>13,165,910</u>	<u>6,837</u>	<u>—</u>	<u>13,172,747</u>
Capital assets being depreciated:				
Buildings	1,495,179	—	—	1,495,179
Improvements	13,141,379	1,868,314	—	15,009,693
Revenue vehicles	95,222,413	6,511,502	\$3,332,470	98,401,445
Other equipment	<u>24,281,551</u>	<u>2,094,944</u>	<u>95,076</u>	<u>26,281,419</u>
Total capital assets being depreciated	<u>134,140,522</u>	<u>10,474,760</u>	<u>3,427,546</u>	<u>141,187,736</u>
Less accumulated depreciation:				
Buildings	161,438	36,681	—	198,119
Improvements	3,599,705	730,108	—	4,329,813
Revenue vehicles	50,811,620	7,001,720	3,332,470	54,480,870
Other equipment	<u>15,036,215</u>	<u>2,321,125</u>	<u>73,477</u>	<u>17,283,863</u>
Total accumulated depreciation	<u>69,608,978</u>	<u>10,089,634</u>	<u>3,405,947</u>	<u>76,292,665</u>
Total capital assets being depreciated, net	<u>64,531,544</u>	<u>385,126</u>	<u>21,599</u>	<u>64,895,071</u>
Total capital assets, net	<u>\$77,697,454</u>	<u>\$391,963</u>	<u>\$21,599</u>	<u>\$78,067,818</u>

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 historical cost of approximately \$28.3 million at December 31, 2005) had been owned by SORTA, the provision for depreciation for the years ended December 31, 2005 and 2004 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.

## Southwest Ohio Regional Transit Authority

## Notes to the Financial Statements for the years ended December 31, 2005 and 2004 (continued)

### 6. Grants, Reimbursements, and Special Fare Assistance

Grants, reimbursements, and special fare assistance included in the Statements of Revenues, Expenses and Changes in Net Assets for the years ended December 31, 2005 and 2004 consist of the following:

	2005	2004
<b>Non-operating revenues:</b>		
<b>Federal:</b>		
FTA-Maintenance and other assistance	<u>\$12,238,379</u>	<u>\$12,995,380</u>
FTA-grant pass-through–Union Twp. Park & Ride	<u>—</u>	<u>\$624,000</u>
<b>State:</b>		
ODOT-Fuel tax reimbursement	\$933,121	\$886,860
ODOT-Elderly and handicapped grant	304,365	312,329
ODOT-Maintenance and other assistance	102,868	151,744
Total	<u>\$1,340,354</u>	<u>\$1,350,933</u>
State grant pass-through–Union Twp. Park & Ride	<u>—</u>	<u>\$146,000</u>
<b>Local:</b>		
Cincinnati Board of Education Contract	\$4,652,616	\$4,580,869
Hamilton County	585,306	533,200
Warren County	32,128	35,823
Deerfield Township	26,830	24,511
City of Mason	26,830	24,511
Other	271,700	266,856
Total	<u>\$5,595,410</u>	<u>\$5,465,770</u>
<b>Capital grant revenue:</b>		
Federal	\$1,285,050	\$6,245,795
State	4,773,415	1,861,285
Local	714,571	2,292,649
Total	<u>\$6,773,036</u>	<u>\$10,399,729</u>

### 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 \$272,000 in 2005 and \$260,000 in 2004.

Southwest Ohio Regional Transit Authority

**Notes to the Financial Statements  
for the years ended December 31, 2005 and 2004 (continued)**

At December 31, 2005, the minimum future payments under leases with terms extending beyond one year are as follows:

<u>Year</u>	<u>Amount</u>
2006	\$282,341
2007	293,653
2008	305,434
2009	146,907
Total	<u>\$1,028,335</u>

SORTA also leases 102 revenue vehicles under two master lease-purchase agreements with local financial institutions. Based on the terms of the agreements, they have been classified as capital leases. The capitalized cost and accumulated amortization recorded for these vehicles amounted to \$18,587,672 and \$7,283,387, respectively, at December 31, 2005. Unspent proceeds of the capital leases totalling \$48,688 are included in restricted cash and investments in the accompanying balance sheet as of December 31, 2005.

One of the agreements calls for annual payments of interest with the entire principal balance of \$8,636,360 due April 6, 2006; the other agreement calls for semi-annual payments of interest with the entire principal balance of \$10,000,000 due February 1, 2011. Future minimum lease payments under the capital leases are as follows:

<u>Year</u>	<u>Amount</u>
2006	\$9,470,285
2007	418,000
2008	418,000
2009	418,000
2010	418,000
Thereafter	<u>10,209,000</u>
Total minimum lease payments	21,351,285
Less amount representing interest	<u>2,714,925</u>
Present value of net minimum lease payments	18,636,360
Less amount due in 2006	<u>8,636,360</u>
Amount due after 2006	<u>\$10,000,000</u>

During the years ended December 31, 2005 and 2004, the Authority recognized \$833,916 and \$840,107, respectively, of interest expense under its capital leases.

Southwest Ohio Regional Transit Authority

## **Notes to the Financial Statements for the years ended December 31, 2005 and 2004 (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 Ohio Public Employees Retirement System (“OPERS”), a cost-sharing, multiple-employer defined benefit pension plan. Authority to establish and amend benefits is provided by State statute per Chapter 145 of the Ohio Revised Code. OPERS 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) 222-6705 or 1-800-222-PERS (7377).

OPERS administers three separate pension plans as described below:

- The Traditional Pension Plan (“TP”)—a cost-sharing multiple-employer defined benefit pension plan.
- The Member-Directed Plan (“MD”)—a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the MD Plan, members accumulate retirement assets equal to the value of member and (vested) employer contributions plus any investment earnings thereon.
- The Combined Plan (“CO”)—a cost-sharing multiple-employer defined benefit pension plan. Under the CO Plan, employer contributions are invested by OPERS to provide a formula retirement benefit similar in nature to the TP Plan benefit. Member contributions, the investment of which are self-directed by the members, accumulate retirement assets in a manner similar to the MD plan.

OPERS provides retirement, disability, survivor and death benefits and annual cost-of-living adjustments to members of the TP and CO Plans. Members of the MD Plan do not qualify for ancillary benefits.

**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 OPERS. The 2005 and 2004 employer contribution rate for local government employer units was 13.55% of covered payroll including 4.0% in 2005 and 2004 that is used to fund postretirement health care benefits. The Authority’s total contributions to OPERS for pension benefits (excluding the amount relating to postretirement benefits) for the years ended December 31, 2005, 2004 and 2003 were \$3,637,000, \$3,683,000, and \$3,339,000, respectively, equal to 100% of the required contribution for each year.

#### **B. Private Pension Plans**

**Plan Description.** Certain retirees (21 at January 1, 2006) continue to participate in the private pension plans which originated under the privately owned transit system (Cincinnati

Southwest Ohio Regional Transit Authority

## Notes to the Financial Statements for the years ended December 31, 2005 and 2004 (continued)

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, 2005, 2004 and 2003 were determined using the unit credit actuarial cost method as follows:

	2005	2004	2003
Annual required contribution	—	—	—
Interest on net pension obligation	—	—	—
Actuarial adjustment to net pension obligation	\$(8,631)	—	\$(8,546)
Annual pension cost	(8,631)	—	(8,546)
Contribution/benefit payments made	<u>(30,258)</u>	<u>\$(38,006)</u>	<u>(42,499)</u>
Decrease in net pension obligation	(38,889)	(38,006)	(51,045)
Net pension obligation beginning of year	<u>147,097</u>	<u>185,103</u>	<u>236,148</u>
Net pension obligation end of year	<u>\$108,208</u>	<u>\$147,097</u>	<u>\$185,103</u>

The net pension obligation was actuarially determined using a mortality assumption obtained from the Unisex Pension Table for 1994 and the 2005 and 2004 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 OPERS.** The authority provides health care benefits as a post-employment benefit (as defined by GASB Statement No. 12) through its contributions to OPERS. In addition to the pension benefit described in Note 8A, OPERS provides post-retirement health care benefits to qualifying members of both the TP and CO Plans; however, health care benefits are not statutorily guaranteed. Members of the MD Plan do not qualify for ancillary benefits, including post-employment health care coverage. In order to qualify for post-retirement health care coverage, age and service retirees must have 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 OPERS is considered an Other Post-employment Benefit ("OPEB") as described in GASB Statement No. 12.

Southwest Ohio Regional Transit Authority

## **Notes to the Financial Statements for the years ended December 31, 2005 and 2004 (continued)**

A portion of each employer's contribution to OPERS is set aside for the funding of post-retirement health care. The Ohio Revised Code provides statutory authority for employer contributions. For the Authority, 4.0% of covered payroll was the portion of the 13.55% total contribution rate for 2005 and 2004, respectively, that was used to fund health care for each year. The Ohio Revised Code provides the statutory authority requiring public employers to fund postretirement health care through their contributions to OPERS.

The assumptions and calculations noted below were based on OPERS' latest actuarial review performed as of December 31, 2004. 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 the unfunded actuarial accrued liability. All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach, assets are adjusted annually to reflect 25% of unrealized market appreciation or depreciation on investment assets. The assumed rate of return on investments for 2004 was 8.0%. An annual increase of 4.0%, compounded annually, is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4.0% base increase, were assumed to range from 0.5% to 6.3%. Health care costs were assumed to increase at the projected wage inflation rate plus an additional factor ranging from 1% to 6% for the next eight years. In subsequent years (nine and beyond) health care costs were assumed to increase at 4% (the projected wage inflation rate).

OPEB provided through OPERS are advance-funded on an actuarially determined basis. The total number of active contributing participants in the TP and CO Plans was 376,109 and 355,287 at December 31, 2005 and 2004, respectively. The Authority's contributions to OPERS for other post-employment benefits for the years ended December 31, 2005 and 2004 were \$1,523,000 and \$1,543,000, respectively, equal to 100% of the required contributions for each year. The actuarial value of OPERS' net assets available for OPEB at December 31, 2004 was \$10.8 billion. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$29.5 billion and \$18.7 billion, respectively.

On September 9, 2004 the OPERS Retirement Board adopted a Health Care Preservation Plan ("HCPP") with an effective date of January 1, 2007. In addition to the HCPP, OPERS has taken additional action to improve the solvency of the Health Care Fund in 2005 by creating a separate investment pool for health care assets. As an additional component of the HCPP, member and employer contribution rates increased as of January 1, 2006, which will allow additional funds to be allocated to the health care plan.

Southwest Ohio Regional Transit Authority

**Notes to the Financial Statements  
for the years ended December 31, 2005 and 2004 (continued)**

**Other Benefits Provided.** In addition to the other postemployment benefits provided by OPERS, SORTA also provides postemployment health care benefits to former employees of Cincinnati Transit, Inc., who do not qualify for OPERS 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, 2005, 2 individuals were receiving health care benefits and 416 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>2005</u>	<u>2004</u>
Health care benefits	\$2,392	\$7,244
Life insurance benefits	\$316,875	\$270,629

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.

These liabilities were determined based on the following assumptions:

	2005	2004
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).

\*\* No medical inflation.

The total expense recognized by the Authority for postemployment benefits not provided under OPERS was approximately \$67,000 and (\$6,000) for the years ended December 31, 2005 and 2004, respectively.

Southwest Ohio Regional Transit Authority

**Notes to the Financial Statements  
for the years ended December 31, 2005 and 2004 (continued)**

**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 \$3,000,000 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. The present value of the workers' compensation liability is calculated using an interest rate of 4.54%.

The changes in the liabilities for self-insured risks for the years ended December 31, 2005 and 2004 are as follows:

	<u>Workers'</u> <u>Compensation</u>	<u>Public Liability</u> <u>and Property Damage</u>	<u>Total</u>
Balance, January 1, 2004	\$3,559,302	\$1,723,158	\$5,282,460
Claims, net of changes in estimates	652,652	(370,003)	282,649
Payments	<u>(499,661)</u>	<u>(874,092)</u>	<u>(1,373,753)</u>
Balance, December 31, 2004	3,712,293	479,063	4,191,356
Claims, net of changes in estimates	840,568	335,712	1,176,280
Payments	<u>(783,552)</u>	<u>(368,740)</u>	<u>(1,152,292)</u>
Balance, December 31, 2005	<u>\$3,769,309</u>	<u>\$446,035</u>	<u>\$4,215,344</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.

Southwest Ohio Regional Transit Authority

## **Notes to the Financial Statements for the years ended December 31, 2005 and 2004 (continued)**

### **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, 2005, 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, 2005, 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.

### **11. New Accounting Pronouncements**

During March 2003, the GASB issued Statement No. 40, "Deposits and Investment Risk Disclosures (an amendment of GASB Statement No. 3)." This Statement addresses disclosures related to common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. As an element of interest rate risk, this Statement requires certain disclosures of investments that have fair values that are highly sensitive to changes in interest rates. Deposit and investment policies related to the risks identified in this Statement also should be disclosed. The provisions of this Statement are effective for SORTA in 2005. See Note 4.

During November 2003, the GASB issued Statement No. 42, "Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries." This Statement establishes accounting and financial reporting standards for impairment of capital assets. Under provisions of this Statement, a capital asset is considered impaired when its service has declined significantly and unexpectedly. This Statement also clarifies and establishes accounting requirements for insurance recoveries. The provisions of this Statement were implemented by SORTA in 2005. This statement has no impact on the Authority.

During August 2004, the GASB issued Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions," which addresses how state and local governments should account for and report their costs and obligations related to postemployment healthcare and other nonpension benefits. Collectively, these benefits are commonly referred to as other postemployment benefits, or

Southwest Ohio Regional Transit Authority

## **Notes to the Financial Statements for the years ended December 31, 2005 and 2004 (concluded)**

OPEB. Statement 45 also establishes disclosure requirements for information about the plans in which an employer participates, the funding policy followed, the actuarial valuation process and assumptions, and, for certain employers, the extent to which the plan has been funded over time. Statement 45 will not be effective for SORTA until the year ended December 31, 2008, and as such, the Authority has not determined the impact that this statement will have on its financial statements.

During December 2004, the GASB issued Statement No. 46, "Net Assets Restricted by Legislation, an amendment of GASB Statement No. 34." This statement clarifies that a legally enforceable enabling legislation restriction is one that a party external to a government—such as citizens, public interest groups, or the judiciary—can compel a government to honor. The Statement states that the legal enforceability of an enabling legislation restriction should be reevaluated if any of the resources raised by the enabling legislation are used for a purpose not specified by the enabling legislation or if a government has other cause for reconsideration. Although the determination that a particular restriction is not legally enforceable may cause a government to review the enforceability of other restrictions, it should not necessarily lead a government to the same conclusion for all enabling legislation restrictions. This Statement also specifies the accounting and financial reporting requirements if new enabling legislation replaces existing enabling legislation or if legal enforceability is reevaluated. Finally, this Statement requires governments to disclose the portion of total net assets that is restricted by enabling legislation. The requirements of this Statement are effective for SORTA for 2006, and as such, the Authority has not determined the impact, if any, that this statement will have on its financial statements.

During July 2005, the GASB issued Statement No. 47, "Accounting for Termination Benefits." Statement 47 provides accounting and reporting guidance for state and local governments that offer either voluntary termination benefits (e.g., early retirement incentives) or involuntary termination benefits (i.e., severance). The significant requirements of Statement 47 include the recognition in accrual basis financials as a liability and expense for involuntary termination benefits when (1) a termination plan has been approved by those with the authority to commit the government to the plan, (2) the plan has been communicated to the employees, and (3) the amount can be estimated. A liability and expense for voluntary termination benefits should be recognized when the offer is accepted and the amount can be estimated. Statement 47 also requires employers to disclose a description of the termination benefit arrangements, the cost of the termination benefits, and the significant methods and assumptions used to determine termination benefit liabilities. Statement 47 is effective for SORTA in 2006; as such, the Authority has not determined the impact, if any, this statement will have on its financial statements.

### **12. Outstanding Commitments**

The Authority has an outstanding commitment to purchase revenue vehicles at December 31, 2005 of \$12.3 million. This contract is being financed primarily through various federal grant programs.

Southwest Ohio Regional Transit Authority

**Supplemental Schedule of Revenues, Expenses and Changes in Net Assets—  
Budget and Actual (GAAP Basis)  
for the year ended December 31, 2005**

	<b>Budget</b>	<b>Actual</b>	<b>Variance Positive (Negative)</b>
<b>Operating revenues</b>	<u>\$17,620,346</u>	<u>\$19,109,417</u>	<u>\$1,489,071</u>
<b>Operating expenses other than depreciation and amortization:</b>			
Labor	35,510,090	35,408,619	101,471
Fringe benefits	18,061,741	17,255,630	806,111
Materials and supplies consumed	9,346,051	10,596,991	(1,250,940)
Services	2,690,715	2,754,566	(63,851)
Utilities	1,525,739	1,560,567	(34,828)
Casualty and liability	452,029	288,402	163,627
Taxes	984,001	994,653	(10,652)
Purchased transportation services	6,870,306	5,898,553	971,753
Leases and rentals	495,554	505,732	(10,178)
Miscellaneous	<u>456,184</u>	<u>519,571</u>	<u>(63,387)</u>
<b>Total</b>	76,392,410	75,783,284	609,126
<b>Depreciation and amortization</b>	<u>9,670,000</u>	<u>10,606,406</u>	<u>(936,406)</u>
<b>Total operating expenses</b>	<u>86,062,410</u>	<u>86,389,690</u>	<u>(327,280)</u>
<b>Operating loss</b>	<u>(68,442,064)</u>	<u>(67,280,273)</u>	<u>1,161,791</u>
<b>Non-operating revenues:</b>			
Local operating grants and special fare assistance	43,955,540	41,713,883	(2,241,657)
Federal maintenance grants and reimbursements	11,150,391	12,238,379	1,087,988
State maintenance grants, reimbursements and special fare assistance	1,389,534	1,340,354	(49,180)
Investment income-net	764,000	1,110,840	346,840
Increase (decrease) in fair value of investments	0	(397,689)	(397,689)
Non-transportation revenue	<u>510,138</u>	<u>668,100</u>	<u>157,962</u>
<b>Total</b>	57,769,603	56,673,867	(1,095,736)
<b>Net loss before capital grant activity</b>	<u>(10,672,461)</u>	<u>(10,606,406)</u>	<u>66,055</u>
<b>Capital grant revenue</b>	<u>19,463,119</u>	<u>6,773,036</u>	<u>(12,690,083)</u>
<b>Increase (decrease) in net assets during the year</b>	<u>8,790,658</u>	<u>(3,833,370)</u>	<u>(12,624,028)</u>
<b>Net assets, beginning of year</b>	<u>78,487,041</u>	<u>78,487,041</u>	<u>0</u>
<b>Net assets, end of year</b>	<u>\$87,277,699</u>	<u>\$74,653,671</u>	<u>\$(12,624,028)</u>



Southwest Ohio Regional Transit Authority

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

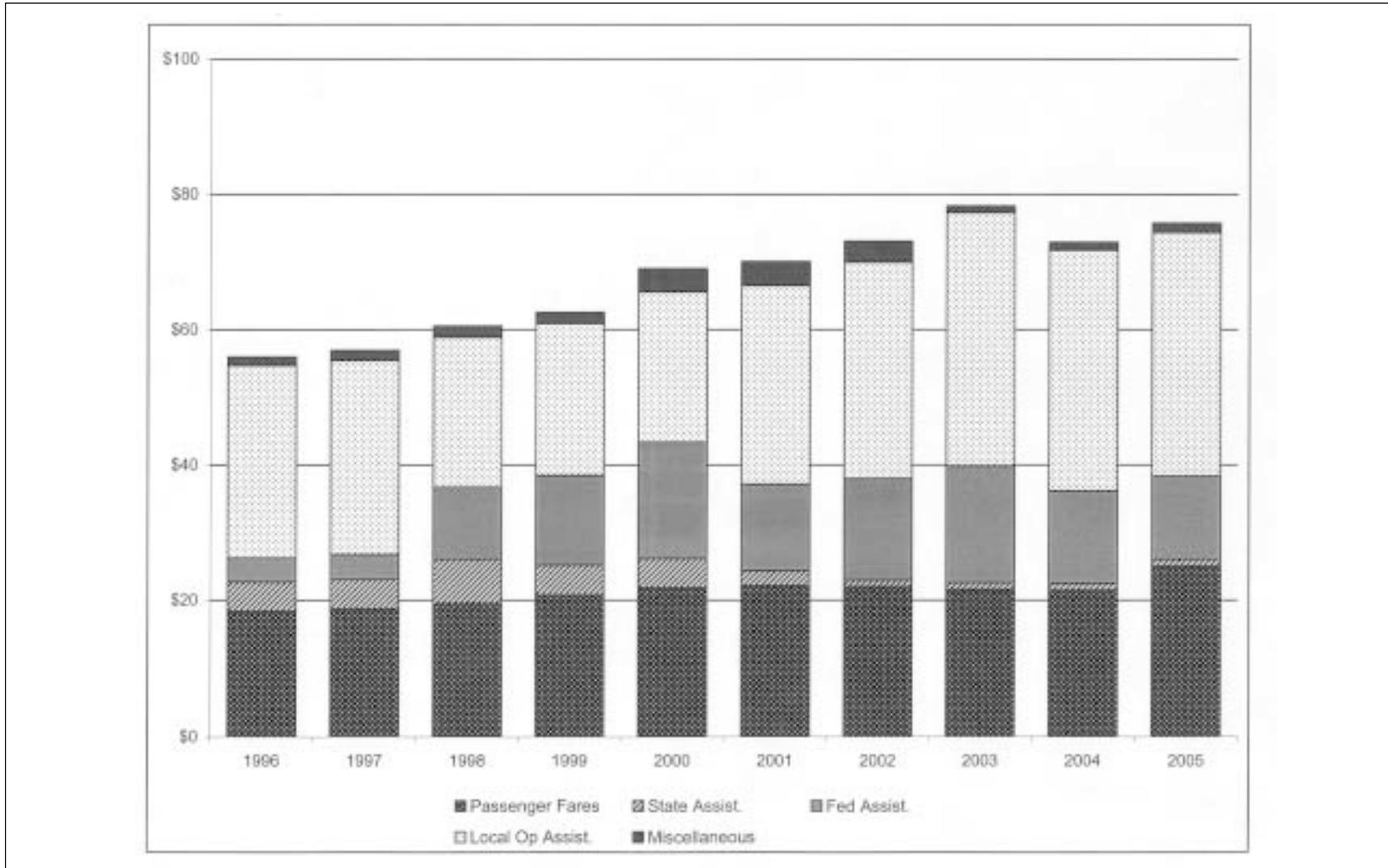
	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
<b>OPERATING REVENUES</b>										
Passenger fares for transit service (1)	\$17,579	\$17,921	\$18,585	\$19,679	\$20,661	\$21,204	\$20,937	\$20,712	\$20,630	23,989
Special transit fares	307	323	328	528	381	328	412	487	414	562
Auxiliary transportation revenue	501	495	607	572	762	574	615	392	412	459
<b>Total operating revenues</b>	<b>18,387</b>	<b>18,739</b>	<b>19,520</b>	<b>20,779</b>	<b>21,804</b>	<b>22,106</b>	<b>21,964</b>	<b>21,591</b>	<b>21,456</b>	<b>25,010</b>
<b>NON-OPERATING REVENUES</b>										
Federal grants and reimbursements (1)	3,523	3,722	10,624	13,282	17,183	12,780	14,298	14,018	12,995	12,238
Federal grant pass-through-Riverfront Transit Center	0	0	0	0	0	0	713	3,208	0	0
Federal grant pass-through-Union Township Park & Ride	0	0	0	0	0	0	0	0	624	0
State grants and reimbursements (1)	4,310	4,306	6,541	4,394	4,332	2,249	982	985	1,039	1,036
State grant pass-through-Union Township Park & Ride	0	0	0	0	0	0	0	0	146	0
Investment income	863	1,055	1,372	1,635	2,981	3,130	2,548	439	587	713
Non-transportation revenues	416	453	296	288	491	414	541	513	585	668
<b>Sub-total</b>	<b>9,112</b>	<b>9,536</b>	<b>18,833</b>	<b>19,599</b>	<b>24,987</b>	<b>18,573</b>	<b>19,082</b>	<b>19,163</b>	<b>15,976</b>	<b>14,655</b>
Local operating assistance	28,483	28,668	22,185	22,456	22,265	29,410	32,052	37,544	35,660	36,118
<b>Total non-operating revenues</b>	<b>37,595</b>	<b>38,204</b>	<b>41,018</b>	<b>42,055</b>	<b>47,252</b>	<b>47,983</b>	<b>51,134</b>	<b>56,707</b>	<b>51,636</b>	<b>50,773</b>
<b>TOTAL REVENUES</b>	<b>\$55,982</b>	<b>\$56,943</b>	<b>\$60,538</b>	<b>\$62,834</b>	<b>\$69,056</b>	<b>\$70,089</b>	<b>\$73,098</b>	<b>\$78,298</b>	<b>\$73,092</b>	<b>75,783</b>

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, along with subsidies received from FTA, ODOT, Cincinnati Public Schools, and 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 Basic Financial Statements.

## 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	
1996	38.7%	15.3%	54.0%	42.9%	3.1%	46.0%	100.0%
1997	38.7%	16.9%	55.6%	41.1%	3.3%	44.4%	100.0%
1998	37.8%	17.5%	55.3%	41.1%	3.6%	44.7%	100.0%
1999	37.3%	16.4%	53.7%	42.4%	3.9%	46.3%	100.0%
2000	36.1%	17.4%	53.5%	42.4%	4.1%	46.5%	100.0%
2001	35.2%	14.1%	49.3%	46.2%	4.5%	50.7%	100.0%
2002	32.5%	17.3%	49.8%	45.3%	4.9%	50.2%	100.0%
2003	32.6%	18.1%	50.7%	43.6%	5.8%	49.3%	100.0%
2004	32.9%	16.7%	49.6%	43.4%	7.0%	50.4%	100.0%
2005	*	*	*	*	*	*	*

SOUTHWEST OHIO REGIONAL TRANSIT AUTHORITY:

YEAR	OPERATING AND OTHER REVENUE			OPERATING ASSISTANCE			TOTAL REVENUES
	PASSENGER	OTHER (2)	TOTAL	STATE & LOCAL (3)	FEDERAL	TOTAL	
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%
2002	29.2%	5.1%	34.3%	45.2%	20.5%	65.7%	100.0%
2003	27.1%	1.7%	28.8%	49.2%	22.0%	71.2%	100.0%
2004	28.8%	2.2%	31.0%	50.4%	18.6%	69.0%	100.0%
2005	32.4%	2.4%	34.8%	49.0%	16.2%	65.2%	100.0%

\* Information not available

(1) Source: The American Public Transit Association, "APTA 2005 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.

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)
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 (4)	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
2002	9,924	36,026	387	34,090	769	11,478
2003	11,478	36,991	268	35,525	811	12,401
2004	12,401	38,248	122	37,588	663	12,520
2005	12,520	40,726	247	37,672	701	15,120
		<u>\$354,801</u>	<u>\$3,673</u>	<u>\$351,240</u>	<u>\$8,812</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, 1996 to 2001 and \$3,000,000 in 2002.

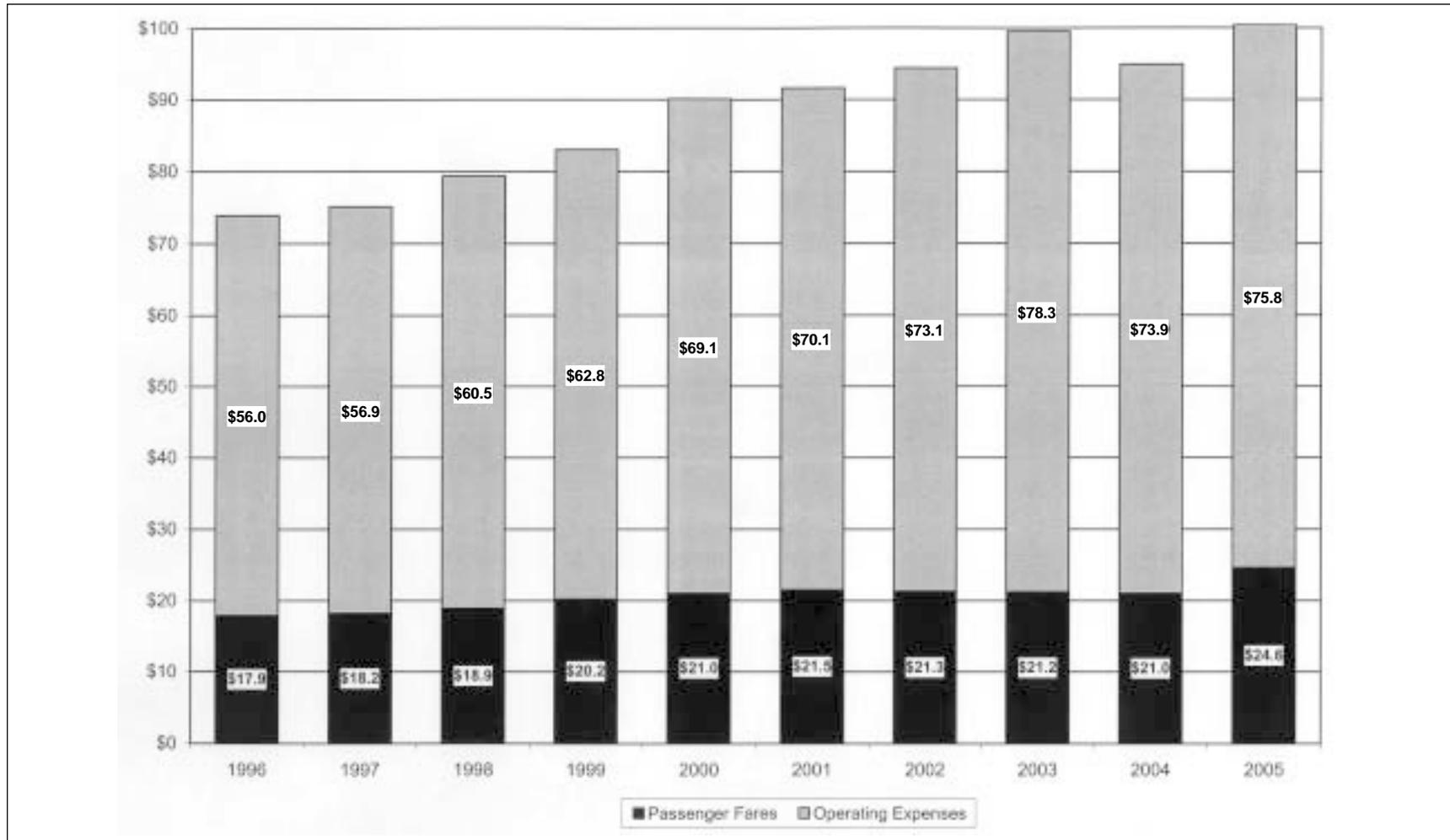
(2) Balance includes an additional \$2,000,000 working-capital reserve.

(3) Includes operating and capital assistance.

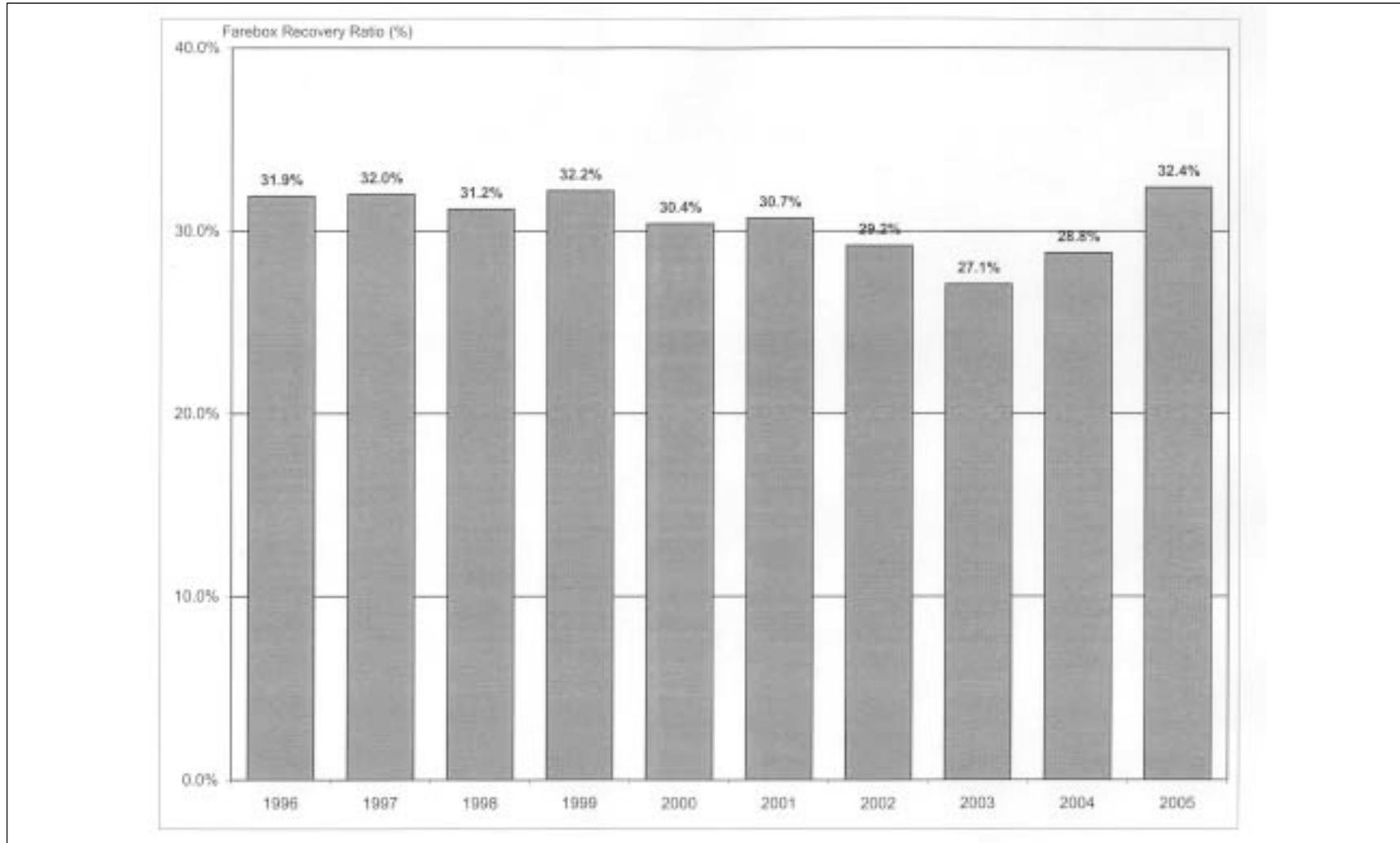
(4) In 1998, the City of Cincinnati made a change in accounting principle to conform to GASB No. 31 "Accounting and Financial Reporting for Certain Investments and for External Investment Pools." The cumulative effect of this change increased the beginning 1998 balance by \$27,000.

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.

**Passenger Fares Recovery Ratio—Last Ten Years**

Source: SORTA's independently audited annual financial statements.

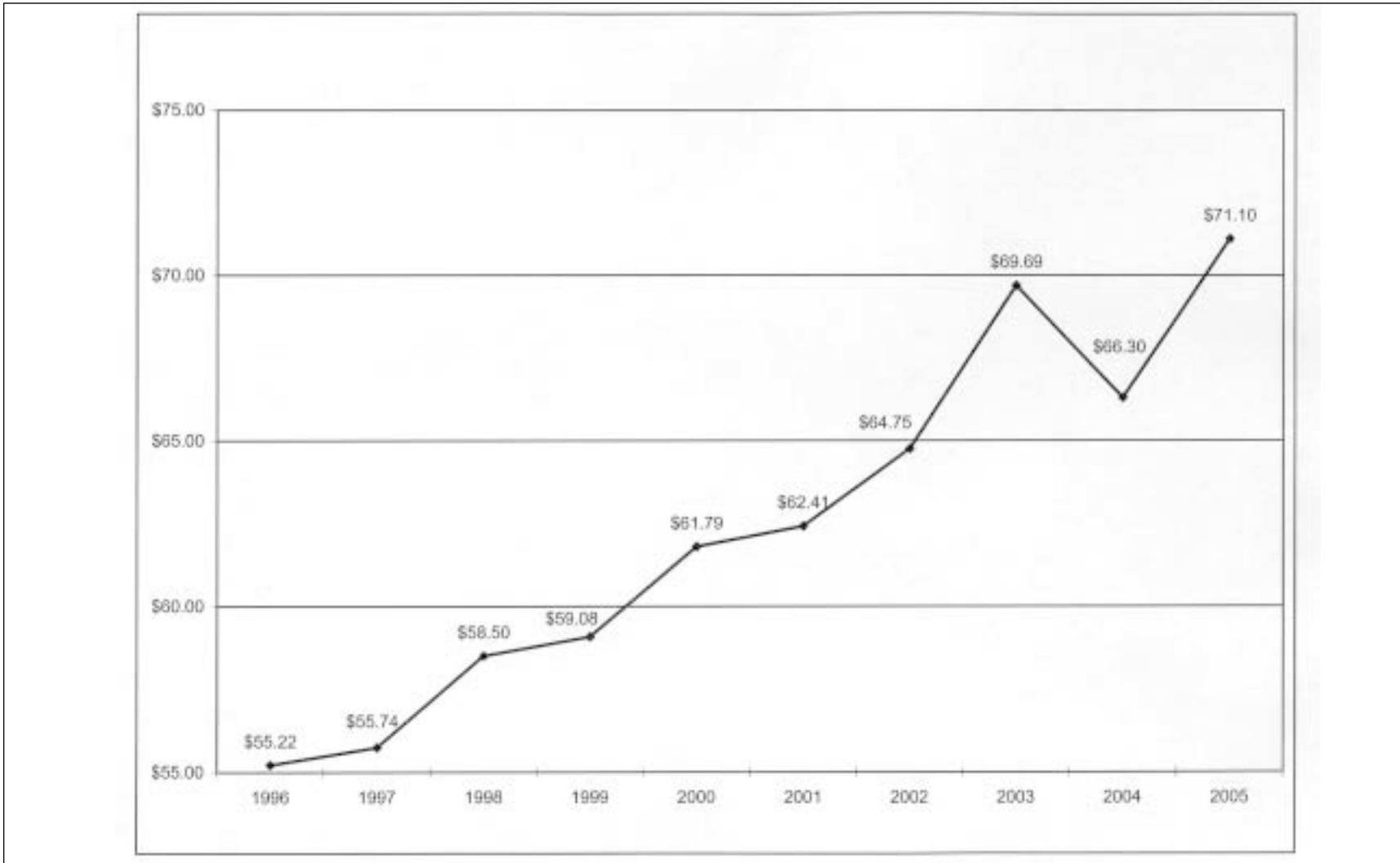
Recovery ratio is calculated as passenger fares divided by operating expenses excluding depreciation and amortization.

Southwest Ohio Regional Transit Authority

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

	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
OPERATING EXPENSES OTHER THAN DEPRECIATION AND AMORTIZATION:										
Labor	\$28,420	\$29,190	\$30,552	\$31,992	\$33,927	\$35,050	\$35,487	\$36,272	\$35,759	\$35,409
Fringe benefits	12,445	12,592	12,711	12,704	12,574	13,339	15,767	15,971	16,266	17,256
Materials and supplies consumed	6,478	6,396	7,313	7,439	10,480	7,953	7,309	8,222	8,955	10,597
Services	2,316	2,379	2,553	2,612	3,387	3,044	3,244	2,704	2,660	2,754
Utilities	979	982	919	929	1,080	1,074	1,216	1,341	1,302	1,561
Casualty and liability	487	252	317	410	260	1,724	547	1,343	(335)	288
Taxes	796	779	776	825	859	849	864	896	936	995
Purchased transportation services	3,027	3,262	3,733	4,323	4,398	5,167	6,116	5,840	5,921	5,899
Leases and rentals	478	459	483	518	477	479	488	455	467	506
Miscellaneous	556	652	1,181	1,082	1,614	1,410	1,347	1,311	391	519
<b>Total</b>	<b>55,982</b>	<b>56,943</b>	<b>60,538</b>	<b>62,834</b>	<b>69,056</b>	<b>70,089</b>	<b>72,385</b>	<b>74,355</b>	<b>72,322</b>	<b>75,784</b>
Grant pass-through-Riverfront Transit Center	0	0	0	0	0	0	713	3,943	0	0
Grant pass-through-Union Township Park & Ride	0	0	0	0	0	0	0	0	770	0
DEPRECIATION AND AMORTIZATION	5,635	6,434	7,203	8,595	8,750	9,011	9,212	9,550	10,090	10,606
<b>TOTAL EXPENSES</b>	<b>\$61,617</b>	<b>\$63,377</b>	<b>\$67,741</b>	<b>\$71,429</b>	<b>\$77,806</b>	<b>\$79,100</b>	<b>\$82,310</b>	<b>\$87,848</b>	<b>\$83,182</b>	<b>\$86,390</b>

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

**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):

YEAR	LABOR AND FRINGES	MATERIALS AND SUPPLIES	SERVICES	UTILITIES	CASUALTY AND LIABILITY	PURCHASED TRANSPOR- TATION	OTHER	TOTAL OPERATING EXPENSES (2)
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	69.4%	10.1%	5.9%	3.3%	2.1%	12.7%	-3.5%	100.0%
2002	70.3%	9.2%	6.2%	3.1%	2.5%	12.0%	-3.3%	100.0%
2003	69.0%	9.0%	6.0%	3.0%	2.6%	13.4%	-3.1%	100.0%
2004	68.7%	9.1%	5.8%	3.0%	2.6%	13.4%	-2.6%	100.0%
2005	*	*	*	*	*	*	*	*

## SOUTHWEST OHIO REGIONAL TRANSIT AUTHORITY (3):

YEAR	LABOR AND FRINGES	MATERIALS AND SUPPLIES	SERVICES	UTILITIES	CASUALTY AND LIABILITY	PURCHASED TRANSPOR- TATION	OTHER	TOTAL OPERATING EXPENSES (2)
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%
2002	70.1%	10.0%	5.4%	1.7%	0.7%	8.4%	3.7%	100.0%
2003	66.7%	10.5%	8.5%	1.7%	1.7%	7.5%	3.4%	100.0%
2004	71.2%	12.3%	4.7%	1.8%	(0.5%)	8.1%	2.4%	100.0%
2005	69.5%	14.0%	3.6%	2.1%	0.4%	7.8%	2.6%	100.0%

\* Information not available

(1) Source: The American Public Transit Association, "APTA 2005 Transit Fact Book".

(2) Total operating expenses exclude depreciation and amortization.

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

## Southwest Ohio Regional Transit Authority

**Operating Statistics—Last Ten Years**

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
<b>SYSTEM RIDERSHIP (1)</b>										
Motor bus.....	26,239,055	25,996,644	28,566,152	26,172,056	26,400,888	24,813,422	24,108,188	23,872,078	23,052,379	25,900,339
Demand responsive.....	216,960	230,357	242,888	226,598 (4)	236,752	253,124	267,664	271,448	267,271	258,013
<b>AVERAGE WEEKDAY SYSTEM RIDERSHIP (1)</b>										
Motor bus.....	86,500	90,017	93,279	86,376	85,747	82,416	83,531	82,656	80,261	87,320
Demand responsive.....	740	793	832	728	816	870	918	938	915	899
<b>VEHICLE MILES OPERATED (1)</b>										
Motor bus.....	12,516,103	12,492,183	12,769,451	13,543,419	13,706,584	13,572,038	13,484,565	13,560,173	13,326,524	12,931,616
Demand responsive .....	1,920,317	2,038,774	2,267,177	2,413,173	2,893,723	2,844,335	2,946,010	2,743,402	2,678,869	2,470,081
<b>AVERAGE WEEKDAY VEHICLE MILES OPERATED (1)</b>										
Motor bus.....	42,470	42,459	43,499	46,335	46,775	46,201	46,096	46,354	45,099	43,502
Demand responsive.....	6,551	7,020	7,763	8,321	9,975	9,771	10,108	9,476	9,169	8,603
<b>REVENUE MILES (1)</b>										
Motor bus.....	10,788,011	10,895,126	10,978,364	11,612,657	11,705,868	11,663,582	11,483,950	11,511,422	11,291,291	11,018,173
Demand responsive .....	1,677,714	1,806,841	1,920,731	2,015,836	2,421,249	2,382,661	2,552,926	2,404,108	2,324,105	2,135,177
<b>PASSENGER MILES (1)</b>										
Motor bus.....	118,637,594	134,204,888	150,363,410	138,470,307	152,886,096	148,412,646	134,240,845	129,392,725	133,255,711	139,002,211
Demand responsive.....	2,484,192	2,581,351	3,106,359	2,436,564	2,397,049	2,662,800	2,438,344	2,820,444	2,471,802	2,483,351

(Continued)

Southwest Ohio Regional Transit Authority

**Operating Statistics—Last Ten Years (Continued)**

	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
VEHICLE HOURS OPERATED (1)										
Motor bus.....	902,343	902,193	906,628	940,030	954,812	954,499	952,513	957,369	938,438	907,290
Demand responsive.....	111,393	119,433	128,169	141,785	162,691	168,479	176,488	166,202	164,052	158,632
VEHICLE REVENUE HOURS (1)										
Motor bus.....	827,640	829,616	825,332	861,945	873,696	874,376	871,122	875,770	858,610	830,384
Demand responsive.....	99,404	103,563	113,699	119,390	134,722	138,253	145,949	130,477	124,912	117,240
DIESEL FUEL CONSUMPTION (IN GALLONS) (1).....										
	3,372,176	3,250,342	3,214,609	3,368,953	3,456,053	3,497,718	3,485,856	3,459,098	3,385,152	3,334,875
FLEET REQUIREMENTS (DURING PEAK HOURS) (1)										
Motor bus.....	331	331	338	358	362	360	358	359	344	325
Demand responsive.....	30	34	40	40	46	46	53	48	43	43
TOTAL REVENUE VEHICLES DURING PERIOD (1)										
Motor bus.....	389	389	426	426	438	481	432	432	430	390
Demand responsive.....	36	41	42	49	52	94	53	53	53	53
NUMBER OF FULL TIME EMPLOYEES (2).....										
	810 (3)	798 (3)	836 (3)	844 (3)	818 (3)	831 (3)	824 (3)	787	793	786

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, 2005**

CASH OR TOKEN FARES

Zone 1 fare (3)	\$1.00
Zone 2 fare (3)	1.50
Zone 3 fare (3)	2.00
Parking Meeter shuttle (Monday - Friday)	0.50
Transfers	0.25
Access Zone 1 (1)	1.50
Access Zone 2 (1)	2.00
Express Service (Monday - Friday) (Butler & Warren Counties)	2.25
Express Services (Monday - Friday) (Eastgate, Harrison)	2.00

MONTHLY PASSES

MetroCard A Pass (zone one) (3)	40.00
MetroCard B Pass (two zones) (3)	60.00
MetroCard C Pass (three zones) (3)	80.00
MetroCard E Pass (express routes and three zones)	90.00
Metro/Tank Pass (zone one) (3)	70.00
Fare Deal (2) (three zones) (3)	24.50

DISCOUNT FARES (Fare Deal (2) and Children under 45")

Zone 1 fare	0.50
Zone 2 fare	0.75
Zone 3 fare	1.00

(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 February 6, 2005 and "Metro's Services for Older Adults and Riders with Disabilities" brochure, published February 6, 2005.

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	\$24,053

<u>YEAR</u>	<u>K-12 SCHOOL ENROLLMENT(2)</u>	<u>UNEMPLOYMENT RATE(3)</u>
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%
2002	163,108	5.1%
2003	161,025	5.1%
2004	157,301	5.6%
2005	*	5.7%

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
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)	253
Miles of route	640
Number of routes	53
Wheelchair lift-equipped standard buses	336
Average system speed (miles per hour)	
Motor bus	14.2
Demand responsive	15.6
Customer information calls answered	422,055



**Auditor of State  
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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 20, 2006**