

**SOUTHWEST OHIO REGIONAL  
TRANSIT AUTHORITY**

Single Audit Report for the Year Ended  
December 31, 2006





# Mary Taylor, CPA

Auditor of State

Board of Trustees  
Southwest Ohio Regional Transit Authority  
1014 Vine Street, Suite 2000  
Cincinnati, Ohio 45202-116

We have reviewed the *Independent Auditor's Report* of the Southwest Ohio Regional Transit Authority, Hamilton County, prepared by Clifton Gunderson LLP, for the audit period January 1, 2006 through December 31, 2006. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

*Mary Taylor*

Mary Taylor, CPA  
Auditor of State

June 29, 2007

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# TABLE OF CONTENTS

## BASIC FINANCIAL STATEMENTS

Independent Auditors' Report .....	1-2
Management's Discussion and Analysis .....	3-9
Balance Sheets .....	10-11
Statements of Revenues, Expenses and Changes in Net Assets .....	12-13
Statements of Cash Flows .....	14-15
Notes to Basic Financial Statements .....	16-33

## SUPPLEMENTAL SCHEDULE

Supplemental Schedule of Expenditures of Federal Awards .....	34
Note to the Supplemental Schedule of Expenditures of Federal Awards .....	35

## REPORTS ON COMPLIANCE AND INTERNAL CONTROL

Independent Auditor's Report Internal Control Over Financial Reporting and on Compliance and Other Matters Based on Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i> .....	36-37
Independent Auditor's Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133 .....	38-39

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS .....

40

## STATUS OF PRIOR YEAR COMMENTS

ON INTERNAL CONTROL AND LEGAL COMPLIANCE .....	41
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## AUTHORITY OFFICIALS .....

42

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## INDEPENDENT AUDITOR'S REPORT

Board of Trustees  
Southwest Ohio Regional Transit Authority  
Cincinnati, Ohio

We have audited the accompanying balance sheet of the Southwest Ohio Regional Transit Authority (the "Authority") as of December 31, 2006, and the related statements of revenues, expenses, and changes in net assets and of cash flows for the year then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinion on these financial statements based on our audit. The financial statements of the Southwest Ohio Regional Transit Authority as of December 31, 2005 were audited by other auditors whose report dated May 25, 2006 expressed an unqualified opinion on the financials statements. As discussed in Note 13, the Authority has restated its 2005 financial statements during the current year to correct an error, in conformity with accounting principles generally accepted in the United States of America. The other auditors reported on the 2005 financial statements before the restatement.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial statement audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the 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 audit provides a reasonable basis for our opinion.

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

We also audited the adjustments described in Note 13 that were applied to restate the 2005 financial statements. In our opinion, such adjustments are appropriate and have been properly applied.

In accordance with *Government Auditing Standards*, we have also issued a report dated June 15, 2007 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 read in conjunction with this report in assessing the results of our 2006 audit.

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, 2006 is presented for purpose of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of State, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the 2006 basic financial statements and, in our opinion, is fairly stated, in all material respects, when considered in relation to the 2006 basic financial statements taken as a whole.

*Clifton Gunderson LLP*

Toledo, Ohio  
June 15, 2007



## **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, 2006. This discussion and analysis is designed to assist the reader in focusing on the 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 increased over the course of the year's operations by \$6.2 million due to capital asset additions being greater than depreciation and amortization.
- Operating revenue for the Authority was \$0.7 million higher, totaling \$19.8 million. This increase was due to the full-year effect of the February 2005 increase in passenger fares.
- The Authority's operating expenses, excluding depreciation and before the grant pass through, increased by \$6.1 million. This 8.1% increase was due to higher fuel, health care, workers compensation and wage increases.
- Transit Fund revenue required from the City of Cincinnati increased \$3.6 million due to higher expenses.
- Current assets decreased \$17.5 million primarily due to the purchase of 40 Gillig buses, the rehabilitation of Government Square, and the payment of \$8.6 million lease obligation for 24 Gillig buses and 40 paratransit buses.
- Investment income net of the decrease in fair market value increased by \$0.8 million or 110.5% due to higher interest rates and improved portfolio performance.

#### **Overview of 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.

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

## Southwest Ohio Regional Transit Authority

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

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, 2006, 2005, and 2004 (In Thousands)

	2006	(Restated) 2005	2004
Current assets	\$36,015	\$53,480	\$52,332
Non-current assets	6,286	3,719	3,549
Capital assets-net	80,559	74,277	78,068
<b>Total assets</b>	<u>\$122,860</u>	<u>\$131,476</u>	<u>\$133,949</u>
Current liabilities	\$22,992	\$40,534	\$30,421
Non-current liabilities	18,962	16,289	25,041
<b>Total liabilities</b>	<u>41,954</u>	<u>56,823</u>	<u>55,462</u>
Net assets:			
Invested in capital assets, net of related debt	70,559	55,640	59,431
Restricted	1,066	992	879
Unrestricted	9,281	18,021	18,177
<b>Total net assets</b>	<u>80,906</u>	<u>74,653</u>	<u>78,487</u>
<b>Total liabilities and net assets</b>	<u>\$122,860</u>	<u>\$131,476</u>	<u>\$133,949</u>

## **Southwest Ohio Regional Transit Authority**

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

Net assets increased \$6.2 million to \$80.9 million in 2006 from \$74.7 million in 2005 which decreased from \$78.5 million in 2004. The 8.3% increase in 2006 was the result of the capital asset purchases, primarily the purchase 40 Gillig buses and the rehabilitation of Government Square, being more than accumulated depreciation and amortization. The 4.9% decrease in net assets from 2004 to 2005 was due capital asset purchases being less than depreciation and amortization.

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 \$10.0 million that we plan to use to satisfy the capital lease obligation.

**Southwest Ohio Regional Transit Authority**

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

**Statement of Changes in Net Assets  
December 31, 2006, 2005, and 2004 (In Thousands)**

	<b>2006</b>	<b>(Restated) 2005</b>	<b>2004</b>
<b>Operating revenues:</b>			
Passenger fares for transit service	\$18,664	\$18,088	\$14,852
Special transit fares	700	562	414
Auxiliary transportation revenue	464	459	412
Total	<u>19,828</u>	<u>19,109</u>	<u>15,678</u>
<b>Operating expenses other than depreciation:</b>			
Labor	37,245	35,409	35,758
Fringe benefits	18,352	17,256	16,266
Materials and supplies consumed	12,863	10,597	8,955
Services	3,053	2,755	2,660
Utilities	1,637	1,560	1,302
Casualty and liability	459	288	(335)
Taxes	1,059	995	936
Purchased transportation services	6,106	5,898	5,922
Leases and rentals	491	506	467
Miscellaneous	636	519	391
<b>Total</b>	<u>81,901</u>	<u>75,783</u>	<u>72,322</u>
Depreciation and amortization expense	11,489	10,606	10,090
Operating loss before grant pass through	(73,562)	(67,280)	(66,734)
Grant pass through-Union Township Park & Ride	0	0	770
Grant pass through-Anderson Township Park & Ride	350	0	0
<b>Operating loss</b>	<u>(73,912)</u>	<u>(67,280)</u>	<u>(67,504)</u>
<b>Net non-operating revenues (expenses):</b>			
Transit Fund assistance	40,491	36,935	35,660
Federal maintenance grants and reimbursements	11,216	11,421	12,995
State, ADA, special fare assistance and fuel tax reimbursements	2,297	1,340	1,351
Investment income	1,580	1,111	754
Net (decrease) increase in fair value of investments	(79)	(398)	(167)
Non-transportation revenue	705	668	585
Other	5,863	5,596	5,466
<b>Non-operating revenues and expenses, net before grant pass through</b>	<u>62,073</u>	<u>56,673</u>	<u>56,644</u>

**Southwest Ohio Regional Transit Authority**

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

	<b>2006</b>	<b>(Restated) 2005</b>	<b>2004</b>
Federal grant pass through- Anderson Park & Ride	350	0	0
Federal grant pass through- Union Township Park & Ride	0	0	624
State grant pass through-Union Township Park & Ride	<u>0</u>	<u>0</u>	<u>146</u>
Total	<u>62,423</u>	<u>56,673</u>	<u>57,414</u>
Net loss before capital grant activity	(11,489)	(10,607)	(10,090)
Capital Contributions	17,741	6,774	10,400
Change in net assets	<u>6,252</u>	<u>(3,833)</u>	<u>310</u>
Net assets, beginning of year	<u>74,654</u>	<u>78,487</u>	<u>78,177</u>
Net assets, end of year	<u>\$80,906</u>	<u>\$74,654</u>	<u>\$78,487</u>

The Authority's operating revenues increased by \$0.7 million to \$19.8 million in 2006 due to the full-year effect of the 2005 fare increase. 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 2005.

The Authority's operating expenses, excluding depreciation and amortization, increased \$6.1 million from \$75.8 million in 2005 to \$81.9 million. The 8.0% increase was due to higher fuel costs, wage increases, higher fringe benefits, primarily health care, OPERS, and workers compensation, and higher contract costs for the Access paratransit operation. The grant pass through for the Anderson Township Park & Ride in 2006 also contributed to the higher operating expenses.

Operating expenses, excluding depreciation and amortization, increased by \$3.5 million to \$75.8 million in 2005 from \$72.3 in 2004. This 4.8% 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.

In 2006, non-operating revenues increased \$5.7 million to \$62.4 million. The reasons for the increase were a \$3.6 million increase in Transit Fund income, a \$0.7 million increase due to applying formula funds to State ADA, a \$0.8 million improvement from higher investment income and lower decrease in fair value of investments, and the \$0.3 million pass through grant for the Anderson Township Park & Ride.

**Southwest Ohio Regional Transit Authority**

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

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 \$1.6 million in federal maintenance grants and reimbursement were offset by \$1.3 million increase in Transit Fund assistance, and \$0.4 from higher investment income and increased local operating grants and special fare assistance.

**Statement of Cash Flows**

**December 31, 2006, 2005, and 2004 (In Thousands)**

<b>Cash flows from operating activities:</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>
Receipts from fares and special service	\$19,706	\$18,919	\$15,585
Payments for labor, employee benefits, claims, insurance and to suppliers	<u>(81,955)</u>	<u>(75,155)</u>	<u>(71,781)</u>
<b>Net cash used in operating activities</b>	<u>(62,249)</u>	<u>(56,236)</u>	<u>(56,196)</u>
<b>Cash flow from noncapital financing activities:</b>			
Transfer from City of Cincinnati Income Tax-Transit Fund	40,587	36,402	36,758
Federal, State, and other local assistance and reimbursements	<u>21,419</u>	<u>19,347</u>	<u>18,964</u>
<b>Net cash provided by noncapital financing activities</b>	<u>62,006</u>	<u>55,749</u>	<u>55,722</u>
<b>Cash flows from capital and related financing activities:</b>			
Capital grants received:			
City of Cincinnati, federal, state and other local	14,190	6,930	8,284
Additions to capital assets	(17,986)	(6,837)	(10,482)
Payments on capital lease obligation	(8,636)	0	0
Interest paid on capital lease obligations	<u>(834)</u>	<u>(834)</u>	<u>(865)</u>
<b>Net used in capital and related financing activities</b>	<u>(13,266)</u>	<u>(741)</u>	<u>(3,063)</u>
<b>Cash flows from investing activities:</b>			
Net cash receipts from investment securities	<u>31,690</u>	<u>3,553</u>	<u>1,931</u>
<b>Net cash provided by investing activities</b>	<u>31,690</u>	<u>3,553</u>	<u>1,931</u>
<b>Net change in cash and equivalents</b>	18,181	2,325	(1,606)
<b>Cash and cash equivalents at beginning of year</b>	<u>6,018</u>	<u>3,693</u>	<u>5,299</u>
<b>Cash and cash equivalents at end of year</b>	<u>\$24,199</u>	<u>\$6,018</u>	<u>\$3,693</u>

## Southwest Ohio Regional Transit Authority

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

Net cash used for operating activities in 2006 increased \$6.0 million due to higher fuel costs, wage increases, higher benefit costs, primarily health care, OPERS, and workers compensation, and higher contract costs for the Access paratransit operation. Net cash provided by non-capital financing activities increased \$6.3 million due to an increase from the City Transit Fund of \$4.2 million and \$2.1 million from federal, state, and other local assistance and reimbursements. The net used capital and related financing activities increased \$12.5 million due to capital additions being \$11.1 million higher and an \$8.6 million payment on capital lease obligations which were partially offset by grants received from federal, state and local resources being up \$7.3 million.

In 2005, the net cash used in operating activities was virtually unchanged from 2004 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 federal, state and other local assistance reimbursement. The net used in capital and related financing activities decrease \$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.

#### Capital Asset and Debt Administration

**Capital Assets:** The Authority's investment in capital assets amounts to \$80.6 million, net of accumulated depreciation as of December 31, 2006, an increase of \$6.3 million (8.5%). 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:

- Completion of the rehabilitation of Government Square, the major transit hub in downtown Cincinnati, totaling \$4.4 million
- Purchase of 40 Gillig buses totaling \$11.9 million
- Building improvements totaling \$0.4 million primarily concrete repairs at Queensgate and replacing the front hoist frame and garage door at Bond Hill.

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

**Long-term Debt:** The Authority has outstanding leases on 38 Gillig buses in the amount of \$10 million which matures in 2011. See Note 7 to the financial statements for more detailed information regarding capital leases.

**Southwest Ohio Regional Transit Authority**

**Balance Sheets  
as of December 31, 2006 and 2005**

<b>ASSETS</b>	<b>2006</b>	<b>(Restated) 2005</b>
<b>Current assets:</b>		
Cash and cash equivalents (Note 4)	\$17,912,758	\$2,298,985
Investments (Note 4)	10,281,569	39,934,813
Receivables:		
Federal assistance	3,753,172	6,159,826
State assistance	825,392	112,886
Other	1,489,297	1,345,399
Receivables for capital assistance-restricted	233,367	2,125,801
Inventory of materials and supplies	1,345,594	1,328,139
Prepaid expenses and other current assets	<u>173,621</u>	<u>174,259</u>
<b>Total current assets</b>	<u>36,014,770</u>	<u>53,480,108</u>
<b>Non-current assets:</b>		
Cash and cash equivalents-restricted (Notes 4 and 7)	6,286,226	3,719,306
Capital assets (Notes 5 and 7):		
Land and buildings	14,669,474	14,681,926
Improvements	24,790,043	19,961,669
Revenue vehicles	105,315,981	98,481,847
Other equipment	<u>28,110,156</u>	<u>27,678,367</u>
Total capital assets	172,885,654	160,803,809
Less allowance for depreciation and amortization	<u>92,326,583</u>	<u>86,527,426</u>
Capital assets-net	<u>80,559,071</u>	<u>74,276,383</u>
<b>Total non-current assets</b>	<u>86,845,297</u>	<u>77,995,689</u>
<b>Total assets</b>	<u>\$122,860,067</u>	<u>\$131,475,797</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, 2006 and 2005 (continued)**

<b>LIABILITIES AND NET ASSETS</b>	<b>2006</b>	<b>(Restated) 2005</b>
<b>Current liabilities:</b>		
Accounts payable	\$1,502,112	\$1,596,083
Capital expenditures payable	916,532	2,650,238
Accrued payroll	1,459,116	1,336,616
Accrued payroll taxes and other benefits (Note 8)	3,459,608	4,271,667
Current portion of estimated claims payable (Note 9)	890,000	762,000
Current portion of capital lease obligation (Note 7)	—	8,636,360
Other current liabilities	1,120,598	1,480,166
Advance from City of Cincinnati		
Income Tax-Transit Fund (Note 3):		
For current operations	1,937,980	1,841,693
For capital purposes	<u>11,705,906</u>	<u>17,958,914</u>
<b>Total current liabilities</b>	<u>22,991,852</u>	<u>40,533,737</u>
<b>Non-current liabilities:</b>		
Deferred capital grants	5,219,985	2,726,837
Estimated claims payable, net of current portion (Note 9)	3,658,001	3,453,344
Capital lease obligation, net of current portion (Note 7)	10,000,000	10,000,000
Accrued pension cost (Note 8)	<u>84,229</u>	<u>108,208</u>
<b>Total non-current liabilities</b>	<u>18,962,215</u>	<u>16,288,389</u>
<b>Total liabilities</b>	<u>41,954,067</u>	<u>56,822,126</u>
<b>Net assets:</b>		
Invested in capital assets, net of related debt	70,559,071	55,640,023
Restricted	1,066,241	992,469
Unrestricted	<u>9,280,688</u>	<u>18,021,179</u>
<b>Total net assets</b>	<u>80,906,000</u>	<u>74,653,671</u>
<b>Total liabilities and net assets</b>	<u>\$122,860,067</u>	<u>\$131,475,797</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, 2006 and 2005**

	<b>2006</b>	<b>(Restated) 2005</b>
<b>Operating revenues</b>		
Passenger fares for transit service	\$18,664,360	\$18,087,945
Special transit fares	700,317	562,248
Auxiliary transportation revenue	<u>464,346</u>	<u>459,224</u>
<b>Total</b>	<u>19,829,023</u>	<u>19,109,417</u>
 <b>Operating expenses other than depreciation:</b>		
Labor	37,244,768	35,408,619
Fringe benefits	18,351,801	17,255,630
Materials and supplies consumed	12,862,569	10,596,991
Services	3,053,286	2,754,566
Utilities	1,637,558	1,560,567
Casualty and liability	459,269	288,402
Taxes	1,058,772	994,653
Purchased transportation services	6,105,634	5,898,553
Leases and rentals	491,471	505,732
Miscellaneous	<u>636,195</u>	<u>519,571</u>
<b>Total</b>	<u>81,901,323</u>	<u>75,783,284</u>
 Grant pass-through—Anderson Twp. Park & Ride	350,000	—
Depreciation and amortization (Note 5)	<u>11,489,164</u>	<u>10,606,406</u>
Total operating expenses	<u>93,740,487</u>	<u>86,389,690</u>
 <b>Operating loss</b>	<b>(73,911,464)</b>	<b>(67,280,273)</b>
 <b>Non-operating revenues (expenses):</b>		
Federal maintenance grants and reimbursements (Note 6)	11,215,450	11,421,306
Federal grant pass-through—Anderson Twp. Park & Ride (Note 6)	350,000	—
State maintenance grants, reimbursements and special fare assistance (Note 6)	2,296,710	1,340,354
Local operating grants and special fare assistance (Note 6)	5,862,487	5,595,410
Investment income-net (Notes 4 and 7)	1,580,263	1,110,840
Decrease in fair value of investments	(79,341)	(397,689)
Non-transportation revenue	<u>705,906</u>	<u>668,100</u>
<b>Total</b>	<u>21,931,475</u>	<u>19,738,321</u>

(continued)

**Southwest Ohio Regional Transit Authority**

**Statements of Revenues, Expenses and Changes in Net Assets  
for the years ended December 31, 2006 and 2005 (continued)**

	<b>2006</b>	<b>(Restated) 2005</b>
<b>Loss before operating assistance provided by City of Cincinnati Income Tax-Transit Fund and capital grant activity</b>	\$(51,979,989)	\$(47,541,952)
<b>Operating assistance from the City of Cincinnati Income Tax-Transit Fund (Note 3)</b>	<u>40,490,825</u>	<u>36,935,546</u>
<b>Net loss before capital grant activity</b>	(11,489,164)	(10,606,406)
<b>Capital grant revenue (Note 6)</b>	<u>17,741,493</u>	<u>6,773,036</u>
<b>Increase (decrease) in net assets during the year</b>	6,252,329	(3,833,370)
<b>Net assets, beginning of year</b>	<u>74,653,671</u>	<u>78,487,041</u>
<b>Net assets, end of year</b>	<u>\$80,906,000</u>	<u>\$74,653,671</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, 2006 and 2005**

	<b>2006</b>	<b>2005</b>
<b>Cash flows from operating activities:</b>		
Receipts from fares and special service	\$19,706,432	\$18,918,644
Payments to suppliers	(24,687,172)	(21,596,276)
Payments for labor and employee benefits	(56,064,909)	(52,405,810)
Payments for claims and insurance	<u>(1,203,293)</u>	<u>(1,152,292)</u>
<b>Net cash used in operating activities</b>	<u>(62,248,942)</u>	<u>(56,235,734)</u>
<b>Cash flows from noncapital financing activities:</b>		
Transfer from City of Cincinnati Income Tax-Transit Fund	40,587,112	36,401,675
Federal maintenance grants and reimbursements	13,972,104	12,232,288
State maintenance grants, reimbursements and special fare assistance	1,584,204	1,519,857
Other local operating assistance received	<u>5,862,487</u>	<u>5,595,410</u>
<b>Net cash provided by noncapital financing activities</b>	<u>62,005,907</u>	<u>55,749,230</u>
<b>Cash flows from capital and related financing activities:</b>		
Capital grants received:		
City of Cincinnati Income Tax-Transit Fund	1,363,028	1,270,325
Federal, state and other local	12,827,456	5,658,826
Additions to capital assets	(17,986,491)	(6,836,570)
Payments of capital lease obligation	(8,636,360)	-
Interest paid on capital lease obligation	<u>(833,925)</u>	<u>(833,925)</u>
<b>Net cash used in capital and related financing activities</b>	<u>(13,266,292)</u>	<u>(741,344)</u>
<b>Cash flows from investing activities:</b>		
Net cash receipts from investment securities	29,579,691	1,607,714
Interest received	<u>2,110,329</u>	<u>1,944,756</u>
<b>Net cash provided by investing activities</b>	<u>31,690,020</u>	<u>3,552,470</u>
<b>Net increase in cash and cash equivalents</b>	18,180,693	2,324,622
<b>Cash and cash equivalents at beginning of year</b>	<u>6,018,291</u>	<u>3,693,669</u>
<b>Cash and cash equivalents at end of year</b>	<u>\$24,198,984</u>	<u>\$6,018,291</u>

(continued)

**Southwest Ohio Regional Transit Authority**

**Statements of Cash Flows  
for the years ended December 31, 2006 and 2005 (continued)**

	<b>2006</b>	<b>2005</b>
<b>Reconciliation of operating loss to net cash used in operating activities:</b>		
Operating loss	\$(73,911,464)	\$(67,280,273)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and Amortization	11,489,164	10,606,406
Non-transportation revenue	705,906	668,100
Changes in assets and liabilities:		
Other receivables	(143,898)	(244,089)
Restricted - receivables for capital assistance	1,892,434	(1,559,224)
Inventory of materials and supplies	(17,455)	(157,356)
Prepaid expenses and other current assets	638	(28,731)
Accounts payable	(93,971)	24,357
Capital expenditures payable	(1,733,706)	1,720,656
Accrued expenses	(689,559)	201,423
Other liabilities	(79,688)	(210,991)
Estimated Claims payable	<u>332,657</u>	<u>23,988</u>
<b>Net cash used in operating activities</b>	<b><u>\$(62,248,942)</u></b>	<b><u>\$(56,235,734)</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, 2006 and 2005

#### 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, 2006 and 2005 (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, 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, certificates of deposit, and commercial paper investments to be cash equivalents.

## Southwest Ohio Regional Transit Authority

### Notes to the Financial Statements for the years ended December 31, 2006 and 2005 (continued)

#### 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.

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. 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 having a value of \$300 or more 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:

Description	Years
Buildings	40
Improvements	15
Revenue vehicles	4-12
Other equipment	3-10



## Southwest Ohio Regional Transit Authority

### Notes to the Financial Statements for the years ended December 31, 2006 and 2005 (continued)

#### **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 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 2006 and 2005. 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. Operating and Non-operating Revenues and Expenses**

The Authority considers passenger fares, special transit fares and bus advertising revenues as operating revenues. Non-operating revenues are subsidies received from federal, state, and local sources. Expenses incurred for the daily operations of the transit system are considered operating expenses.

## **Southwest Ohio Regional Transit Authority**

### **Notes to the Financial Statements for the years ended December 31, 2006 and 2005 (continued)**

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

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 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 must be

## Southwest Ohio Regional Transit Authority

### Notes to the Financial Statements for the years ended December 31, 2006 and 2005 (continued)

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, 2006, the Authority maintained restricted cash and cash equivalents of \$6,286,226, and unrestricted cash and investments of \$28,194,327. The total cash and investments of \$34,480,553 consisted of \$17,908,845 in deposits and \$16,571,708 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, 2006, the carrying amount of the Authority's deposits was \$17,908,845 and the bank balance was \$18,433,772, 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, 2006 and 2005, the fair value of the System's investments were as follows:

	2006	2005
U.S. Agency bonds	\$16,567,795	\$35,017,759
Star Treasury Reserve of Ohio (STAROhio)	<u>3,913</u>	<u>3,728</u>
Total investments	<u>\$16,571,708</u>	<u>\$35,021,487</u>

Investments held by the Authority at December 31, 2006 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. No deposits were subject to custodial credit risk.

**Southwest Ohio Regional Transit Authority**

**Notes to the Financial Statements  
for the years ended December 31, 2006 and 2005 (continued)**

<b>Investment Type</b>	<b>Fair Value</b>	<b>Not Rated</b>	<b>AAA</b>	<b>AA,A and BBB</b>	<b>Below BBB</b>
U.S. Agency bonds	\$16,567,795		\$16,567,795		
Star Treasury Reserve of Ohio (STAROhio)	3,913		3,913		
<b>Total Investments</b>	\$16,571,708	\$0	\$16,571,708	\$0	\$0

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

<b>Investment Type</b>	<b>Fair Value</b>	<b>Less Than 1 Year</b>	<b>1 to 5 Years</b>	<b>6 to 10 Years</b>	<b>More Than 10 Years</b>
U.S. Agency bonds	\$16,567,795	\$0	\$6,286,595	\$10,281,200	\$0
<b>Total Bonds</b>	\$16,567,795	\$0	\$6,286,595	\$10,281,200	\$0

Investments held by the Authority at December 31, 2005 are presented below, categorized by the 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.

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

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

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

**Southwest Ohio Regional Transit Authority**

**Notes to the Financial Statements  
for the years ended December 31, 2006 and 2005 (continued)**

**5. Capital Assets**

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

	Balance January 1, 2006	Additions	Deletions	Balance December 31, 2006
Capital assets not being depreciated:				
Land	\$13,175,410	_____	\$12,452	\$13,162,958
Total capital assets not being depreciated	<u>13,175,410</u>	<u>—</u>	<u>12,452</u>	<u>13,162,958</u>
Capital assets being depreciated:				
Buildings	1,506,516			1,506,516
Improvements	19,961,669	\$4,855,907	27,533	24,790,043
Revenue vehicles	98,481,847	12,123,890	5,289,756	105,315,981
Other equipment	<u>27,678,367</u>	<u>1,006,694</u>	<u>574,905</u>	<u>28,110,156</u>
Total capital assets being depreciated	<u>147,628,399</u>	<u>17,986,491</u>	<u>5,892,194</u>	<u>159,722,696</u>
Less accumulated depreciation:				
Buildings	234,507	36,681		271,188
Improvements	5,321,515	1,329,198	27,533	6,623,180
Revenue vehicles	61,445,000	7,588,264	5,289,756	63,743,508
Other equipment	<u>19,526,404</u>	<u>2,535,021</u>	<u>372,718</u>	<u>21,688,707</u>
Total accumulated depreciation	<u>86,527,426</u>	<u>11,489,164</u>	<u>5,590,007</u>	<u>92,326,583</u>
Total capital assets being depreciated, net	<u>61,100,973</u>	<u>6,497,327</u>	<u>202,187</u>	<u>67,396,113</u>
Total capital assets, net	<u>\$74,276,383</u>	<u>\$6,497,327</u>	<u>\$214,639</u>	<u>\$80,559,071</u>

**Southwest Ohio Regional Transit Authority**

**Notes to the Financial Statements  
for the years ended December 31, 2006 and 2005 (continued)**

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	<u>26,281,419</u>	<u>1,482,840</u>	<u>85,892</u>	<u>27,678,367</u>
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	<u>17,283,863</u>	<u>2,306,834</u>	<u>64,293</u>	<u>19,526,404</u>
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>

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, 2006) had been owned by SORTA, the provision for depreciation for the years ended December 31, 2006 and 2005 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, 2006 and 2005 (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, 2006 and 2005 consist of the following:

	<b>2006</b>	<b>2005</b>
<b>Non-operating revenues:</b>		
<b>Federal:</b>		
FTA-Maintenance and other assistance	<u>\$11,215,450</u>	<u>\$11,421,306</u>
FTA-grant pass-through–Anderson Twp. Park & Ride	<u>\$350,000</u>	<u>—</u>
<b>State:</b>		
ODOT-Fuel tax reimbursement	\$1,013,747	\$933,121
ODOT-Elderly and handicapped grant	441,344	304,365
ODOT-Maintenance and other assistance	<u>841,619</u>	<u>102,868</u>
Total	<u>\$2,296,710</u>	<u>\$1,340,354</u>
<b>Local:</b>		
Cincinnati Board of Education Contract	\$5,037,092	\$4,652,616
Hamilton County	395,667	585,306
Warren County	37,656	32,128
Deerfield Township	34,719	26,830
City of Mason	34,718	26,830
Other	<u>322,635</u>	<u>271,700</u>
Total	<u>\$5,862,487</u>	<u>\$5,595,410</u>
<b>Capital grant revenue:</b>		
Federal	\$12,247,890	\$1,285,050
State	845,345	4,773,415
Local	<u>4,648,258</u>	<u>714,571</u>
Total	<u>\$17,741,493</u>	<u>\$6,773,036</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 \$282,000 in 2006 and \$272,000 in 2005.

**Southwest Ohio Regional Transit Authority**

**Notes to the Financial Statements  
for the years ended December 31, 2006 and 2005 (continued)**

At December 31, 2006, the minimum future payments under leases with terms extending beyond one year are as follows:

<u>Year</u>	<u>Amount</u>
2007	\$293,653
2008	305,434
2009	<u>146,907</u>
Total	<u>\$745,994</u>

SORTA also leases 38 revenue vehicles under a master lease-purchase agreement with a local financial institution. Based on the terms of the agreement, it has been classified as a capital lease. The capitalized cost and accumulated amortization recorded for these vehicles amounted to \$10,000,000 and \$3,750,999, respectively, at December 31, 2006.

The 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>
2007	\$418,000
2008	418,000
2009	418,000
2010	418,000
2011	<u>10,209,000</u>
Total minimum lease payments	11,881,000
Less amount representing interest	<u>1,881,000</u>
 Present value of net minimum lease payments	 10,000,000
Less amount due in 2007	<u>—</u>
 Amount due after 2007	 <u>\$10,000,000</u>

During the years ended December 31, 2006 and 2005, the Authority recognized \$530,066 and \$833,916, respectively, of interest expense under its capital leases.

**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



## Southwest Ohio Regional Transit Authority

### Notes to the Financial Statements for the years ended December 31, 2006 and 2005 (continued)

information. The financial report may be obtained by making a written request to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-5601 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. In 2006, employees other than law enforcement personnel are required to contribute 9.0% (8.5% in 2005) of their covered payroll to OPERS. The 2006 and 2005 employer contribution rates for local government employer units were 13.70% and 13.55%, respectively, of covered payroll including 4.5% and 4.0% in 2006 and 2005, respectively, 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, 2006, 2005 and 2004 were \$3,697,000, \$3,637,000, and \$3,683,000, respectively, equal to 100% of the required contribution for each year.

#### B. Private Pension Plans

**Plan Description.** Certain retirees (18 at January 1, 2007) continue to participate in the private pension plans which originated under the privately owned transit system (Cincinnati Transit, Inc.) acquired by the City in 1973. SORTA administers these single-employer, defined benefit pension plans and is reimbursed by the City for the costs of the plans (Note 3). The pension costs of the private plans are expected to decline in future years. The private pension plans do not issue stand-alone financial reports.

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

**Southwest Ohio Regional Transit Authority**

**Notes to the Financial Statements  
for the years ended December 31, 2006 and 2005 (continued)**

**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, 2006, 2005 and 2004 were determined using the unit credit actuarial cost method as follows:

	<b>2006</b>	<b>2005</b>	<b>2004</b>
Annual required contribution	—	—	—
Interest on net pension obligation	—	—	—
Actuarial adjustment to net pension obligation	—	\$(8,631)	—
Annual pension cost	—	(8,631)	—
Contribution/benefit payments made	<u>\$(23,979)</u>	<u>(30,258)</u>	<u>\$(38,006)</u>
Decrease in net pension obligation	(23,979)	(38,889)	(38,006)
Net pension obligation beginning of year	<u>108,208</u>	<u>147,097</u>	<u>185,103</u>
Net pension obligation end of year	<u>\$84,229</u>	<u>\$108,208</u>	<u>\$147,097</u>

The net pension obligation was actuarially determined using a mortality assumption obtained from the Unisex Pension Table for 1994 and the 2006 and 2005 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 postretirement 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 postretirement 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.

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, 4.5% and 4.0% of covered payroll were the portions of the 13.70% and 13.55% total contribution rates for 2006 and 2005, respectively, that were 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, 2005. An entry-age normal actuarial cost method of

## Southwest Ohio Regional Transit Authority

### Notes to the Financial Statements for the years ended December 31, 2006 and 2005 (continued)

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 2005 was 6.5%. 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 0.5% to 6% for the next nine years. In subsequent years (ten 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 369,214 and 376,109 at December 31, 2006 and 2005, respectively. The Authority's contributions to OPERS for other post-employment benefits for the years ended December 31, 2006 and 2005 were \$1,808,000 and \$1,523,000, respectively, equal to 100% of the required contributions for each year. The actuarial value of OPERS' net assets available for OPEB at December 31, 2005 was \$11.1 billion. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$31.3 billion and \$20.2 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, 2007 and January 1, 2006, which will allow additional funds to be allocated to the health care plan.

**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, 2006, 1 individual was receiving health care benefits and 440 individuals were eligible to receive life insurance benefits.

**Southwest Ohio Regional Transit Authority**

**Notes to the Financial Statements  
for the years ended December 31, 2006 and 2005 (continued)**

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>2006</u>	<u>2005</u>
Health care benefits	\$2,120	\$2,392
Life insurance benefits	\$338,711	\$316,875

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:

	2006	2005
Medical inflation assumptions	**	**
Future annual increases in life insurance premiums	2.00%	2.00%
Remaining life expectancy*	Individually Determined	
Medical	Individually Determined	
Life	14.6 yrs.	14.6 yrs.
Interest factor	6.00%	6.00%

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

\*\*No medical inflation.

The total expense recognized by the Authority for postemployment benefits not provided under OPERS was approximately \$45,000 and \$67,000 for the years ended December 31, 2006 and 2005, respectively.

**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.

**Southwest Ohio Regional Transit Authority**

**Notes to the Financial Statements  
for the years ended December 31, 2006 and 2005 (continued)**

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 4.19%.

The changes in the liabilities for self-insured risks for the years ended December 31, 2006, 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	3,769,309	446,035	4,215,344
Claims, net of changes			
in estimates	1,045,222	490,728	1,535,950
Payments	<u>(824,003)</u>	<u>(379,290)</u>	<u>(1,203,293)</u>
Balance, December 31, 2006	<u>\$3,990,528</u>	<u>\$557,473</u>	<u>\$4,548,001</u>

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

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

**10. Contingencies and Commitments**

**A. Litigation and Claims**

It is the Authority's policy, within certain limits (see Note 9), to act as self-insurer for certain insurable risks consisting primarily of public liability, property damage, and workers' compensation. At December 31, 2006, 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

## Southwest Ohio Regional Transit Authority

### Notes to the Financial Statements for the years ended December 31, 2006 and 2005 (continued)

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, 2006, 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 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 No. 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 No. 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.

#### **12. Everybody Rides Metro**

In 2006, the Authority formed "Everybody Rides Metro", a charitable foundation authorized under section 501(c)3 of the Internal Revenue Code and registered in Ohio and Kentucky. The foundation was formed to supply bus rides to the low income Metro riders. Contributions are solicited from the public at the web site [www.Everybodyridesmetro.org](http://www.Everybodyridesmetro.org), via mail, from Metro employees and through grants from other organizations. The foundation meets the criteria under GASB 14, "Discretely Component Unit", but since the assets, (\$15,399) and revenue (\$27,796) are immaterial to the Authority's basic financial statements, "Everybody Rides Metro" financial information is not presented in these financial statements.

#### **13. Prior Period Restatement**

During 2006, it was determined the federal assistance receivable was overstated by \$817,073 at December 31, 2005 due to a clerical error. This overstatement resulted in a corresponding overstatement of the advance from the City of Cincinnati Income Tax-Transit Fund liability of \$817,073.

**Southwest Ohio Regional Transit Authority**

**Notes to the Financial Statements  
for the years ended December 31, 2006 and 2005 (concluded)**

The overstatement is reported as a prior period restatement and is reflected in the accompanying 2005 balance sheet as described above and the 2005 statement of revenue, expenses and change in net assets as follows:

	<b>As previously reported</b>	<b>Adjustment</b>	<b>As restated</b>
Federal maintenance grants and reimbursements	<u>\$12,238,379</u>	<u>\$(817,073)</u>	<u>\$11,421,306</u>
Operating assistance from the City of Cincinnati Income Tax-Transit Fund	<u>36,118,473</u>	<u>817,073</u>	<u>36,935,546</u>
	<u>\$48,356,852</u>	<u>\$ —</u>	<u>\$48,356,852</u>

**14. Energy Forward Pricing Mechanisms**

Pursuant to Attorney General Opinion No.89-080 dated October 16, 1989, as a budget risk reduction tool, SORTA may enter into forward pricing mechanisms (e.g., commodity-type futures, options, contracts, etc.) to manage price variability and cost/budget uncertainty associated with purchased of Authority-consumed energy, e.g., diesel fuel. Since May 2006, SORTA has hedged its diesel consumption (approximately 3.6 million gallons per year) with Energy Forward Pricing Mechanisms (EFPM). This program's objective is to manage a large portion of Metro's exposure to fuel price swings. EFPMs may be comprised of any single or combined use of : futures; options; options on futures; or fixed price delivery contracts.

In 2006, heating oil #2 futures contracts (contracts) and fixed-price supply contracts were utilized. The SORTA Board approval limits contracts in-place to ninety percent of consumption expected in any one month. The initial value of each contract is zero. The price of diesel fuel purchased any day is the published Cincinnati rack price for the prior day plus or minus a differential agreed to through a competitive bidding process. The differential to the published Cincinnati rack price effective December 31, 2006 was \$.004 per gallon. When fuel is purchased, contracts are exercised, thereby, effectively tying the fuel price to the price of #2 heating oil as of the date of the contract's creation. For the year, losses of \$225,406 (7.09 cents per gallon) were recognized as an increase in diesel fuel expense. The positive effect of lower fuel costs late in 2006 more than offset the negative effect of hedging losses. On December 31, 2006, the remaining open contracts had \$607,118 of unrealized loss. There is no debt associated with these contracts and unrealized losses are fully funded.

As outlined in Governmental Accounting Standards Board Technical Bulletin 2003-1, there are certain risks attached to this program. Metro may face increased costs if: 1) fuel consumption falls below the contract levels, 2) the closing value of the contract is below its nominal value.

**Southwest Ohio Regional Transit Authority**

**Supplemental Schedule of Expenditures of Federal Awards  
for the year ended December 31, 2006**

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	\$26,542
		OH-90-X203	19,787
		OH-90-X233	36,147
		OH-90-X265	16,478
		OH-90-X319	36,861
		OH-90-X343	400,437
		OH-90-X392	5,420
		OH-90-X455	7,716,030
		OH-90-X508	161,089
		OH-90-X521	7,382,773
		OH-90-X584	<u>3,753,141</u>
<b>Total CFDA #20.507</b>			<u>19,554,705</u>
Direct Program:			
Federal Transit Administration-Capital			
Improvements Grant			
	20.500	OH-03-0230	2,704,482
		OH-03-0250	1,182,083
		OH-90-X514	405,866
		OH-03-0276	<u>2,107</u>
<b>Total CFDA #20.500</b>			<u>4,294,538</u>
<b>Total-U.S. Department of Transportation-Federal Transit Cluster</b>			<u>23,849,243</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>243</u>
<b>Total Expenditures of Federal Awards</b>			<u>\$23,849,486</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, 2006**

**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, 2006. 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 AUDITOR'S REPORT INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON  
AUDIT OF FINANCIAL STATEMENTS 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 Southwest Ohio Regional Transit Authority (the Authority) as of and for the year ended December 31, 2006, and have issued our report thereon dated June 15, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

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

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

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

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

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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 or other matters that are required to be reported under *Government Auditing Standards*.

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

*Clifton Henderson LLP*

Toledo, Ohio  
June 15, 2007



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

Board of Trustees  
Southwest Ohio Regional Transit Authority  
Cincinnati, Ohio

### **Compliance**

We have audited the compliance of 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, 2006. The Authority's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to 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; 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, 2006.

### **Internal Control Over Compliance**

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

opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

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

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

*Clifton Henderson LLP*

Toledo, Ohio  
June 15, 2007

**Southwest Ohio Regional Transit Authority**

**Schedule of Findings and Questioned Costs  
for the year ended December 31, 2006**

**Summary of Auditors' Results**

- Type of Report Issued on the Financial Statements as of and for the Year Ended December 31, 2006–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, 2006:
  - 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– \$715,485
  - 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, 2006**

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, 2006**

<b>BOARD OF TRUSTEES</b>	
Chairman	Lamont Taylor
Trustees	Robert W. Buechner Steven P. Goodin Stephan M. Louis William L. Mallory, Sr. Robert M. Mecklenborg Daniel S. Peters Melody Sawyer Richardson

<b>ADMINISTRATION</b>	
CEO & General Manager	Michael H. Setzer
Chief Financial Officer & Secretary-Treasurer	H. Theodore Bergh
Chief Operations Officer	Marilyn G. Shazor



Southwest Ohio Regional Transit Authority  
Hamilton County, Ohio

**COMPREHENSIVE ANNUAL FINANCIAL REPORT**

For the Fiscal Year Ended December 31, 2006

Lamont Taylor  
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, 2006

**TABLE OF CONTENTS**

**PAGE**

**Introductory Section**

Letter of Transmittal .....	1
Reporting Entity .....	2
Economic Condition and Outlook .....	4
Major Initiatives .....	6
Financial Information .....	6
Other Information .....	9
Board of Trustees and Administration .....	10
Table of Organization .....	11
Certificate of Achievement for Excellence in Financial Reporting .....	12

**Financial Section**

Independent Auditor's Report .....	13
Management's Discussion and Analysis .....	15
Financial Statements:	
Balance Sheets .....	22
Statements of Revenues, Expenses and Changes in Net Assets .....	24
Statements of Cash Flows .....	26
Notes to the Financial Statements .....	28
Supplemental Schedule of Revenues, Expenses and Changes in Net Assets – Budget and Actual (GAAP Basis) .....	46

**Statistical Section**

Revenues by Source .....	47
Revenues by Source (Graph Presentation) .....	48
Revenues and Operating Assistance – Comparison to Industry Trend Data .....	49
City Income Tax-Transit Fund .....	50
Passenger Fares vs. Operating Expenses .....	51
Passenger Fares Recovery Ratio .....	52
Expenses by Object Class .....	53
Operating Expenses per Vehicle Hour .....	54
Operating Expenses – Comparison to Industry Trend Data .....	55
Operating Statistics .....	56
Net Assets and Changes in Net Assets .....	58
Revenue Rates .....	60
Outstanding Debt .....	62
Principal Employers in Primary Service Area .....	63
Full-time-Equivalent Employees .....	64
Capital Asset Information .....	65
Fare Rate Structure .....	67
Demographic Statistics .....	68
Miscellaneous Statistics .....	69

# SORTA

Southwest Ohio Regional Transit Authority

1014 Vine Street, Suite 2000  
Cincinnati, Ohio 45202-1116  
(513) 632-9220

## Trustees

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**Vice Chairperson**

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H. Theodore Bergh  
**Secretary-Treasurer**

May 2007

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, 2006, 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 Governmental 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, 2005. 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 2005) as well as the previous fourteen 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, 2006 and 2005, and the supplemental schedule of revenues, expenses, and changes in net assets—budget and actual for the year ended December 31, 2006.
- **Statistical Section** provides financial, economic, and demographic information which is useful for indicating trends for comparative fiscal periods.

## SORTA's Mission

To provide cost-effective, efficient, quality mass transit services within available resources to enable people to access their chosen activities in our community



Metro and Access are non-profit public services of Southwest Ohio Regional Transit Authority (SORTA).

## 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:

- 54 Metro fixed bus routes, many of which are multi-branch, provide 83 local or express services: 30 local services operating seven days a week; 39 local services operating Monday through Saturday; 47 local services operating on weekdays; and 36 commuter express services, operating primarily during weekday rush hours.
- Metro's fixed route hours are: weekdays, from 4:11 a.m. to 1:40 a.m. the next day; Saturdays, 4:39 a.m. to 1:42 a.m. the next day; and Sundays and holidays, 5:06 a.m. to 1:25 a.m. the next day.
- SORTA estimates that it will provide approximately 908,000 hours of Metro fixed-route bus service in 2007, which will yield approximately 13 million vehicle miles of operation, including nonrevenue miles. In 2005, Metro provided 906,000 hours of fixed route service, yielding 12.8 million vehicle miles of operation, including nonrevenue miles, and 25.3 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 Director of Accessible Services provides oversight for this service. SORTA projects that in 2007 it will provide approximately 263,000 passenger trips and approximately 2.5 million vehicle miles of Access service. In 2006, Access provided 261,000 passenger trips and 2.4 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 economic diversity shelters the region from boom-and-bust cycles experienced by other cities, particularly those in the Midwest whose local economies rely on heavy manufacturing. For example, more than 300 companies with headquarters in Japan and Europe have a significant presence in Greater Cincinnati. In addition, 10 Fortune 500 companies are headquartered in Cincinnati, including: AK Steel Holding Corp.; Ashland Inc.; Chiquita Brands International; Cincinnati Financial; Federated Department Stores, Inc.; Fifth Third Bancorp; The Kroger Co.; Omnicare, Inc.; Procter & Gamble and Western & Southern Financial.
- **Housing.** Relatively low interest rates combined with a low cost of living and continued availability of land due to suburban development have helped Greater Cincinnati weather the national homebuilding and real estate downturn better than many other markets of similar size. Strong activity in downtown residential development is a continuing bright spot, with more than 4,000 units completed, under construction or in the pipeline.

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 2006 was 5.7 percent, compared with a national average of 4.6 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 5.4 percent in 2007.

## 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 a decrease of 600,000 passengers in 2006.

## Employment

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

<u>Year</u>	<b>Average Unemployment Rates</b>		
	<u>Hamilton County</u> (1)	<u>Ohio</u> (1)	<u>U.S.</u> (2)
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%
2006	5.0%	5.5%	4.6%

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 2006 include the following:

- Provided 25.2 million passenger trips on Metro fixed route service.
- Provided 261,000 passenger trips on Access paratransit service.
- Held grand openings for two major transit facilities: rebuilt Government Square, Metro's downtown transit hub; and Anderson Center Station Park & Ride in partnership with Anderson Township.
- Implemented new "go\*Metro" branding program with new logo, Web site and updated fleet graphics.
- Took delivery of 40 new Gillig Phantom 40-foot, low-floor transit buses.
- Began offering free wireless Internet access at Government Square, Anderson Center Station Park & Ride and two museums served by Metro's Rt. 1 as part of Metro's Business Plan Goal to "Use technology to improve the customers' experience."

### **Future Projects**

Initiatives planned or undertaken in 2007 include:

- In a continuing effort to capitalize on technology, Metro will begin offering customers the option of ordering monthly passes online for at-home delivery.
- Working with Cingular, a wireless telecommunications provider, Metro will begin offering wi-fi access on selected buses.
- Implementation of a subsidized fare program with the University of Cincinnati offering free rides to students and faculty of the university.
- Implementation of Google Transit, an online transit trip planning tool, as a compliment to Metro's existing Trip Planner for use by young professionals and out of town visitors.
- Moving Metro's headquarters to a location nearer its downtown transit hub and sales office.

## **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 commensurated 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 9% of earnable salary or compensation, and SORTA contributes 13.7% of the same base for 2006. 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 (4.5% of wages in 2006).

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 \$341,000 is recorded on SORTA’S balance sheet at December 31, 2006, 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 \$400,000.

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, Clifton Gunderson LLP, has rendered an unqualified audit report on SORTA'S financial statements for the fiscal year ended December 31, 2006.

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 Clifton Gunderson 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, 2006 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.

### **Acknowledgments**

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 & CFO

Southwest Ohio Regional Transit Authority

**Board of Trustees and Administration as of December 31, 2006**

**Members of the Board of Trustees**

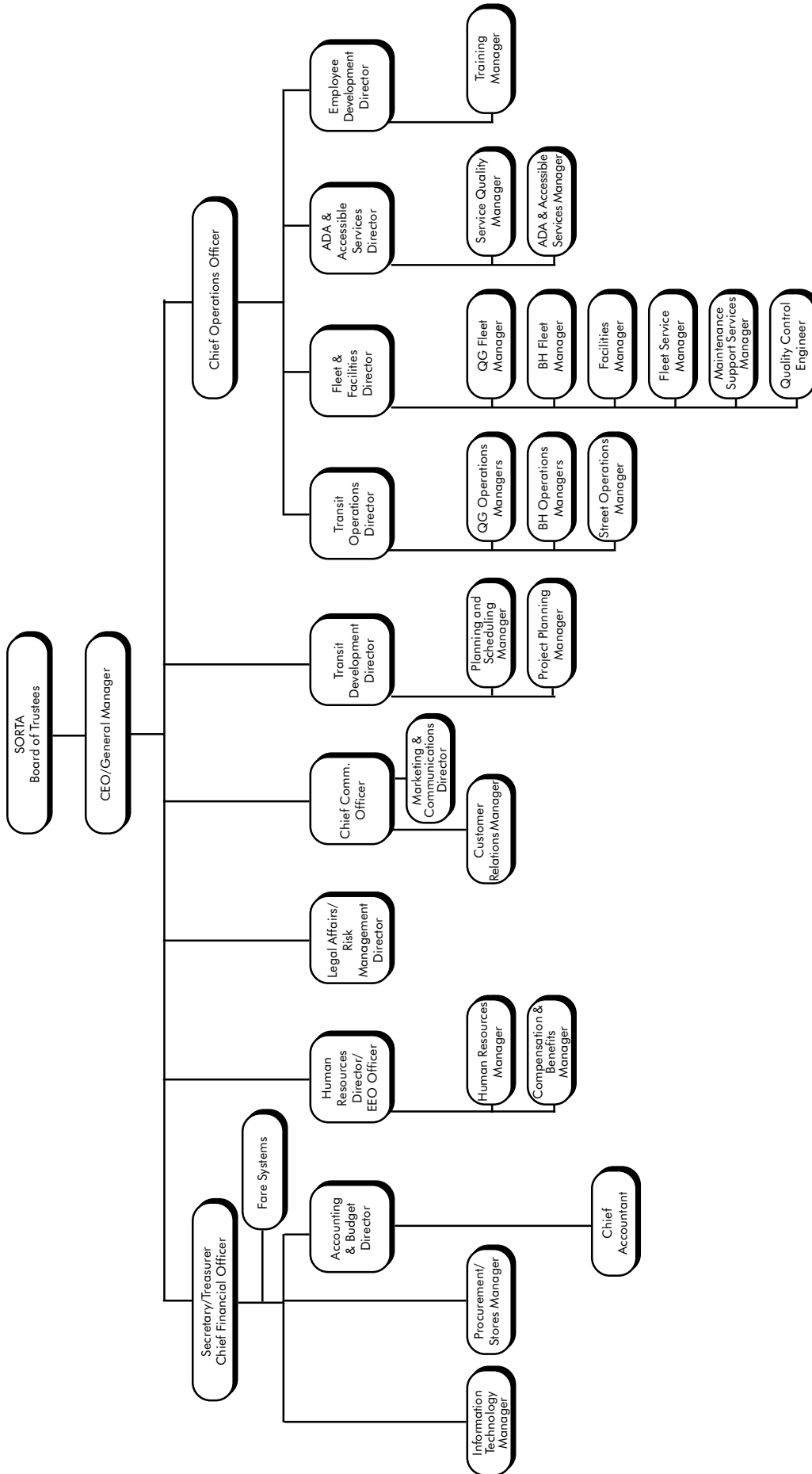
Lamont Taylor, Chairman  
Stephan M. Louis  
Robert W. Buechner  
Steven P. Goodin  
William L. Mallory Sr.  
Robert M. Mecklenborg  
Daniel S. Peters  
Melody Sawyer Richardson  
One open position

**Administration**

Michael H. Setzer, chief executive officer (CEO) & general manager  
Marilyn G. Shazor, chief operations officer (COO)  
H. Theodore Bergh, chief financial officer (CFO) & secretary/treasurer

Sallie L. Hilvers, chief information officer (CIO)  
Michael L. Brown, Director of Fleet & Facilities  
Vaughn B. Davis, director, Human Resources/EEO officer  
William Desmond, director and counsel, Legal Affairs/Risk Management  
Timothy Harrington, manager, Information Technology  
Cathy Hugenberg, director, Accounting and Budget  
Mary Moning, director, Accessible Services  
Rita D. Potts, director, Marketing and Communications  
Timothy J. Reynolds, director, Transit Development  
Jerry Roetting, manager, Procurement  
William R. Spraul, director, Transit Operations

Southwest Ohio Regional Transit Authority  
**Table of Organization**  
**December 31, 2006**



# 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, 2005

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



## INDEPENDENT AUDITOR'S REPORT

Board of Trustees  
 Southwest Ohio Regional Transit Authority  
 Cincinnati, Ohio

We have audited the accompanying balance sheet of the Southwest Ohio Regional Transit Authority (the "Authority") as of December 31, 2006, and the related statements of revenues, expenses, and changes in net assets and of cash flows for the year then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinion on these financial statements based on our audit. The financial statements of the Southwest Ohio Regional Transit Authority as of December 31, 2005 were audited by other auditors whose report dated May 25, 2006 expressed an unqualified opinion on the financials statements. As discussed in Note 13, the Authority has restated its 2005 financial statements during the current year to correct an error, in conformity with accounting principles generally accepted in the United States of America. The other auditors reported on the 2005 financial statements before the restatement.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial statement audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the 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 audit provides a reasonable basis for our opinion.

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

We also audited the adjustments described in Note 13 that were applied to restate the 2005 financial statements. In our opinion, such adjustments are appropriate and have been properly applied.

In accordance with *Government Auditing Standards*, we have also issued a report dated June 15, 2007 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 read in conjunction with this report in assessing the results of our 2006 audit.

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 opinions on the financial statements that collectively comprise the Authority's basic financial statements. The introductory section, supplemental schedule of revenues, expenses, and changes in net assets - budget and actual (GAAP basis) for the year ended December 31, 2006, and statistical tables are presented for purposes of additional analysis and are not a required part of the 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, 2006 has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical tables 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.

*Clifton Henderson LLP*

Toledo, Ohio  
June 15, 2007



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, 2006. This discussion and analysis is designed to assist the reader in focusing on the 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 increased over the course of the year's operations by \$6.2 million due to capital asset additions being greater than depreciation and amortization.
- Operating revenue for the Authority was \$0.7 million higher, totaling \$19.8 million. This increase was due to the full-year effect of the February 2005 increase in passenger fares.
- The Authority's operating expenses, excluding depreciation and before the grant pass through, increased by \$6.1 million. This 8.1% increase was due to higher fuel, health care, workers compensation and wage increases.
- Transit Fund revenue required from the City of Cincinnati increased \$3.6 million due to higher expenses.
- Current assets decreased \$17.5 million primarily due to the purchase of 40 Gillig buses, the rehabilitation of Government Square, and the payment of \$8.6 million lease obligation for 24 Gillig buses and 40 paratransit buses.
- Investment income net of the decrease in fair market value increased by \$0.8 million or 110.5% due to higher interest rates and improved portfolio performance.

### **Overview of 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.

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

## Southwest Ohio Regional Transit Authority

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

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, 2006, 2005, and 2004 (In Thousands)**

	<b>2006</b>	<b>(Restated) 2005</b>	<b>2004</b>
Current assets	\$36,015	\$53,480	\$52,332
Non-current assets	6,286	3,719	3,549
Capital assets-net	80,559	74,277	78,068
<b>Total assets</b>	<u>\$122,860</u>	<u>\$131,476</u>	<u>\$133,949</u>
Current liabilities	\$22,992	\$40,534	\$30,421
Non-current liabilities	18,962	16,289	25,041
<b>Total liabilities</b>	<u>41,954</u>	<u>56,823</u>	<u>55,462</u>
Net assets:			
Invested in capital assets, net of related debt	70,559	55,640	59,431
Restricted	1,066	992	879
Unrestricted	9,281	18,021	18,177
<b>Total net assets</b>	<u>80,906</u>	<u>74,653</u>	<u>78,487</u>
<b>Total liabilities and net assets</b>	<u>\$122,860</u>	<u>\$131,476</u>	<u>\$133,949</u>

Southwest Ohio Regional Transit Authority

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

Net assets increased \$6.2 million to \$80.9 million in 2006 from \$74.7 million in 2005 which decreased from \$78.5 million in 2004. The 8.3% increase in 2006 was the result of the capital asset purchases, primarily the purchase 40 Gillig buses and the rehabilitation of Government Square, being more than accumulated depreciation and amortization. The 4.9% decrease in net assets from 2004 to 2005 was due capital asset purchases being less than depreciation and amortization.

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 \$10.0 million that we plan to use to satisfy the capital lease obligation.

Southwest Ohio Regional Transit Authority

**Management's Discussion and Analysis (continued)****Statement of Changes in Net Assets  
December 31, 2006, 2005, and 2004 (In Thousands)**

	2006	(Restated) 2005	2004
<b>Operating revenues:</b>			
Passenger fares for transit service	\$18,664	\$18,088	\$14,852
Special transit fares	700	562	414
Auxiliary transportation revenue	464	459	412
Total	<u>19,828</u>	<u>19,109</u>	<u>15,678</u>
<b>Operating expenses other than depreciation:</b>			
Labor	37,245	35,409	35,758
Fringe benefits	18,352	17,256	16,266
Materials and supplies consumed	12,863	10,597	8,955
Services	3,053	2,755	2,660
Utilities	1,637	1,560	1,302
Casualty and liability	459	288	(335)
Taxes	1,059	995	936
Purchased transportation services	6,106	5,898	5,922
Leases and rentals	491	506	467
Miscellaneous	636	519	391
Total	<u>81,901</u>	<u>75,783</u>	<u>72,322</u>
Depreciation and amortization expense	<u>11,489</u>	<u>10,606</u>	<u>10,090</u>
Operating loss before grant pass through	(73,562)	(67,280)	(66,734)
Grant pass through-Union Township Park & Ride	0	0	770
Grant pass through-Anderson Township Park & Ride	350	0	0
<b>Operating loss</b>	<u>(73,912)</u>	<u>(67,280)</u>	<u>(67,504)</u>
<b>Net non-operating revenues (expenses):</b>			
Transit Fund assistance	40,491	36,935	35,660
Federal maintenance grants and reimbursements	11,216	11,421	12,995
State, ADA, special fare assistance and fuel tax reimbursements	2,297	1,340	1,351
Investment income	1,580	1,111	754
Net (decrease) increase in fair value of investments	(79)	(398)	(167)
Non-transportation revenue	705	668	585
Other	<u>5,863</u>	<u>5,596</u>	<u>5,466</u>
<b>Non-operating revenues and expenses, net before grant pass through</b>	<u>62,073</u>	<u>56,673</u>	<u>56,644</u>

## Southwest Ohio Regional Transit Authority

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

	<b>2006</b>	<b>(Restated) 2005</b>	<b>2004</b>
Federal grant pass through- Anderson Park & Ride	350	0	0
Federal grant pass through- Union Township Park & Ride	0	0	624
State grant pass through-Union Township Park & Ride	<u>0</u>	<u>0</u>	<u>146</u>
Total	<u>62,423</u>	<u>56,673</u>	<u>57,414</u>
Net loss before capital grant activity	(11,489)	(10,607)	(10,090)
Capital Contributions	17,741	6,774	10,400
Change in net assets	<u>6,252</u>	<u>(3,833)</u>	<u>310</u>
Net assets, beginning of year	<u>74,654</u>	<u>78,487</u>	<u>78,177</u>
Net assets, end of year	<u>\$80,906</u>	<u>\$74,654</u>	<u>\$78,487</u>

The Authority's operating revenues increased by \$0.7 million to \$19.8 million in 2006 due to the full-year effect of the 2005 fare increase. 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 2005.

The Authority's operating expenses, excluding depreciation and amortization, increased \$6.1 million from \$75.8 million in 2005 to \$81.9 million. The 8.0% increase was due to higher fuel costs, wage increases, higher fringe benefits, primarily health care, OPERS, and workers compensation, and higher contract costs for the Access paratransit operation. The grant pass through for the Anderson Township Park & Ride in 2006 also contributed to the higher operating expenses.

Operating expenses, excluding depreciation and amortization, increased by \$3.5 million to \$75.8 million in 2005 from \$72.3 in 2004. This 4.8% 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.

In 2006, non-operating revenues increased \$5.7 million to \$62.4 million. The reasons for the increase were a \$3.6 million increase in Transit Fund income, a \$0.7 million increase due to applying formula funds to State ADA, a \$0.8 million improvement from higher investment income and lower decrease in fair value of investments, and the \$0.3 million pass through grant for the Anderson Township Park & Ride.

## Southwest Ohio Regional Transit Authority

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

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 \$1.6 million in federal maintenance grants and reimbursement were offset by \$1.3 million increase in Transit Fund assistance, and \$0.4 from higher investment income and increased local operating grants and special fare assistance.

**Statement of Cash Flows****December 31, 2006, 2005, and 2004 (In Thousands)**

<b>Cash flows from operating activities:</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>
Receipts from fares and special service	\$19,706	\$18,919	\$15,585
Payments for labor, employee benefits, claims, insurance and to suppliers	<u>(81,955)</u>	<u>(75,155)</u>	<u>(71,781)</u>
<b>Net cash used in operating activities</b>	<u>(62,249)</u>	<u>(56,236)</u>	<u>(56,196)</u>
<b>Cash flow from noncapital financing activities:</b>			
Transfer from City of Cincinnati Income Tax-Transit Fund	40,587	36,402	36,758
Federal, State, and other local assistance and reimbursements	<u>21,419</u>	<u>19,347</u>	<u>18,964</u>
<b>Net cash provided by noncapital financing activities</b>	<u>62,006</u>	<u>55,749</u>	<u>55,722</u>
<b>Cash flows from capital and related financing activities:</b>			
Capital grants received:			
City of Cincinnati, federal, state and other local	14,190	6,930	8,284
Additions to capital assets	(17,986)	(6,837)	(10,482)
Payments on capital lease obligation	(8,636)	0	0
Interest paid on capital lease obligations	<u>(834)</u>	<u>(834)</u>	<u>(865)</u>
<b>Net used in capital and related financing activities</b>	<u>(13,266)</u>	<u>(741)</u>	<u>(3,063)</u>
<b>Cash flows from investing activities:</b>			
Net cash receipts from investment securities	<u>31,690</u>	<u>3,553</u>	<u>1,931</u>
<b>Net cash provided by investing activities</b>	<u>31,690</u>	<u>3,553</u>	<u>1,931</u>
<b>Net change in cash and equivalents</b>	18,181	2,325	(1,606)
<b>Cash and cash equivalents at beginning of year</b>	<u>6,018</u>	<u>3,693</u>	<u>5,299</u>
<b>Cash and cash equivalents at end of year</b>	<u>\$24,199</u>	<u>\$6,018</u>	<u>\$3,693</u>

Southwest Ohio Regional Transit Authority

## Management's Discussion and Analysis (concluded)

Net cash used for operating activities in 2006 increased \$6.0 million due to higher fuel costs, wage increases, higher benefit costs, primarily health care, OPERS, and workers compensation, and higher contract costs for the Access paratransit operation. Net cash provided by non-capital financing activities increased \$6.3 million due to an increase from the City Transit Fund of \$4.2 million and \$2.1 million from federal, state, and other local assistance and reimbursements. The net used capital and related financing activities increased \$12.5 million due to capital additions being \$11.1 million higher and an \$8.6 million payment on capital lease obligations which were partially offset by grants received from federal, state and local resources being up \$7.3 million.

In 2005, the net cash used in operating activities was virtually unchanged from 2004 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 federal, state and other local assistance reimbursement. The net used in capital and related financing activities decrease \$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.

### Capital Asset and Debt Administration

**Capital Assets:** The Authority's investment in capital assets amounts to \$80.6 million, net of accumulated depreciation as of December 31, 2006, an increase of \$6.3 million (8.5%). 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:

- Completion of the rehabilitation of Government Square, the major transit hub in downtown Cincinnati, totaling \$4.4 million
- Purchase of 40 Gillig buses totaling \$11.9 million
- Building improvements totaling \$0.4 million primarily concrete repairs at Queensgate and replacing the front hoist frame and garage door at Bond Hill.

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

**Long-term Debt:** The Authority has outstanding leases on 38 Gillig buses in the amount of \$10 million which matures in 2011. See Note 7 to the financial statements for more detailed information regarding capital leases.

Southwest Ohio Regional Transit Authority

**Balance Sheets  
as of December 31, 2006 and 2005**

<b>ASSETS</b>	<b>2006</b>	<b>(Restated) 2005</b>
<b>Current assets:</b>		
Cash and cash equivalents (Note 4)	\$17,912,758	\$2,298,985
Investments (Note 4)	10,281,569	39,934,813
Receivables:		
Federal assistance	3,753,172	6,159,826
State assistance	825,392	112,886
Other	1,489,297	1,345,399
Receivables for capital assistance-restricted	233,367	2,125,801
Inventory of materials and supplies	1,345,594	1,328,139
Prepaid expenses and other current assets	<u>173,621</u>	<u>174,259</u>
<b>Total current assets</b>	<u>36,014,770</u>	<u>53,480,108</u>
<b>Non-current assets:</b>		
Cash and cash equivalents-restricted (Notes 4 and 7)	6,286,226	3,719,306
Capital assets (Notes 5 and 7):		
Land and buildings	14,669,474	14,681,926
Improvements	24,790,043	19,961,669
Revenue vehicles	105,315,981	98,481,847
Other equipment	<u>28,110,156</u>	<u>27,678,367</u>
Total capital assets	172,885,654	160,803,809
Less allowance for depreciation and amortization	<u>92,326,583</u>	<u>86,527,426</u>
Capital assets-net	<u>80,559,071</u>	<u>74,276,383</u>
<b>Total non-current assets</b>	<u>86,845,297</u>	<u>77,995,689</u>
<b>Total assets</b>	<u>\$122,860,067</u>	<u>\$131,475,797</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, 2006 and 2005 (continued)**

<b>LIABILITIES AND NET ASSETS</b>	<b>2006</b>	<b>(Restated) 2005</b>
<b>Current liabilities:</b>		
Accounts payable	\$1,502,112	\$1,596,083
Capital expenditures payable	916,532	2,650,238
Accrued payroll	1,459,116	1,336,616
Accrued payroll taxes and other benefits (Note 8)	3,459,608	4,271,667
Current portion of estimated claims payable (Note 9)	890,000	762,000
Current portion of capital lease obligation (Note 7)	—	8,636,360
Other current liabilities	1,120,598	1,480,166
Advance from City of Cincinnati		
Income Tax-Transit Fund (Note 3):		
For current operations	1,937,980	1,841,693
For capital purposes	11,705,906	17,958,914
<b>Total current liabilities</b>	<u>22,991,852</u>	<u>40,533,737</u>
<b>Non-current liabilities:</b>		
Deferred capital grants	5,219,985	2,726,837
Estimated claims payable, net of current portion (Note 9)	3,658,001	3,453,344
Capital lease obligation, net of current portion (Note 7)	10,000,000	10,000,000
Accrued pension cost (Note 8)	84,229	108,208
<b>Total non-current liabilities</b>	<u>18,962,215</u>	<u>16,288,389</u>
<b>Total liabilities</b>	<u>41,954,067</u>	<u>56,822,126</u>
<b>Net assets:</b>		
Invested in capital assets, net of related debt	70,559,071	55,640,023
Restricted	1,066,241	992,469
Unrestricted	9,280,688	18,021,179
<b>Total net assets</b>	<u>80,906,000</u>	<u>74,653,671</u>
<b>Total liabilities and net assets</b>	<u>\$122,860,067</u>	<u>\$131,475,797</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, 2006 and 2005**

	<b>2006</b>	<b>(Restated) 2005</b>
<b>Operating revenues</b>		
Passenger fares for transit service	\$18,664,360	\$18,087,945
Special transit fares	700,317	562,248
Auxiliary transportation revenue	<u>464,346</u>	<u>459,224</u>
<b>Total</b>	<u>19,829,023</u>	<u>19,109,417</u>
<b>Operating expenses other than depreciation:</b>		
Labor	37,244,768	35,408,619
Fringe benefits	18,351,801	17,255,630
Materials and supplies consumed	12,862,569	10,596,991
Services	3,053,286	2,754,566
Utilities	1,637,558	1,560,567
Casualty and liability	459,269	288,402
Taxes	1,058,772	994,653
Purchased transportation services	6,105,634	5,898,553
Leases and rentals	491,471	505,732
Miscellaneous	<u>636,195</u>	<u>519,571</u>
<b>Total</b>	<u>81,901,323</u>	<u>75,783,284</u>
Grant pass-through—Anderson Twp. Park & Ride	350,000	—
Depreciation and amortization (Note 5)	<u>11,489,164</u>	<u>10,606,406</u>
Total operating expenses	<u>93,740,487</u>	<u>86,389,690</u>
<b>Operating loss</b>	<u>(73,911,464)</u>	<u>(67,280,273)</u>
<b>Non-operating revenues (expenses):</b>		
Federal maintenance grants and reimbursements (Note 6)	11,215,450	11,421,306
Federal grant pass-through—Anderson Twp. Park & Ride (Note 6)	350,000	—
State maintenance grants, reimbursements and special fare assistance (Note 6)	2,296,710	1,340,354
Local operating grants and special fare assistance (Note 6)	5,862,487	5,595,410
Investment income-net (Notes 4 and 7)	1,580,263	1,110,840
Decrease in fair value of investments	(79,341)	(397,689)
Non-transportation revenue	<u>705,906</u>	<u>668,100</u>
<b>Total</b>	<u>21,931,475</u>	<u>19,738,321</u>

(continued)

Southwest Ohio Regional Transit Authority

**Statements of Revenues, Expenses and Changes in Net Assets  
for the years ended December 31, 2006 and 2005 (continued)**

	<b>2006</b>	<b>(Restated) 2005</b>
<b>Loss before operating assistance provided by City of Cincinnati Income Tax-Transit Fund and capital grant activity</b>	\$(51,979,989)	\$(47,541,952)
<b>Operating assistance from the City of Cincinnati Income Tax-Transit Fund (Note 3)</b>	<u>40,490,825</u>	<u>36,935,546</u>
<b>Net loss before capital grant activity</b>	(11,489,164)	(10,606,406)
<b>Capital grant revenue (Note 6)</b>	<u>17,741,493</u>	<u>6,773,036</u>
<b>Increase (decrease) in net assets during the year</b>	6,252,329	(3,833,370)
<b>Net assets, beginning of year</b>	<u>74,653,671</u>	<u>78,487,041</u>
<b>Net assets, end of year</b>	<u>\$80,906,000</u>	<u>\$74,653,671</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, 2006 and 2005**

	2006	2005
<b>Cash flows from operating activities:</b>		
Receipts from fares and special service	\$19,706,432	\$18,918,644
Payments to suppliers	(24,687,172)	(21,596,276)
Payments for labor and employee benefits	(56,064,909)	(52,405,810)
Payments for claims and insurance	<u>(1,203,293)</u>	<u>(1,152,292)</u>
<b>Net cash used in operating activities</b>	<u>(62,248,942)</u>	<u>(56,235,734)</u>
<b>Cash flows from noncapital financing activities:</b>		
Transfer from City of Cincinnati Income Tax-Transit Fund	40,587,112	36,401,675
Federal maintenance grants and reimbursements	13,972,104	12,232,288
State maintenance grants, reimbursements and special fare assistance	1,584,204	1,519,857
Other local operating assistance received	<u>5,862,487</u>	<u>5,595,410</u>
<b>Net cash provided by noncapital financing activities</b>	<u>62,005,907</u>	<u>55,749,230</u>
<b>Cash flows from capital and related financing activities:</b>		
Capital grants received:		
City of Cincinnati Income Tax-Transit Fund	1,363,028	1,270,325
Federal, state and other local	12,827,456	5,658,826
Additions to capital assets	(17,986,491)	(6,836,570)
Payments of capital lease obligation	(8,636,360)	-
Interest paid on capital lease obligation	<u>(833,925)</u>	<u>(833,925)</u>
<b>Net cash used in capital and related financing activities</b>	<u>(13,266,292)</u>	<u>(741,344)</u>
<b>Cash flows from investing activities:</b>		
Net cash receipts from investment securities	29,579,691	1,607,714
Interest received	<u>2,110,329</u>	<u>1,944,756</u>
<b>Net cash provided by investing activities</b>	<u>31,690,020</u>	<u>3,552,470</u>
<b>Net increase in cash and cash equivalents</b>	18,180,693	2,324,622
<b>Cash and cash equivalents at beginning of year</b>	<u>6,018,291</u>	<u>3,693,669</u>
<b>Cash and cash equivalents at end of year</b>	<u>\$24,198,984</u>	<u>\$6,018,291</u>

(continued)

Southwest Ohio Regional Transit Authority

**Statements of Cash Flows  
for the years ended December 31, 2006 and 2005 (continued)**

	2006	2005
<b>Reconciliation of operating loss to net cash used in operating activities:</b>		
Operating loss	\$(73,911,464)	\$(67,280,273)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and Amortization	11,489,164	10,606,406
Non-transportation revenue	705,906	668,100
Changes in assets and liabilities:		
Other receivables	(143,898)	(244,089)
Restricted - receivables for capital assistance	1,892,434	(1,559,224)
Inventory of materials and supplies	(17,455)	(157,356)
Prepaid expenses and other current assets	638	(28,731)
Accounts payable	(93,971)	24,357
Capital expenditures payable	(1,733,706)	1,720,656
Accrued expenses	(689,559)	201,423
Other liabilities	(79,688)	(210,991)
Estimated Claims payable	<u>332,657</u>	<u>23,988</u>
<b>Net cash used in operating activities</b>	<b><u>\$(62,248,942)</u></b>	<b><u>\$(56,235,734)</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, 2006 and 2005**

### **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, 2006 and 2005 (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, 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, certificates of deposit, and commercial paper investments to be cash equivalents.

Southwest Ohio Regional Transit Authority

**Notes to the Financial Statements  
for the years ended December 31, 2006 and 2005 (continued)**

**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.

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. 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 having a value of \$300 or more 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



Southwest Ohio Regional Transit Authority

## **Notes to the Financial Statements for the years ended December 31, 2006 and 2005 (continued)**

### **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 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 2006 and 2005. 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. Operating and Non-operating Revenues and Expenses**

The Authority considers passenger fares, special transit fares and bus advertising revenues as operating revenues. Non-operating revenues are subsidies received from federal, state, and local sources. Expenses incurred for the daily operations of the transit system are considered operating expenses.

Southwest Ohio Regional Transit Authority

## **Notes to the Financial Statements for the years ended December 31, 2006 and 2005 (continued)**

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

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 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 must be

Southwest Ohio Regional Transit Authority

**Notes to the Financial Statements  
for the years ended December 31, 2006 and 2005 (continued)**

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, 2006, the Authority maintained restricted cash and cash equivalents of \$6,286,226, and unrestricted cash and investments of \$28,194,327. The total cash and investments of \$34,480,553 consisted of \$17,908,845 in deposits and \$16,571,708 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, 2006, the carrying amount of the Authority's deposits was \$17,908,845 and the bank balance was \$18,433,772, 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, 2006 and 2005, the fair value of the System's investments were as follows:

	2006	2005
U.S. Agency bonds	\$16,567,795	\$35,017,759
Star Treasury Reserve of Ohio (STAROhio)	<u>3,913</u>	<u>3,728</u>
Total investments	<u>\$16,571,708</u>	<u>\$35,021,487</u>

Investments held by the Authority at December 31, 2006 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. No deposits were subject to custodial credit risk.

Southwest Ohio Regional Transit Authority

**Notes to the Financial Statements  
for the years ended December 31, 2006 and 2005 (continued)**

<b>Investment Type</b>	<b>Fair Value</b>	<b>Not Rated</b>	<b>AAA</b>	<b>AA,A and BBB</b>	<b>Below BBB</b>
U.S. Agency bonds	\$16,567,795		\$16,567,795		
Star Treasury Reserve of Ohio (STAROhio)	3,913		3,913		
<b>Total Investments</b>	\$16,571,708	\$0	\$16,571,708	\$0	\$0

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

<b>Investment Type</b>	<b>Fair Value</b>	<b>Less Than 1 Year</b>	<b>1 to 5 Years</b>	<b>6 to 10 Years</b>	<b>More Than 10 Years</b>
U.S. Agency bonds	\$16,567,795	\$0	\$6,286,595	\$10,281,200	\$0
<b>Total Bonds</b>	\$16,567,795	\$0	\$6,286,595	\$10,281,200	\$0

Investments held by the Authority at December 31, 2005 are presented below, categorized by the 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.

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

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

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

Southwest Ohio Regional Transit Authority

**Notes to the Financial Statements  
for the years ended December 31, 2006 and 2005 (continued)**

**5. Capital Assets**

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

	Balance January 1, 2006	Additions	Deletions	Balance December 31, 2006
Capital assets not being depreciated:				
Land	\$13,175,410	_____	\$12,452	\$13,162,958
Total capital assets not being depreciated	<u>13,175,410</u>	<u>—</u>	<u>12,452</u>	<u>13,162,958</u>
Capital assets being depreciated:				
Buildings	1,506,516			1,506,516
Improvements	19,961,669	\$4,855,907	27,533	24,790,043
Revenue vehicles	98,481,847	12,123,890	5,289,756	105,315,981
Other equipment	<u>27,678,367</u>	<u>1,006,694</u>	<u>574,905</u>	<u>28,110,156</u>
Total capital assets being depreciated	<u>147,628,399</u>	<u>17,986,491</u>	<u>5,892,194</u>	<u>159,722,696</u>
Less accumulated depreciation:				
Buildings	234,507	36,681		271,188
Improvements	5,321,515	1,329,198	27,533	6,623,180
Revenue vehicles	61,445,000	7,588,264	5,289,756	63,743,508
Other equipment	<u>19,526,404</u>	<u>2,535,021</u>	<u>372,718</u>	<u>21,688,707</u>
Total accumulated depreciation	<u>86,527,426</u>	<u>11,489,164</u>	<u>5,590,007</u>	<u>92,326,583</u>
Total capital assets being depreciated, net	<u>61,100,973</u>	<u>6,497,327</u>	<u>202,187</u>	<u>67,396,113</u>
Total capital assets, net	<u>\$74,276,383</u>	<u>\$6,497,327</u>	<u>\$214,639</u>	<u>\$80,559,071</u>

## Southwest Ohio Regional Transit Authority

## Notes to the Financial Statements for the years ended December 31, 2006 and 2005 (continued)

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	<u>\$13,172,747</u>	<u>\$2,663</u>	<u>—</u>	<u>\$13,175,410</u>
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	<u>26,281,419</u>	<u>1,482,840</u>	<u>85,892</u>	<u>27,678,367</u>
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	<u>17,283,863</u>	<u>2,306,834</u>	<u>64,293</u>	<u>19,526,404</u>
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>

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, 2006) had been owned by SORTA, the provision for depreciation for the years ended December 31, 2006 and 2005 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, 2006 and 2005 (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, 2006 and 2005 consist of the following:

	2006	2005
<b>Non-operating revenues:</b>		
<b>Federal:</b>		
FTA-Maintenance and other assistance	<u>\$11,215,450</u>	<u>\$11,421,306</u>
FTA-grant pass-through—Anderson Twp. Park & Ride	<u>\$350,000</u>	<u>—</u>
<b>State:</b>		
ODOT-Fuel tax reimbursement	\$1,013,747	\$933,121
ODOT-Elderly and handicapped grant	441,344	304,365
ODOT-Maintenance and other assistance	<u>841,619</u>	<u>102,868</u>
Total	<u>\$2,296,710</u>	<u>\$1,340,354</u>
<b>Local:</b>		
Cincinnati Board of Education Contract	\$5,037,092	\$4,652,616
Hamilton County	395,667	585,306
Warren County	37,656	32,128
Deerfield Township	34,719	26,830
City of Mason	34,718	26,830
Other	<u>322,635</u>	<u>271,700</u>
Total	<u>\$5,862,487</u>	<u>\$5,595,410</u>
<b>Capital grant revenue:</b>		
Federal	\$12,247,890	\$1,285,050
State	845,345	4,773,415
Local	<u>4,648,258</u>	<u>714,571</u>
Total	<u>\$17,741,493</u>	<u>\$6,773,036</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 \$282,000 in 2006 and \$272,000 in 2005.

Southwest Ohio Regional Transit Authority

**Notes to the Financial Statements  
for the years ended December 31, 2006 and 2005 (continued)**

At December 31, 2006, the minimum future payments under leases with terms extending beyond one year are as follows:

<u>Year</u>	<u>Amount</u>
2007	\$293,653
2008	305,434
2009	<u>146,907</u>
Total	<u>\$745,994</u>

SORTA also leases 38 revenue vehicles under a master lease-purchase agreement with a local financial institution. Based on the terms of the agreement, it has been classified as a capital lease. The capitalized cost and accumulated amortization recorded for these vehicles amounted to \$10,000,000 and \$3,750,999, respectively, at December 31, 2006.

The 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>
2007	\$418,000
2008	418,000
2009	418,000
2010	418,000
2011	<u>10,209,000</u>
Total minimum lease payments	11,881,000
Less amount representing interest	<u>1,881,000</u>
Present value of net minimum lease payments	10,000,000
Less amount due in 2007	<u>—</u>
Amount due after 2007	<u>\$10,000,000</u>

During the years ended December 31, 2006 and 2005, the Authority recognized \$530,066 and \$833,916, respectively, of interest expense under its capital leases.

**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



Southwest Ohio Regional Transit Authority

## Notes to the Financial Statements for the years ended December 31, 2006 and 2005 (continued)

information. The financial report may be obtained by making a written request to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-5601 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. In 2006, employees other than law enforcement personnel are required to contribute 9.0% (8.5% in 2005) of their covered payroll to OPERS. The 2006 and 2005 employer contribution rates for local government employer units were 13.70% and 13.55%, respectively, of covered payroll including 4.5% and 4.0% in 2006 and 2005, respectively, 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, 2006, 2005 and 2004 were \$3,697,000, \$3,637,000, and \$3,683,000, respectively, equal to 100% of the required contribution for each year.

### B. Private Pension Plans

**Plan Description.** Certain retirees (18 at January 1, 2007) continue to participate in the private pension plans which originated under the privately owned transit system (Cincinnati Transit, Inc.) acquired by the City in 1973. SORTA administers these single-employer, defined benefit pension plans and is reimbursed by the City for the costs of the plans (Note 3). The pension costs of the private plans are expected to decline in future years. The private pension plans do not issue stand-alone financial reports.

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

## Southwest Ohio Regional Transit Authority

## Notes to the Financial Statements for the years ended December 31, 2006 and 2005 (continued)

**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, 2006, 2005 and 2004 were determined using the unit credit actuarial cost method as follows:

	2006	2005	2004
Annual required contribution	—	—	—
Interest on net pension obligation	—	—	—
Actuarial adjustment to net pension obligation	—	\$(8,631)	—
Annual pension cost	—	(8,631)	—
Contribution/benefit payments made	<u>\$(23,979)</u>	<u>(30,258)</u>	<u>\$(38,006)</u>
Decrease in net pension obligation	(23,979)	(38,889)	(38,006)
Net pension obligation beginning of year	<u>108,208</u>	<u>147,097</u>	<u>185,103</u>
Net pension obligation end of year	<u><u>\$84,229</u></u>	<u><u>\$108,208</u></u>	<u><u>\$147,097</u></u>

The net pension obligation was actuarially determined using a mortality assumption obtained from the Unisex Pension Table for 1994 and the 2006 and 2005 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 postretirement 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 postretirement 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.

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, 4.5% and 4.0% of covered payroll were the portions of the 13.70% and 13.55% total contribution rates for 2006 and 2005, respectively, that were 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, 2005. An entry-age normal actuarial cost method of

Southwest Ohio Regional Transit Authority

## Notes to the Financial Statements for the years ended December 31, 2006 and 2005 (continued)

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 2005 was 6.5%. 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 0.5% to 6% for the next nine years. In subsequent years (ten 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 369,214 and 376,109 at December 31, 2006 and 2005, respectively. The Authority's contributions to OPERS for other post-employment benefits for the years ended December 31, 2006 and 2005 were \$1,808,000 and \$1,523,000, respectively, equal to 100% of the required contributions for each year. The actuarial value of OPERS' net assets available for OPEB at December 31, 2005 was \$11.1 billion. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$31.3 billion and \$20.2 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, 2007 and January 1, 2006, which will allow additional funds to be allocated to the health care plan.

**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, 2006, 1 individual was receiving health care benefits and 440 individuals were eligible to receive life insurance benefits.

Southwest Ohio Regional Transit Authority

**Notes to the Financial Statements  
for the years ended December 31, 2006 and 2005 (continued)**

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>2006</u>	<u>2005</u>
Health care benefits	\$2,120	\$2,392
Life insurance benefits	\$338,711	\$316,875

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:

	2006	2005
Medical inflation assumptions	**	**
Future annual increases in life insurance premiums	2.00%	2.00%
Remaining life expectancy*	Individually Determined	
Medical	14.6 yrs.	
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 \$45,000 and \$67,000 for the years ended December 31, 2006 and 2005, respectively.

**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.

Southwest Ohio Regional Transit Authority

**Notes to the Financial Statements  
for the years ended December 31, 2006 and 2005 (continued)**

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 4.19%.

The changes in the liabilities for self-insured risks for the years ended December 31, 2006, 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	3,769,309	446,035	4,215,344
Claims, net of changes in estimates	1,045,222	490,728	1,535,950
Payments	<u>(824,003)</u>	<u>(379,290)</u>	<u>(1,203,293)</u>
Balance, December 31, 2006	<u>\$3,990,528</u>	<u>\$557,473</u>	<u>\$4,548,001</u>

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

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

**10. Contingencies and Commitments**

**A. Litigation and Claims**

It is the Authority's policy, within certain limits (see Note 9), to act as self-insurer for certain insurable risks consisting primarily of public liability, property damage, and workers' compensation. At December 31, 2006, 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

Southwest Ohio Regional Transit Authority

## **Notes to the Financial Statements for the years ended December 31, 2006 and 2005 (continued)**

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, 2006, 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 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 No. 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 No. 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.

### **12. Everybody Rides Metro**

In 2006, the Authority formed "Everybody Rides Metro", a charitable foundation authorized under section 501(c)3 of the Internal Revenue Code and registered in Ohio and Kentucky. The foundation was formed to supply bus rides to the low income Metro riders. Contributions are solicited from the public at the web site [www.Everybodyridesmetro.org](http://www.Everybodyridesmetro.org), via mail, from Metro employees and through grants from other organizations. The foundation meets the criteria under GASB 14, "Discretely Component Unit", but since the assets, (\$15,399) and revenue (\$27,796) are immaterial to the Authority's basic financial statements, "Everybody Rides Metro" financial information is not presented in these financial statements.

### **13. Prior Period Restatement**

During 2006, it was determined the federal assistance receivable was overstated by \$817,073 at December 31, 2005 due to a clerical error. This overstatement resulted in a corresponding overstatement of the advance from the City of Cincinnati Income Tax-Transit Fund liability of \$817,073.

Southwest Ohio Regional Transit Authority

## Notes to the Financial Statements for the years ended December 31, 2006 and 2005 (concluded)

The overstatement is reported as a prior period restatement and is reflected in the accompanying 2005 balance sheet as described above and the 2005 statement of revenue, expenses and change in net assets as follows:

	<b>As previously reported</b>	<b>Adjustment</b>	<b>As restated</b>
Federal maintenance grants and reimbursements	<u>\$12,238,379</u>	<u>\$(817,073)</u>	<u>\$11,421,306</u>
Operating assistance from the City of Cincinnati Income Tax-Transit Fund	<u>36,118,473</u>	<u>817,073</u>	<u>36,935,546</u>
	<u>\$48,356,852</u>	<u>\$ —</u>	<u>\$48,356,852</u>

### 14. Energy Forward Pricing Mechanisms

Pursuant to Attorney General Opinion No.89-080 dated October 16, 1989, as a budget risk reduction tool, SORTA may enter into forward pricing mechanisms (e.g., commodity-type futures, options, contracts, etc.) to manage price variability and cost/budget uncertainty associated with purchased of Authority-consumed energy, e.g., diesel fuel. Since May 2006, SORTA has hedged its diesel consumption (approximately 3.6 million gallons per year) with Energy Forward Pricing Mechanisms (EFPM). This program's objective is to manage a large portion of Metro's exposure to fuel price swings. EFPMs may be comprised of any single or combined use of : futures; options; options on futures; or fixed price delivery contracts.

In 2006, heating oil #2 futures contracts (contracts) and fixed-price supply contracts were utilized. The SORTA Board approval limits contracts in-place to ninety percent of consumption expected in any one month. The initial value of each contract is zero. The price of diesel fuel purchased any day is the published Cincinnati rack price for the prior day plus or minus a differential agreed to through a competitive bidding process. The differential to the published Cincinnati rack price effective December 31, 2006 was \$.004 per gallon. When fuel is purchased, contracts are exercised, thereby, effectively tying the fuel price to the price of #2 heating oil as of the date of the contract's creation. For the year, losses of \$225,406 (7.09 cents per gallon) were recognized as an increase in diesel fuel expense. The positive effect of lower fuel costs late in 2006 more than offset the negative effect of hedging losses. On December 31, 2006, the remaining open contracts had \$607,118 of unrealized loss. There is no debt associated with these contracts and unrealized losses are fully funded.

As outlined in Governmental Accounting Standards Board Technical Bulletin 2003-1, there are certain risks attached to this program. Metro may face increased costs if: 1) fuel consumption falls below the contract levels, 2) the closing value of the contract is below its nominal value.

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, 2006**

	<b>Budget</b>	<b>Actual</b>	<b>Variance Positive (Negative)</b>
<b>Operating revenues</b>	\$19,446,801	\$19,829,023	\$382,222
<b>Operating expenses other than depreciation and amortization:</b>			
Labor	37,003,830	37,244,768	(240,938)
Fringe benefits	18,857,306	18,351,801	505,505
Materials and supplies consumed	13,558,134	12,862,569	695,565
Services	2,772,699	3,053,286	(280,587)
Utilities	1,749,133	1,637,558	111,575
Casualty and liability	432,335	459,269	(26,934)
Taxes	1,029,012	1,058,772	(29,760)
Purchased transportation services	6,755,041	6,105,634	649,407
Leases and rentals	472,473	491,471	(18,998)
Miscellaneous	337,582	636,195	(298,613)
Sub-total	82,967,545	81,901,323	1,066,222
Grant pass-through Anderson Township Park & Ride	350,000	350,000	0
<b>Total</b>	83,317,545	82,251,323	1,066,222
<b>Depreciation and amortization</b>	10,165,000	11,489,164	(1,324,164)
<b>Total operating expenses</b>	93,482,545	93,740,487	(257,942)
<b>Operating loss</b>	(74,035,744)	(73,911,464)	124,280
<b>Non-operating revenues:</b>			
Local operating grants and special fare assistance	49,012,163	46,353,312	(2,658,851)
Federal maintenance grants and reimbursements	10,950,764	11,215,450	264,686
Federal grant pass-through—Anderson Township Park & Ride	350,000	350,000	0
State maintenance grants, reimbursements and special fare assistance	1,430,606	2,296,710	866,104
Investment income-net	1,074,120	1,580,263	506,143
Increase (decrease) in fair value of investments	0	(79,341)	(79,341)
Non-transportation revenue	602,624	705,906	103,282
<b>Total</b>	63,420,277	62,422,300	(997,977)
<b>Net loss before capital grant activity</b>	(10,615,467)	(11,489,164)	(873,697)
<b>Capital grant revenue</b>	9,333,483	17,741,493	8,408,010
<b>Increase (decrease) in net assets during the year</b>	(1,281,984)	6,252,329	7,534,313
<b>Net assets, beginning of year</b>	74,653,671	74,653,671	0
<b>Net assets, end of year</b>	\$73,371,687	\$80,906,000	\$7,534,313



Southwest Ohio Regional Transit Authority

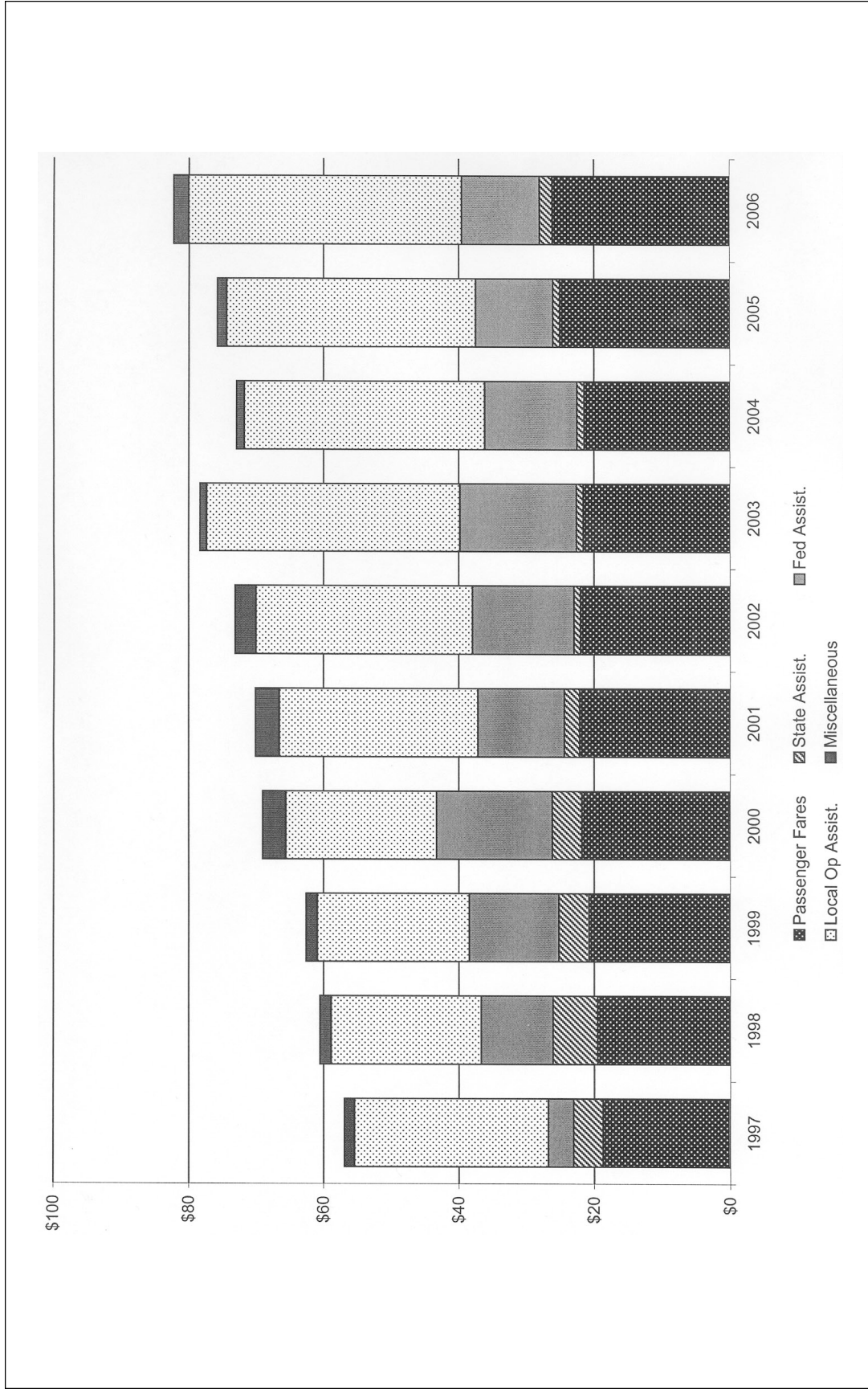
**Revenues by Source—Last Ten Years  
(in Thousands)**

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
<b>OPERATING REVENUES</b>										
Passenger fares for transit service (1)	\$17,921	\$18,585	\$19,679	\$20,661	\$21,204	\$20,937	\$20,712	\$20,630	\$23,989	\$24,969
Special transit fares	323	328	528	381	328	412	487	414	562	700
Auxiliary transportation revenue	495	607	572	762	574	615	392	412	459	464
<b>Total operating revenues</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>26,133</b>
<b>NON-OPERATING REVENUES</b>										
Federal grants and reimbursements (1)	3,722	10,624	13,282	17,183	12,780	14,298	14,018	12,995	11,421	11,215
Federal grant pass-through-Riverfront Transit Center	0	0	0	0	0	713	3,208	0	0	0
Federal grant pass-through-Union Township Park & Ride	0	0	0	0	0	0	0	624	0	0
Federal grant pass-through-Anderson Township Park & Ride	0	0	0	0	0	0	0	0	0	350
State grants and reimbursements (1)	4,306	6,541	4,394	4,332	2,249	982	985	1,039	1,036	1,855
State grant pass-through-Union Township Park & Ride	0	0	0	0	0	0	0	146	0	0
Investment income	1,055	1,372	1,635	2,981	3,130	2,548	439	587	713	1,501
Non-transportation revenues	453	296	288	491	414	541	513	585	668	706
Sub-total	9,536	18,833	19,599	24,987	18,573	19,082	19,163	15,976	13,838	15,627
Local operating assistance	28,668	22,185	22,456	22,265	29,410	32,052	37,544	35,660	36,935	40,491
<b>Total non-operating revenues</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>56,118</b>
<b>TOTAL REVENUES</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>	<b>\$82,251</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.

Southwest Ohio Regional Transit Authority

**Revenues by Source—Last Ten Years**



Source: Derived from SORTA's independently audited 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	
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	*	*	*	*	*	*	*
2006	*	*	*	*	*	*	*

SOUTHWEST OHIO REGIONAL TRANSIT AUTHORITY:

YEAR	OPERATING AND OTHER REVENUE			OPERATING ASSISTANCE			TOTAL REVENUES
	PASSENGER	OTHER (2)	TOTAL	STATE & LOCAL (3)	FEDERAL	TOTAL	
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%	50.1%	15.1%	65.2%	100.0%
2006	31.2%	3.2%	34.4%	51.5%	14.1%	65.6%	100.0%

\* Information source 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)
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
2006	15,120	42,631	487	41,950	658	15,630
		<u>\$367,326</u>	<u>\$3,031</u>	<u>\$362,241</u>	<u>\$8,829</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, 1997 to 2001 and \$3,000,000 in 2002.

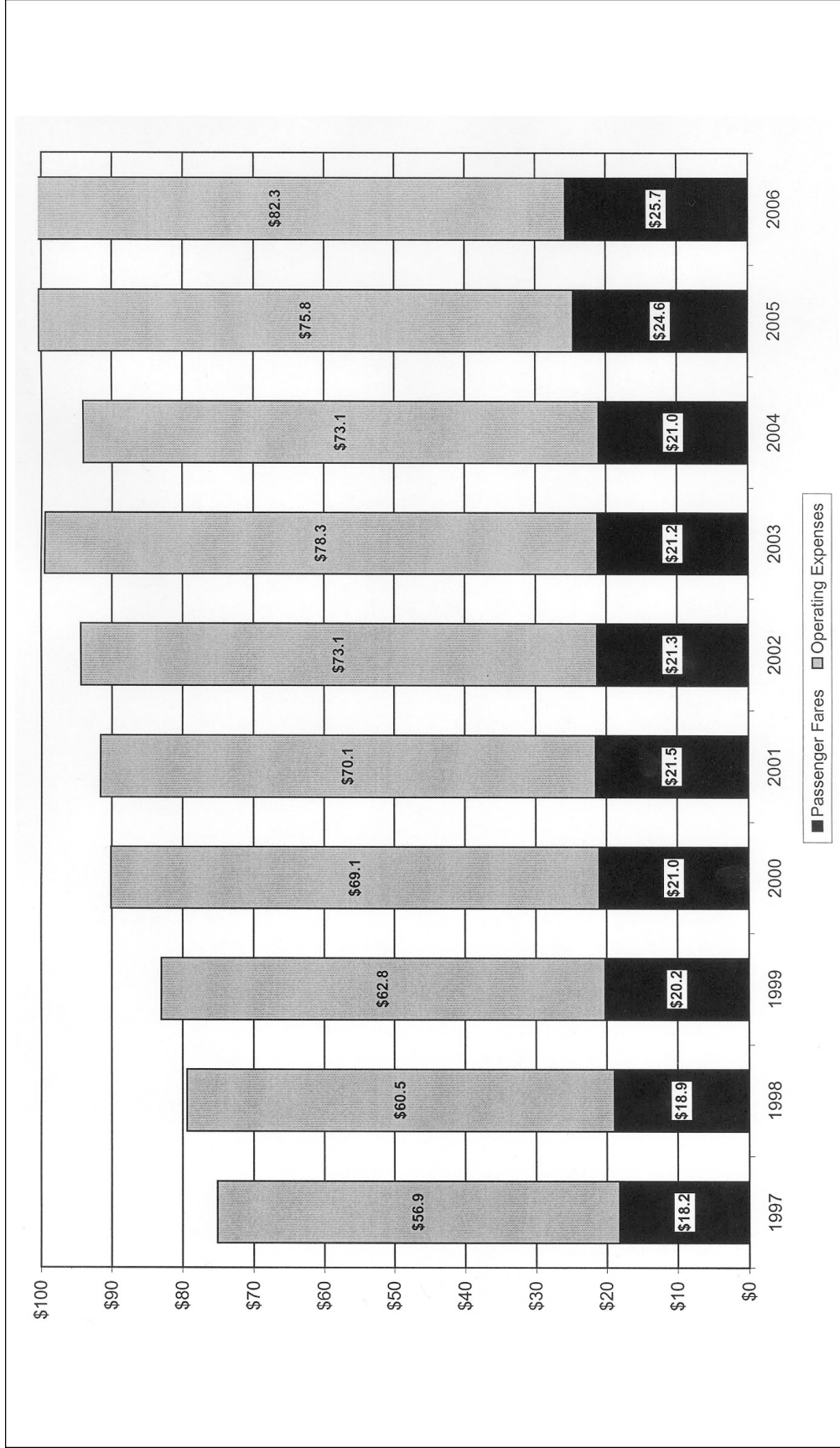
(2) Balance includes an additional \$2,000,000 working-capital reserve.

(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

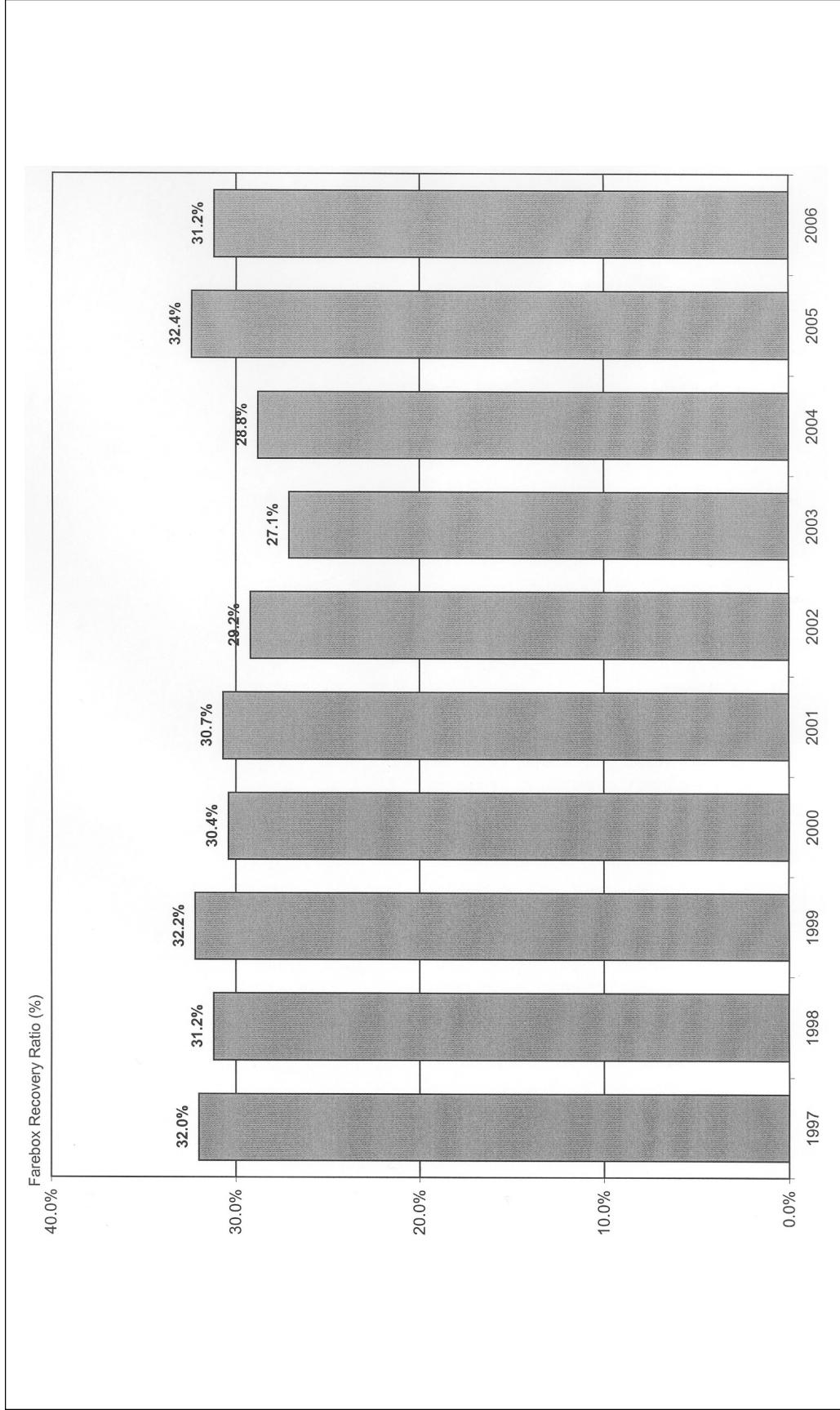
**Passenger Fares vs. Operating Expenses—Last Ten Years**



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

Southwest Ohio Regional Transit Authority

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



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

Southwest Ohio Regional Transit Authority

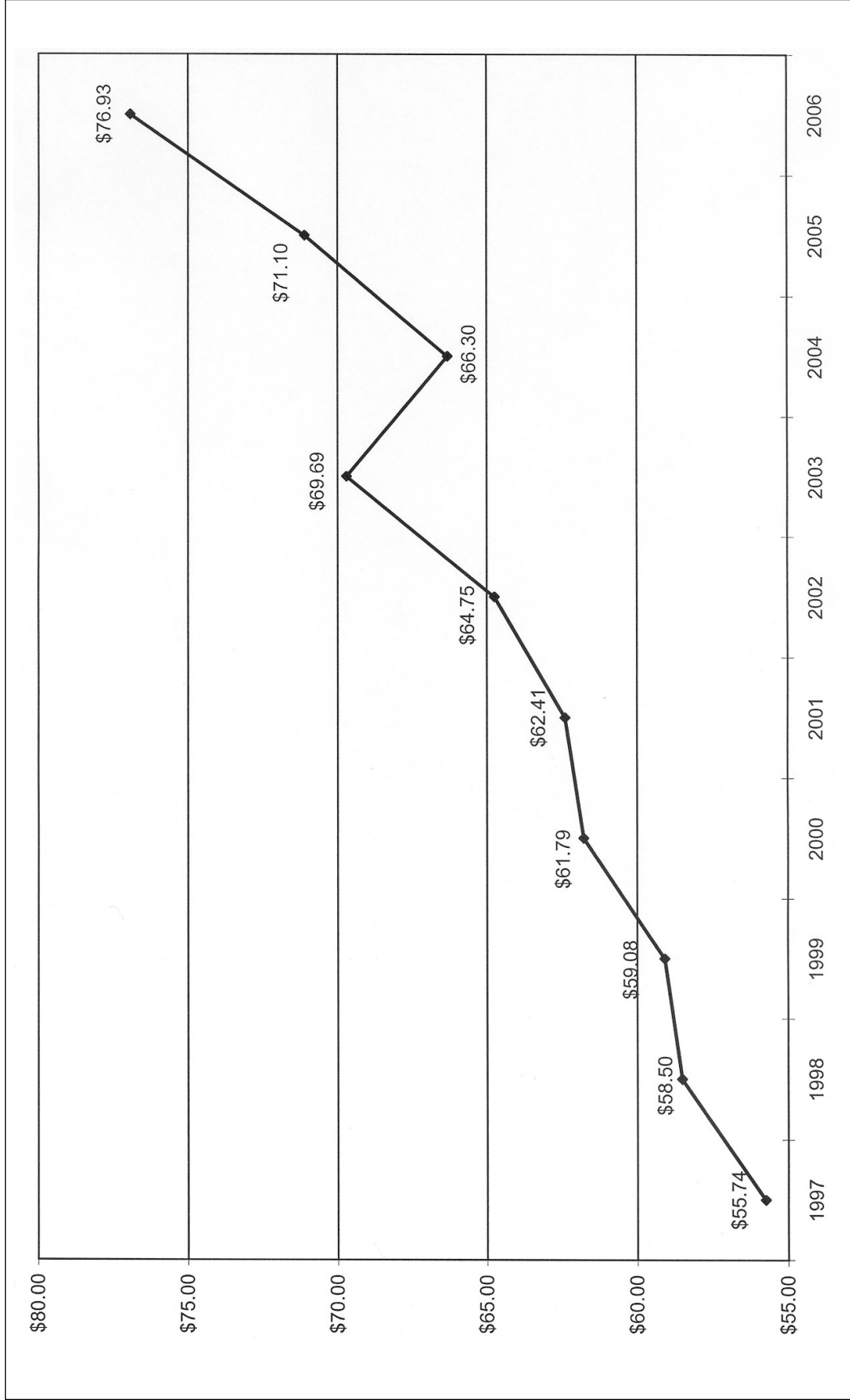
**Expenses by Object Class—Last Ten Years  
(in Thousands)**

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
<b>OPERATING EXPENSES OTHER THAN DEPRECIATION AND AMORTIZATION:</b>										
Labor	\$29,190	\$30,552	\$31,992	\$33,927	\$35,050	\$35,487	\$36,272	\$35,759	\$35,409	\$37,245
Fringe Benefits	12,592	12,711	12,704	12,574	13,339	15,767	15,971	16,266	17,256	18,352
Materials and supplies consumed	6,396	7,313	7,439	10,480	7,953	7,309	8,222	8,955	10,597	12,863
Services	2,379	2,553	2,612	3,387	3,044	3,244	2,704	2,660	2,754	3,053
Utilities	982	919	929	1,080	1,074	1,216	1,341	1,302	1,561	1,638
Casualty and liability	252	317	410	260	1,724	547	1,343	(335)	288	459
Taxes	779	776	825	859	849	864	896	936	995	1,059
Purchased transportation services	3,262	3,733	4,323	4,398	5,167	6,116	5,840	5,921	5,899	6,106
Leases and rentals	459	483	518	477	479	488	455	467	506	491
Miscellaneous	652	1,181	1,082	1,614	1,410	1,347	1,311	391	519	635
<b>Total</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>	<b>81,901</b>
Grant pass-through-Riverfront Transit Center	0	0	0	0	0	713	3,943	0	0	0
Grant pass-through-Union Township Park & Ride	0	0	0	0	0	0	0	770	0	0
Grant pass-through-Anderson Township Park & Ride	0	0	0	0	0	0	0	0	0	350
<b>DEPRECIATION AND AMORTIZATION</b>	<b>6,434</b>	<b>7,203</b>	<b>8,595</b>	<b>8,750</b>	<b>9,011</b>	<b>9,212</b>	<b>9,550</b>	<b>10,090</b>	<b>10,606</b>	<b>11,489</b>
<b>TOTAL EXPENSES</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>	<b>\$93,740</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.

Southwest Ohio Regional Transit Authority

**Operating Expenses per Vehicle Hour—Last Ten Years**



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



Southwest Ohio Regional Transit Authority

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

TRANSPORTATION INDUSTRY (1):

<u>YEAR</u>	<u>LABOR AND FRINGES</u>	<u>MATERIALS AND SUPPLIES</u>	<u>SERVICES</u>	<u>UTILITIES</u>	<u>CASUALTY AND LIABILITIES</u>	<u>PURCHASED TRANSPOR- TATION</u>	<u>OTHER</u>	<u>TOTAL OPERATING EXPENSES (2)</u>
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	*	*	*	*	*	*	*	*
2006	*	*	*	*	*	*	*	*

SOUTHWEST OHIO REGIONAL TRANSIT AUTHORITY (3):

<u>YEAR</u>	<u>LABOR AND FRINGES</u>	<u>MATERIALS AND SUPPLIES</u>	<u>SERVICES</u>	<u>UTILITIES</u>	<u>CASUALTY AND LIABILITIES</u>	<u>PURCHASED TRANSPOR- TATION</u>	<u>OTHER</u>	<u>TOTAL OPERATING EXPENSES (2)</u>
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%
2006	67.6%	15.6%	4.1%	2.0%	0.6%	7.4%	2.7%	100.0%

\* Information source not available

(1) Source: The American Public Transit Association, "APTA 2006 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**

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
<b>SYSTEM RIDERSHIP (1)</b>										
Motor bus .....	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	25,294,117
Demand responsive .....	230,357	242,888	226,598 (4)	236,752	253,124	267,664	271,448	267,271	258,013	261,449
<b>AVERAGE WEEKDAY</b>										
<b>SYSTEM RIDERSHIP (1)</b>										
Motor bus .....	90,017	93,279	86,376	85,747	82,416	83,531	82,656	80,261	87,320	85,990
Demand responsive .....	793	832	728	816	870	918	938	915	899	913
<b>VEHICLE MILES OPERATED (1)</b>										
Motor bus .....	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	12,844,463
Demand responsive .....	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	2,413,080
<b>AVERAGE WEEKDAY</b>										
<b>VEHICLE MILES OPERATED (1)</b>										
Motor bus .....	42,459	43,499	46,335	46,775	46,201	46,096	46,354	45,099	43,502	43,313
Demand responsive .....	7,020	7,763	8,321	9,975	9,771	10,108	9,476	9,169	8,603	8,428
<b>REVENUE MILES (1)</b>										
Motor bus .....	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	11,016,477
Demand responsive .....	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	2,058,816
<b>PASSENGER MILES (1)</b>										
Motor bus .....	134,204,888	150,363,410	183,470,307	152,886,096	148,412,646	134,240,845	129,392,725	133,255,711	139,002,211	128,950,847
Demand responsive .....	2,581,351	3,106,359	2,436,564	2,397,049	2,662,800	2,438,244	2,820,444	2,471,802	2,483,351	2,736,332

(Continued)

Southwest Ohio Regional Transit Authority

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

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
<b>VEHICLE HOURS OPERATED (1)</b>										
Motorbus .....	902,193	906,628	940,030	954,812	954,499	952,513	957,369	938,438	907,290	911,536
Demand responsive .....	119,433	128,169	141,785	162,691	168,479	176,488	166,202	164,052	158,632	157,647
<b>VEHICLE REVENUE HOURS (1)</b>										
Motorbus .....	829,616	825,332	861,945	873,696	874,376	871,122	875,770	858,610	830,384	831,841
Demand responsive .....	103,563	113,699	119,390	134,722	138,253	145,949	130,477	124,912	117,240	118,654
<b>DIESEL FUEL CONSUMPTION (IN GALLONS) (1)</b>										
	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	3,453,455
<b>FLEET REQUIREMENTS (DURING PEAK HOURS) (1)</b>										
Motorbus .....	331	338	358	362	360	358	359	344	325	325
Demand responsive .....	34	40	40	46	46	53	48	43	43	48
<b>TOTAL REVENUE VEHICLES DURING PERIOD (1)</b>										
Motorbus .....	389	426	426	438	481	432	432	430	390	390
Demand responsive .....	41	42	49	52	94	53	53	53	53	53
<b>NUMBER OF FULL TIME EMPLOYEES (2)</b>										
	798	836	844	818	831	824	787	793	786	785

Sources:

- (1) SORTA's annual "National Transit Database", filed with the Federal Transit Administration.
- (2) Human Resources Department "Personnel Distribution-Department Breakdown" report.

Southwest Ohio Regional Transit Authority

**Net Assets and Changes in Net Assets—Last Ten Years  
(Dollars In Thousands)**

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
<b>Operating revenues</b>										
Passenger fares for transit service	\$13,418	\$13,840	\$14,283	\$14,729	\$14,475	\$13,846	\$14,758	\$14,852	\$18,088	\$18,665
Special transit fares	323	329	528	381	328	412	487	414	563	700
Auxiliary transportation revenue	495	606	573	762	574	615	392	412	459	464
Total operating revenues	\$14,236	\$14,775	\$15,384	\$15,872	\$15,377	\$14,873	\$15,637	\$15,678	\$19,110	\$19,829
<b>Non-operating revenues</b>										
Federal maintenance grants and reimbursements	4,479	11,458	14,327	18,219	13,920	15,464	14,018	12,995	11,421	11,215
Federal grant pass-through	0	0	0	0	0	713	3,208	624	0	350
State maintenance grants, reimbursements and special fare assistance	4,609	6,856	4,716	4,664	2,588	1,316	1,308	1,351	1,340	2,297
State grant pass-through	0	0	0	0	0	0	0	146	0	0
Local operating grants and special fare assistance	3,443	3,596	4,028	4,564	5,249	5,591	5,632	5,466	5,596	5,862
Investment income-net	1,055	1,372	1,635	2,981	2,799	1,576	698	754	1,111	1,580
Increase (decrease) in fair value of investments	0	0	0	0	331	972	(259)	(166)	(398)	(79)
Non-transportation revenue	453	296	288	491	414	541	513	585	668	706
Total non-operating revenues	14,039	23,578	24,994	30,919	25,301	26,173	25,118	21,755	19,738	21,931
<b>Total Revenues</b>	<b>28,275</b>	<b>38,353</b>	<b>40,378</b>	<b>46,791</b>	<b>40,678</b>	<b>41,046</b>	<b>40,755</b>	<b>37,433</b>	<b>38,848</b>	<b>41,760</b>
<b>Operating expenses</b>										
Labor	29,190	30,552	31,992	33,927	35,050	35,487	36,272	35,759	35,409	37,245
Fringe benefits	12,592	12,711	12,704	12,574	13,340	15,766	15,971	16,266	17,256	18,352
Materials and supplies consumed	6,396	7,313	7,439	10,480	7,953	7,309	8,222	8,955	10,597	12,863
Services	2,379	2,553	2,612	3,387	3,044	3,244	2,704	2,660	2,754	3,053
Utilities	982	919	929	1,080	1,074	1,216	1,341	1,302	1,561	1,637
Casualty and liability	252	317	410	260	1,724	547	1,343	(335)	288	459
Taxes	779	776	825	859	849	864	896	936	995	1,059
Purchased transportation services	3,262	3,733	4,323	4,398	5,167	6,116	5,840	5,921	5,898	6,106
Leases and rentals	459	483	518	477	479	488	455	467	506	491
Miscellaneous	652	1,181	1,082	1,614	1,409	1,348	1,311	391	520	636
Grant pass-through	0	0	0	0	0	713	3,943	770	0	350
Depreciation and amortization	6,434	7,203	8,595	8,750	9,011	9,212	9,550	10,090	10,606	11,489
Total operating expenses	63,377	67,741	71,429	77,806	79,100	82,310	87,848	83,182	86,390	93,740
<b>Total Expenses</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>	<b>93,740</b>

(continued)

Southwest Ohio Regional Transit Authority

**Net Assets and Changes in Net Assets—Last Ten Years (Continued)**  
**(Dollars In Thousands)**

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Operating assistance from the City of Cincinnati Income Tax-Transit Fund grant pass-through	0	0	0	0	0	0	735	0	0	0
Operating assistance from the City of Cincinnati Income Tax-Transit Fund	28,668	22,185	22,456	22,265	29,410	32,052	36,808	35,660	36,936	40,491
Capital grant revenue	25,052	15,913	9,344	7,068	17,134	14,231	6,383	10,399	6,773	17,741
<b>Increase (decrease) in net assets</b>	<b>\$18,618</b>	<b>\$8,710</b>	<b>\$749</b>	<b>(\$1,682)</b>	<b>\$8,122</b>	<b>\$5,019</b>	<b>(\$3,167)</b>	<b>\$310</b>	<b>(\$3,833)</b>	<b>\$6,252</b>
<b>Net Assets at Year-End</b>										
Invested in capital assets, net of related debt	\$57,701	\$65,035	\$68,509	\$66,826	\$66,312	\$60,827	\$59,061	\$59,431	\$55,640	\$70,559
Restricted	155	(152)	63	83	1,086	164	514	879	992	1,066
Unrestricted	2,570	4,254	1,313	1,293	8,927	20,353	18,602	18,176	18,021	9,281
<b>Total Net Assets</b>	<b>\$60,426</b>	<b>\$69,136</b>	<b>\$69,885</b>	<b>\$68,203</b>	<b>\$76,325</b>	<b>\$81,344</b>	<b>\$78,177</b>	<b>\$78,487</b>	<b>\$74,654</b>	<b>\$80,906</b>

Southwest Ohio Regional Transit Authority

**Revenue Rates—Last Ten Fiscal Years**

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
<b>CASH OR TOKEN FARES</b>										
Zone 1 fare (3)									\$1.00	\$1.00
Zone 2 fare (3)									\$1.50	\$1.50
Zone 3 fare (3)									\$2.00	\$2.00
Weekday peak hours (6 to 9 am and 3 to 6 pm)	\$0.80	\$0.80	\$0.80	\$0.80	\$0.80	\$0.80	\$0.80	\$0.80		\$0.80
Weekday non peak hours	\$0.65	\$0.65	\$0.65	\$0.65	\$0.65	\$0.65	\$0.65	\$0.65		\$0.65
Weekday zone fare (zone 2) (3)					\$0.30	\$0.30	\$0.30	\$0.30		\$0.30
Weekday zone fare (zone 3) (3)					\$0.60	\$0.60	\$0.60	\$0.60		\$0.60
Weekday zone fare (per zone, beyond first zone) (3)	\$0.30	\$0.30	\$0.30	\$0.30	\$0.30	\$0.30	\$0.30	\$0.30		\$0.30
Parking Meeter shuttle (Monday - Friday)	\$0.25	\$0.25	\$0.25	\$0.25	\$0.25	\$0.25	\$0.25	\$0.25		\$0.25
Downtown midday shuttle (Monday - Friday)	\$0.50	\$0.50	\$0.50	\$0.50	\$0.50	\$0.50	\$0.50	\$0.50		\$0.50
Weekend flat rate (no zone fares apply)	\$0.10	\$0.10	\$0.10	\$0.10	\$0.10	\$0.10	\$0.10	\$0.15		\$0.15
Weekday Transfers								\$0.25		\$0.25
Transfers									\$0.25	\$0.25
Access Zone 1 (1)									\$1.50	\$1.50
Access Zone 2 (1)									\$2.00	\$2.00
Access weekday (1)	\$1.00	\$1.00	\$1.00	\$1.00	\$1.00	\$1.00	\$1.00	\$1.00		\$1.00
Access weekend (1)	\$0.75	\$0.75	\$0.75	\$0.75	\$0.75	\$0.75	\$0.75	\$0.75		\$0.75
Express Service (Monday - Friday) (Butler & Warren Counties)									\$2.25	\$2.25
Express Service (Monday - Friday) (Eastgate, Harrison)									\$2.00	\$2.00
Eastgate Express Service (Monday - Friday)					\$1.75	\$1.75	\$1.75	\$1.75		\$1.75
Express Services (Monday - Friday)					\$2.00	\$2.00	\$2.00	\$2.00		\$2.00
Harrison Express Service (Monday - Friday)										
Warren County and Fort Washington Way Service Fares			\$1.50							
Warren County Fares	\$1.50									
<b>MONTHLY PASSES</b>										
MetroCard A Pass (zone one) (3)	\$32.00	\$32.00	\$32.00	\$32.00	\$32.00	\$32.00	\$32.00	\$32.00	\$40.00	\$40.00
MetroCard A Pass (zone one, weekdays only) (3)									\$60.00	\$60.00
MetroCard B Pass (two zones) (3)	\$44.00	\$44.00	\$44.00	\$44.00	\$44.00	\$44.00	\$44.00	\$44.00		\$44.00
MetroCard B Pass (two zones, weekdays only) (3)									\$80.00	\$80.00
MetroCard C Pass (three zones) (3)	\$56.00	\$56.00	\$56.00	\$56.00	\$70.00	\$70.00	\$70.00	\$70.00		\$70.00
MetroCard C Pass (three zones, weekdays only) (3)									\$90.00	\$90.00
MetroCard E Pass (express routes and three zones)	\$45.00	\$45.00	\$45.00	\$45.00	\$50.00	\$50.00	\$60.00	\$60.00		\$60.00
Metro/Tank Pass (zone one) (3)	\$19.00	\$19.00	\$19.00	\$19.00	\$19.00	\$19.00	\$19.00	\$19.00		\$19.00
Metro/Tank Pass (zone one, weekdays only) (3)	\$8.00	\$8.00	\$8.00	\$8.00	\$8.00	\$8.00	\$8.00	\$8.00		\$8.00
Fare Deal (2) (three zones) (3)									\$24.50	\$24.50
Weekend Pass										

(continued)

Southwest Ohio Regional Transit Authority

**Revenue Rates—Last Ten Fiscal Years (Continued)**

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
<b>DISCOUNT FARES (Fare Deal (2) and Children under 45")</b>										
Zone 1 fare									\$0.50	\$0.50
Zone 2 fare									\$0.75	\$0.75
Zone 3 fare									\$1.00	\$1.00
Fare Deal (2) flat rate (no zone fares apply)	\$0.40	\$0.40	\$0.40	\$0.40	\$0.40	\$0.40	\$0.40	\$0.40	\$0.40	\$0.40
Children under 45" flat rate (no zone fares apply)	\$0.40	\$0.40	\$0.40	\$0.40	\$0.40	\$0.40	\$0.40	\$0.40	\$0.40	\$0.40

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

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

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

(4) The revenue base to which these rates are applied can be found in Operating Statistics—Last Ten Years—System Ridership (page 55).

Southwest Ohio Regional Transit Authority

**Outstanding Debt—Last Ten Years  
(Dollars in Thousands)**

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Outstanding debt by type:										
Capital lease obligation	\$0	\$1,376	\$1,376	\$1,376	\$10,013	\$20,013	\$18,636	\$18,636	\$18,636	\$10,000
Total outstanding debt	\$0	\$1,376	\$1,376	\$1,376	\$10,013	\$20,013	\$18,636	\$18,636	\$18,636	\$10,000

Notes: SORTA has leased revenue vehicles under master lease-purchase agreements with local financial institutions. Based on the terms of these agreements, they have been classified as capital leases. Investments with the local financial institutions have been made to compensate the amount/term of the capital lease obligation.



Southwest Ohio Regional Transit Authority

### Principal Employers in Primary Service Area Calendar Year 2006

<b>Full Time Employees</b>				
<b>Employer</b>	<b>Amount</b>	<b>Percentage Of Total Employment</b>	<b>County</b>	<b>Type of Business</b>
1. University of Cincinnati	15,400	3.1%	Hamilton	Public university
2. Kroger Co.	15,083	3.0%	Hamilton	National grocery retailer
3. Health Alliance of Greater Cincinnati	13,745	2.7%	Hamilton	Health care system
4. Procter & Gamble Co.	12,256	2.4%	Hamilton	Consumer products company
5. Trihealth Inc.	8,912	1.8%	Hamilton	Health care system
6. Cincinnati Children's Hospital Medical Center	8,874	1.8%	Hamilton	Pediatric medical Center
7. Fifth Third Bank	8,834	1.8%	Hamilton	Financial services company
8. GE Aviation	7,100	1.4%	Hamilton	Aircraft engine supplier
9. Mercy Health Partners	6,743	1.3%	Hamilton	Health care system
10. Hamilton County	6,179	1.2%	Hamilton	Local government

Source: Business Courier Book of Lists, Dec. 22, 2006, Vol. 23, No. 37

Southwest Ohio Regional Transit Authority

**Full-time-Equivalent Employees as of Fiscal Year-End  
Authority Employees—Last Eight Years**

	1999	2000	2001	2002	2003	2004	2005	2006
Vehicle Operations	600.0	609.0	617.0	614.0	607.0	591.0	595.0	595.0
Vehicle Maintenance	193.0	188.0	194.0	199.0	187.0	186.0	182.0	187.0
Non-Vehicle Maintenance	28.0	29.0	31.0	28.0	30.0	29.0	24.0	29.0
General Administration	95.5	94.0	97.0	100.5	88.0	87.5	85.0	86.5
Paratransit Service	8.5	6.5	9.5	8.5	9.5	9.0	9.0	10.5
<b>Total Employees</b>	<b>925.0</b>	<b>926.5</b>	<b>948.5</b>	<b>950.0</b>	<b>921.5</b>	<b>902.5</b>	<b>895.0</b>	<b>908.0</b>

Notes: Full-time-equivalent employees totals for General Administration and Paratransit Service include one full-time equivalent employee to two part-time employees.

Southwest Ohio Regional Transit Authority

**Capital Asset Information as of December 31, 2006**

**ACCESS**

1801 Transpark Drive, Cincinnati, Ohio 45229-1239

<b>Building Total Sq. Footage</b>	<b>76,516</b>
Which includes:	
Office space	9,685
Operations	21,480
Maintenance	11,793
Storage	33,560
<b>Real Estate Acreage</b>	<b>5.65</b>
Sq. ft. parking lot	41,430

**SILVERTON**

1000 Montgomery Road, Cincinnati, Ohio 45236-3835

<b>Building Total Sq. Footage</b>	<b>3,237</b>
Which includes:	
Office space	1,260
Operations	1,927
Maintenance	0
Storage	50
<b>Real Estate Acreage</b>	<b>2.25</b>
Sq. ft. parking lot	28,800

**Park And Ride Spaces** **120**

**FOREST PARK, PARK AND RIDE**

1160 Kemper Meadow Drive, Cincinnati, Ohio 45240

<b>Real Estate Acreage</b>	<b>2.34</b>
<b>Park And Ride Spaces</b>	<b>120</b>

(continued)

Southwest Ohio Regional Transit Authority

**Capital Asset Information as of December 31, 2006 (Continued)**

**PARATRANSIT VEHICLES**

<b>Quantity</b>	<b>Year</b>	<b>Manufacturer</b>
24	2001	Eldorado
18	2002	Eldorado
3	2005	Eldorado
7	2006	Ford
<b>52</b>	<b>Total Paratransit Vehicles</b>	

**BUSES**

<b>Quantity</b>	<b>Year</b>	<b>Manufacturer</b>
8	1989	Neoplan
6	1990	Neoplan
24	1995	Gillig
64	1996	Gillig
59	1997	Gillig
41	1998	Gillig
29	1999	Gillig
7	2000	Gillig
51	2001	Gillig
38	2002	Gillig
23	2004	Gillig
40	2006	Gillig
<b>390</b>	<b>Total Buses</b>	

Southwest Ohio Regional Transit Authority

**Fare Rate Structure as of December 31, 2006**

CASH OR TOKEN FARES

Zone 1 fare (3)	\$1.00
Zone 2 fare (3)	1.50
Zone 3 fare (3)	2.00
Rt. 85 Riverfront Parking 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>MEDIAN AGE</u>	<u>MEDIAN INCOME</u>
1960	30.3	\$5,483
1970	*	\$10,486
1980	30.0	\$10,673
1990	32.7	\$15,354
2000	35.5	\$24,053

<u>YEAR</u>	<u>K-12 SCHOOL ENROLLMENT (2)</u>	<u>UNEMPLOYMENT RATE (3)</u>	<u>POPULATION (4)</u>
1997	172,778	3.6%	859,490
1998	172,669	3.5%	855,976
1999	171,552	3.6%	849,917
2000	172,112	3.6%	843,993
2001	165,922	3.6%	844,569
2002	163,108	5.1%	840,362
2003	161,025	5.1%	836,547
2004	157,301	5.6%	832,250
2005	155,265	5.7%	828,487
2006	157,188	5.0%	822,596

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

\* information is not available

Source:

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

(2) MDR's School Directory - Ohio.

(3) Ohio Bureau of Employment Services.

(4) Ohio Workforce Informer.

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)	254
Miles of route	644
Number of routes	54
Wheelchair lift-equipped standard buses	376
Average system speed (miles per hour)	
Motor bus	14.1
Demand responsive	15.3
Customer information calls answered	483,705







**Mary Taylor, CPA**  
Auditor of State

**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 17, 2007**