

GREATER DAYTON REGIONAL TRANSIT AUTHORITY

Financial Statements

December 31, 2003 and 2002

(With Independent Auditors' Report Thereon)



**Auditor of State
Betty Montgomery**

Board of Trustees
Greater Dayton Regional Transit Authority
Dayton, Ohio

We have reviewed the Independent Auditor's Report of the Greater Dayton Regional Transit Authority, Montgomery County, prepared by KPMG LLP, for the audit period January 1, 2003 through December 31, 2003. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

BETTY MONTGOMERY
Auditor of State

September 21, 2004

This Page is Intentionally Left Blank.

GREATER DAYTON REGIONAL TRANSIT AUTHORITY

Table of Contents

	Page
Independent Auditors' Report	1
Management's Discussion and Analysis	2
Basic Financial Statements:	
Balance Sheets	8
Statements of Revenues, Expenses, and Changes in Net Assets	9
Statements of Cash Flows	10
Notes to Financial Statements	11

This Page is Intentionally Left Blank.



KPMG LLP
303 East Wacker Drive
Chicago, IL 60601-5212

Independent Auditors' Report

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

We have audited the accompanying basic financial statements of the Greater Dayton Regional Transit Authority (the Authority) as of and for the years ended December 31, 2003 and 2002, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of December 31, 2003 and 2002, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated April 9, 2004 on our consideration of the Authority's internal control over financial reporting and our test of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

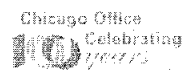
The management's discussion and analysis on pages 2 through 7 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

KPMG LLP

April 9, 2004



KPMG LLP, a U.S. limited liability partnership, is the U.S. member firm of KPMG International, a Swiss cooperative.



GREATER DAYTON REGIONAL TRANSIT AUTHORITY

Management's Discussion and Analysis

December 31, 2003 and 2002

(Unaudited)

As financial management of the Greater Dayton Regional Transit Authority (the Authority), we offer readers of these financial statements this narrative overview and analysis of the financial activities of the Authority for the fiscal years ended December 31, 2003 and 2002. 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 for 2003

- The Authority's total net assets increased by \$.3 million or .2% over the course of the year's operations.
- The Authority's operating expenses, excluding depreciation, in 2003 were \$2.0 million higher than 2002 expenses. This increase is due primarily to increased services provided during the Inventing Flight event in July 2003. This change did not compare to higher Consumer Price Index increases as management efficiencies were incorporated into the year's operations.
- Operating revenues for the Authority was \$6.1 million for fiscal year 2003. This was a decrease of 5.5% over the prior year, and was primarily the result of a decrease in passenger fares related to the pilot Collegiate Pass Program.
- Sales tax revenue was up \$.7 million or 2.2% in comparison to 2002. As sales tax accounts for approximately 61% of all funding, it is important that inflationary increases are realized year over year. The increase realized in 2003 was tied to improvements in Montgomery County's economic condition.
- Investment income decreased by \$.3 million or 17.6% in 2003 due to low interest rates and a smaller average investment balance.

Financial Highlights for 2002

- The Authority's total net assets increased \$2.8 million or 1.7% over the course of the year's operations. \$2.2 million of this increase was the result of a one-time "catch-up" on federal capitalized maintenance funding, specifically employee fringe benefits.
- The Authority's operating expenses, excluding depreciation, in 2002 were \$1.1 million lower than 2001 expenses due to revenue service reductions.
- Operating revenue for the Authority was \$6.4 million for fiscal year 2002. This was a decrease of 7.3% over the prior year, and was primarily the result of a decrease in passenger trips and fares.
- Sales tax revenue was down \$.4 million or 1.2% in comparison to 2001. As sales tax accounts for approximately 60% of all funding, it is important that inflationary increases are realized year over year. The trends are not favorable, especially when considering that sales tax receipts were flat for fiscal years 2000 and 2001.
- Investment income decreased by \$.8 million or 29% in 2002 due principally to the eleven decreases in the prime interest rate by the Federal Reserve.

GREATER DAYTON REGIONAL TRANSIT AUTHORITY

Management's Discussion and Analysis

December 31, 2003 and 2002

(Unaudited)

Overview of the Financial Statements

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

Required Financial Statements

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

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

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

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

Notes to the Financial Statements

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

Financial Analysis of the Authority

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

GREATER DAYTON REGIONAL TRANSIT AUTHORITY

Management's Discussion and Analysis

December 31, 2003 and 2002

(Unaudited)

Net Assets

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Current assets	\$ 27,624,800	32,796,355	33,369,469
Long-term investments	33,844,555	27,871,212	27,827,016
Capital assets, net	<u>131,809,810</u>	<u>133,635,922</u>	<u>134,175,607</u>
Total assets	\$ <u>193,279,165</u>	<u>194,303,489</u>	<u>195,372,092</u>
Current liabilities	\$ 13,173,503	13,095,479	15,678,382
Long-term bonds and notes payable	<u>10,210,000</u>	<u>11,580,000</u>	<u>12,880,000</u>
Total liabilities	\$ <u>23,383,503</u>	<u>24,675,479</u>	<u>28,558,382</u>
Net assets:			
Invested in capital assets, net of related debt	\$ 120,229,810	120,755,922	119,450,607
Unrestricted	<u>49,665,852</u>	<u>48,872,088</u>	<u>47,363,103</u>
Total net assets	\$ <u>169,895,662</u>	<u>169,628,010</u>	<u>166,813,710</u>

Capital Assets

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

The Authority's investment in capital assets, net of accumulated depreciation, was \$131.8 million as of December 31, 2003, a decrease of \$1.8 million (1.4%) from December 31, 2002. This net decrease was the result of depreciation (\$11.3 million) in excess of capital asset acquisitions (\$9.5 million) during the year. Major capital asset expenditures during 2003 included the following:

- Purchase of twenty-four 40' diesel buses totaling \$6.6 million,
- Renovations to the former Coca-Cola building, 600 Longworth, and Wright Stop Plaza totaling \$1.1 million,
- Purchases of office equipment and fixtures for the renovated buildings totaling \$1.3 million.

The Authority's investment in capital assets, net of accumulated depreciation, was \$133.6 million as of December 31, 2002, a decrease of \$.5 million (.4%) from December 31, 2001. This net decrease was the result of depreciation (\$11.1 million) in excess of capital asset acquisitions (\$10.6 million) during the year. Major capital asset expenditures in 2002 included the following:

- Purchase of twenty-three 35' and 40' diesel buses totaling \$6.7 million,
- Renovation of former Coca Cola building into Administrative and Maintenance facility, totaling \$.8 million.

GREATER DAYTON REGIONAL TRANSIT AUTHORITY

Management's Discussion and Analysis

December 31, 2003 and 2002

(Unaudited)

Long-term Debt

The Authority has outstanding bonds and notes payable of \$11,580,000 and \$12,880,000 in 2003, and 2002, respectively. These balances represent decreases of \$1,300,000 and \$1,845,000 due to principal payments in 2003 and 2002. This debt consists of capital facilities bonds issued for the purpose of purchasing, acquiring, constructing, replacing, improving, extending, and enlarging transit facilities. The bonds and notes were authorized to be issued and sold under resolutions passed by the Board of Trustees. The bonds are general obligations of the Authority. There were no changes to the debt structure during fiscal years 2003 and 2002.

Net Assets

Net assets increased \$.3 million and \$2.8 million for the years ended December 31, 2003 and 2002, respectively. See further discussion under changes in net assets below.

Changes in Net Assets

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Operating revenues	\$ 6,067,370	6,418,894	6,926,868
Operating expenses excluding depreciation	(52,761,903)	(50,725,542)	(51,793,219)
Depreciation expense	<u>(11,319,037)</u>	<u>(11,141,165)</u>	<u>(8,758,440)</u>
Operating loss	<u>(58,013,570)</u>	<u>(55,447,813)</u>	<u>(53,624,791)</u>
Net non-operating revenues (expenses):			
Sales tax proceeds	32,592,292	31,899,871	32,289,276
Federal operating and preventive maintenance assistance	12,855,387	13,039,791	8,415,208
Federal capital grants (pass through)	4,074,630	5,224,208	5,438,930
Capital grants to sub-recipient	(4,074,630)	(5,224,208)	(5,438,930)
State operating and preventive maintenance assistance	—	862,602	572,253
State special fare assistance	276,277	253,924	252,312
Investment income	1,619,273	1,965,181	2,773,267
Interest expense	(678,339)	(769,023)	(855,568)
Net increase/decrease in fair value of investments	(718,328)	751,911	443,501
Other	<u>1,390,180</u>	<u>553,831</u>	<u>616,631</u>
Nonoperating revenues and expenses, net	<u>47,336,742</u>	<u>48,558,088</u>	<u>44,506,880</u>
Capital contributions	<u>10,944,480</u>	<u>9,704,025</u>	<u>14,439,331</u>
Change in net assets	267,652	2,814,300	5,321,420
Net assets, beginning of year	<u>169,628,010</u>	<u>166,813,710</u>	<u>161,492,290</u>
Net assets, end of year	\$ <u><u>169,895,662</u></u>	<u><u>169,628,010</u></u>	<u><u>166,813,710</u></u>

GREATER DAYTON REGIONAL TRANSIT AUTHORITY

Management's Discussion and Analysis

December 31, 2003 and 2002

(Unaudited)

Year Ended December 31, 2003

The Authority's operating revenues were \$6.1 million during 2003, a decrease of \$.4 million or 5.5% from 2002. This decrease in 2003 primarily resulted from decreases in fare-paying passengers of approximately 200,000, related to the pilot Collegiate Pass Program. This program provided free passes to individuals enrolled in area colleges as freshmen, with the intent to include future years passes in overall collegiate fees. However, as this program provided free passes to current fare-paying riders, it led to an overall decrease in passenger fares. The program was discontinued at the end of the 2002/2003 school year.

Operating expenses, including depreciation expense, were \$64.1 million during 2003, an increase of \$2.2 million or 3.6% from 2002. This increase was primarily the result of the "Inventing Flight" event held in the City of Dayton during July 2003 to celebrate the one hundredth anniversary of flight. The Authority provided services to various events, which increased payroll, maintenance, and other costs of operation of \$1.7 million. This \$1.7 million was completely offset by federal grant revenue, which is reflected in nonoperating revenues. The remaining increase in operating expenses is due to general inflationary increases and the increase in depreciation expense of \$.2 million, offset by management operating efficiencies and minimal service reductions.

Nonoperating revenues and expenses, net, were \$47.3 million during 2003, a decrease of \$1.2 million or 2.5% from 2002. The decrease in 2003 primarily resulted from decreases in investment income of \$1.8 million and state operating and preventative maintenance assistance of \$.8 million. The decrease of \$1.8 million in investment income was from the near all-time low in interest rates which also resulted in a decrease in fair value of fixed-income investments (U.S. Government and agency securities). State operating and preventative maintenance assistance decreased due to the discontinuation of the program by the State of Ohio. These decreases were offset slightly by a \$.7 million increase in sales tax revenue due to an improved economy in Montgomery County, and an increase of \$.8 million in other income. This increase in other income was from a gain on the settlement with the manufacturer of the electric trolley buses (see further discussion in note 11b to the financial statements).

Year Ended December 31, 2002

The Authority's operating revenues were \$6.4 million during 2002, a decreased \$.5 million or 7.3% from 2001. This decrease in 2001 primarily resulted from decreases in passenger fares from reduced ridership and a reduction in certain service routes. Operating expenses were \$61.9 million during 2003, an increase of \$1.3 million or 2.1%. This increase was the result of an increase in depreciation expense of \$2.4 million from trolley bus equipment placed back into service in the second half of 2002, offset by a reduction in other operating expense of \$1.1 million. Due to the economic downturn which started mid year 2001, as well as the impact of the terrorist attacks of September 11, 2001, the Authority made budgetary service reductions approximating \$1.2 million.

Nonoperating revenues and expenses, net, were \$48.6 million during 2002, an increase of \$4.1 million or 9.1% from 2001. The increase in 2002 primarily resulted from the increase in federal operating and preventive maintenance assistance of \$4.6 million, offset by a slight decrease in sales tax proceeds and a decrease in investment income from lower interest rates in 2002.

GREATER DAYTON REGIONAL TRANSIT AUTHORITY

Management's Discussion and Analysis

December 31, 2003 and 2002

(Unaudited)

Requests for Information

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

GREATER DAYTON REGIONAL TRANSIT AUTHORITY

Balance Sheets

December 31, 2003 and 2002

Assets	2003	2002
Current assets:		
Cash and cash equivalents (note 4)	\$ 3,390,211	7,086,689
Short-term investments (note 4):		
Board designated for capital acquisition	5,243,911	7,829,574
Non-Board designated	—	337,287
Total short-term investments	5,243,911	8,166,861
Accounts receivable, less allowance for doubtful accounts of \$279,000 in 2003 and \$162,000 in 2002 (note 3)	13,218,110	11,715,282
Materials and supplies, less reserves for adjustments and obsolescence of \$129,000 in 2003 and \$104,000 in 2002	4,372,781	4,782,626
Prepaid expenses and deposits	1,399,787	1,044,897
Total current assets	27,624,800	32,796,355
Non-current assets:		
Long-term investments (note 4):		
Non-Board designated	23,051,932	18,695,366
Board designated	10,792,623	9,175,846
Total long-term investments	33,844,555	27,871,212
Capital assets (note 5):		
Land	4,976,974	4,562,819
Revenue producing and service equipment	86,276,520	96,620,204
Buildings and structures	97,106,777	93,371,198
Office furnishings, shop equipment, and other	17,422,610	16,894,585
Construction in progress	2,053,406	4,686,879
	207,836,287	216,135,685
Less accumulated depreciation	76,026,477	82,499,763
Capital assets, net	131,809,810	133,635,922
Total assets	\$ 193,279,165	194,303,489
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	\$ 2,566,434	2,128,367
Accrued payroll and related benefits	5,807,727	5,951,317
Accrued self-insurance (note 9)	2,207,833	2,631,968
Unredeemed fares	518,240	542,728
Other accrued expenses	703,269	541,099
Current maturities of bonds and notes payable (note 6)	1,370,000	1,300,000
Total current liabilities	13,173,503	13,095,479
Bonds and notes payable (note 6)	10,210,000	11,580,000
Total liabilities	23,383,503	24,675,479
Net assets:		
Invested in capital assets, net of related debt	120,229,810	120,755,922
Unrestricted	49,665,852	48,872,088
Total net assets	169,895,662	169,628,010
Total liabilities and net assets	\$ 193,279,165	194,303,489

See accompanying notes to financial statements.

GREATER DAYTON REGIONAL TRANSIT AUTHORITY

Statements of Revenues, Expenses, and Changes in Net Assets

Years ended December 31, 2003 and 2002

	<u>2003</u>	<u>2002</u>
Operating revenues:		
Passenger fares	\$ 5,091,497	5,284,299
Special transit fares and charter service:		
Board of Education (student transportation)	899,917	1,037,093
Charter service	69,375	52,802
Contract service	6,581	44,700
Total operating revenues	<u>6,067,370</u>	<u>6,418,894</u>
Operating expenses:		
Labor	25,985,566	25,115,461
Fringe benefits	14,964,579	14,271,993
Contractual services	3,849,933	4,048,832
Materials and supplies	4,243,177	4,392,370
Utilities and propulsion power	1,458,849	1,306,768
Claims and insurance	1,210,891	1,001,233
Other	1,048,908	588,885
Total operating expenses excluding depreciation	<u>52,761,903</u>	<u>50,725,542</u>
Operating loss before depreciation expense	<u>(46,694,533)</u>	<u>(44,306,648)</u>
Depreciation expense	<u>11,319,037</u>	<u>11,141,165</u>
Total operating expenses	<u>64,080,940</u>	<u>61,866,707</u>
Operating loss	<u>(58,013,570)</u>	<u>(55,447,813)</u>
Nonoperating revenues (expenses):		
Sales tax proceeds	32,592,292	31,899,871
Federal operating and preventative maintenance assistance	12,855,387	13,039,791
Federal capital grants (passed through to sub-recipient)	4,074,630	5,224,208
Capital grants to sub-recipient	(4,074,630)	(5,224,208)
State operating and preventative maintenance assistance	—	862,602
State special fare assistance	276,277	253,924
Interest on investments	1,619,273	1,965,181
Interest expense	(678,339)	(769,023)
Net (decrease) increase in the fair value of investments	(718,328)	751,911
Other	1,390,180	553,831
Total nonoperating revenues, net	<u>47,336,742</u>	<u>48,558,088</u>
Loss before capital contributions	<u>(10,676,828)</u>	<u>(6,889,725)</u>
Capital contributions	<u>10,944,480</u>	<u>9,704,025</u>
Increase in net assets	267,652	2,814,300
Net assets – beginning of year	<u>169,628,010</u>	<u>166,813,710</u>
Net assets – end of year	<u>\$ 169,895,662</u>	<u>169,628,010</u>

See accompanying notes to financial statements.

GREATER DAYTON REGIONAL TRANSIT AUTHORITY

Statements of Cash Flows

Years ended December 31, 2003 and 2002

	<u>2003</u>	<u>2002</u>
Cash flows from operating activities:		
Receipts from fares and charters	\$ 5,526,687	6,784,860
Payments to suppliers	(9,945,675)	(12,886,255)
Payments for labor and employee benefits	(41,093,735)	(40,086,134)
Payments for claims and insurance	<u>(1,635,026)</u>	<u>(929,076)</u>
Net cash used in operating activities	<u>(47,147,749)</u>	<u>(47,116,605)</u>
Cash flows from noncapital financing activities:		
Sales tax	32,444,518	32,126,891
Federal operating and preventive maintenance assistance grants	11,933,733	12,063,932
Federal capital grants (passed through to sub-recipient)	4,074,630	5,224,208
Capital grants to sub-recipient	<u>(4,074,630)</u>	<u>(5,224,208)</u>
State operating and preventive maintenance and special fare assistance grants	527,976	864,827
Other	<u>1,390,180</u>	<u>551,821</u>
Net cash provided by noncapital financing activities	<u>46,296,407</u>	<u>45,607,471</u>
Cash flows from capital and related financing activities:		
Capital grants received	10,793,231	9,939,136
Additions to property and equipment	(9,492,925)	(10,601,480)
Interest paid on bonds and notes payable	(678,339)	(769,023)
Payments of bonds payable	<u>(1,300,000)</u>	<u>(1,845,000)</u>
Net cash used in capital and related financing activities	<u>(678,033)</u>	<u>(3,276,367)</u>
Cash flows from investing activities:		
Purchases of investment securities	(31,394,577)	(16,002,256)
Proceeds from sale or maturity of investment securities	27,963,635	18,825,625
Interest received	<u>1,263,838</u>	<u>1,840,732</u>
Net cash provided by (used in) investing activities	<u>(2,167,104)</u>	<u>4,664,101</u>
Net decrease in cash and cash equivalents	(3,696,479)	(121,400)
Cash and cash equivalents at beginning of year	<u>7,086,689</u>	<u>7,208,089</u>
Cash and cash equivalents at end of year	\$ <u>3,390,210</u>	\$ <u>7,086,689</u>
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ (58,013,571)	(55,447,813)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	11,319,037	11,141,165
Changes in assets and liabilities:		
Accounts receivable – other	(516,194)	370,393
Materials and supplies	409,845	(470,901)
Prepaid expenses and deposits	(354,889)	(671,546)
Accounts payable	438,066	(1,809,408)
Accrued expenses and unredeemed fares	<u>(430,043)</u>	<u>(228,495)</u>
Net cash used in operating activities	\$ <u>(47,147,749)</u>	\$ <u>(47,116,605)</u>

See accompanying notes to financial statements.

GREATER DAYTON REGIONAL TRANSIT AUTHORITY

Notes to Financial Statements

December 31, 2003 and 2002

(1) The Authority and Reporting Entity

(a) *The Authority*

Greater Dayton Regional Transit Authority (formerly known as Miami Valley Regional Transit Authority) (the Authority) provides virtually all public mass transportation within Montgomery County. The Authority is governed by a nine member board of trustees and is an independent political subdivision of the State of Ohio organized pursuant to Ohio Revised Code Section 306.30 through 306.71, inclusive, as amended, and as such, is not subject to state or Federal income taxes. The Authority was created on July 6, 1971, pursuant to the Revised Code, by ordinances of the Councils of the City of Dayton and City of Oakwood. After completing the purchase of the assets of City Transit, which was the major privately-owned public transportation system in the area, the Authority became operational on November 5, 1972. In July 1980, after the approval in the preceding April by the voters of the county of a one-half percent sales and use tax of unlimited duration for all purposes of the Authority, the boundaries of the Authority were extended to be coextensive with boundaries of Montgomery County, Ohio.

(b) *Reporting Entity*

The accompanying financial statements include only the accounts and transactions of the Authority. Under the criteria specified in Governmental Accounting Standards Board (GASB) Statement No. 14, the Authority has no component units nor is it considered a component unit of any other governmental authority. The conclusions regarding the financial reporting entity are based on the concept of financial accountability. The Authority is not financially accountable for any other organization. This is evidenced by the fact that the Authority is a legally and fiscally separate and distinct organization under the provisions of the Ohio Revised Code.

(2) Summary of Significant Accounting Policies

(a) *Basis of Accounting*

The accounting policies of the Authority conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental entities. The accounts of the Authority, which are organized as an enterprise fund, are used to account for the Authority's activities that are financed and operated in a manner similar to a private business enterprise. Accordingly, the Authority maintains its records on the accrual basis of accounting. Revenues from operations, investments, and other sources are recorded when earned. Expenses (including depreciation and amortization) of providing services to the public are accrued when incurred.

Nonexchange transactions, in which the Authority receives value without directly giving equal value in return, include sales tax revenue and grants. On an accrual basis, revenue from sales taxes is recognized in the period when the underlying exchange transaction occurs. Therefore, taxes on items sold in 2003 will be recognized as revenue in 2003. Revenue from grants is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, and expenditure requirements, in which the resources are provided to the Authority on a reimbursement basis.

GREATER DAYTON REGIONAL TRANSIT AUTHORITY

Notes to Financial Statements

December 31, 2003 and 2002

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

(b) *Budgetary Accounting and Control*

The Authority's annual budget, as provided by law, is prepared on the accrual basis of accounting. The Authority maintains budgetary control by not permitting expenditures to exceed appropriations without approval of the board of trustees.

(c) *Cash and Cash Equivalents*

Cash and cash equivalents consists of cash on hand, demand deposits, short-term investments with original maturities of three months or less from the date of acquisition, and deposits in the State Treasurer's Asset Reserve investment pool (STAR Ohio).

(d) *Investments*

Investments are reported at fair value, based on quoted market prices, except for repurchase agreements, which are reported at amortized cost.

(e) *Board Designated Investments*

Investments are designated annually by the board of trustees and shall be required for each of the following items:

Capital acquisitions – to provide local match funds for approved or projected Federal grants, projects not eligible for grant participation, or local match for transit related projects that would assist community development efforts.

Self insurance – the value of the estimated potential claim liability.

Working capital – the value of an average two months of budgeted operating expenses.

Other – to provide flexibility in funding operations when an economic downturn affects major revenue sources or when a major, unforeseen crisis requires extraordinary expenditures.

(f) *Materials and Supplies*

Materials and supplies are recorded at average cost and consist principally of maintenance supplies and repair parts.

GREATER DAYTON REGIONAL TRANSIT AUTHORITY

Notes to Financial Statements

December 31, 2003 and 2002

(g) Capital Assets

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

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

<u>Description</u>	<u>Estimated useful life</u>
Revenue producing and service equipment	3 to 18 years
Buildings and structures	6 to 45 years
Office furnishings, shop equipment, and other	5 to 8 years

(h) Compensated Absences

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

(i) Net Assets

Equity is displayed in three components as follows:

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

Restricted – This consists of net assets that are legally restricted by outside parties or by law through constitutional provisions or enabling legislation. When both restricted and unrestricted resources are available for use, generally it is the Authority's policy to use restricted resources first, and then unrestricted resources when they are needed. The Authority does not have restricted net assets at December 31, 2003 or 2002.

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

(j) Passenger Fares

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

GREATER DAYTON REGIONAL TRANSIT AUTHORITY

Notes to Financial Statements

December 31, 2003 and 2002

(k) Sales Taxes

The Authority receives the proceeds of a one-half percent sales tax and use as approved by the residents of Montgomery County. The sales tax is collected by vendors within Montgomery County and remitted to the Ohio Department of Taxation, which charges a one percent administrative fee for its service. Sales tax revenue is recognized in the month collected by the vendors.

(l) Federal and State Operating and Preventative Maintenance Assistance Funds

Federal and state operating and preventative maintenance assistance funds to be received by the Authority under the Urban Mass Transportation Assistance Act of 1964, as amended, and under the Ohio Public Mass Transportation Grant Program are recorded and reflected in income in the period to which they are applicable.

(m) Capital Grants

Federal and state capital grants for the acquisition of property and equipment are recorded as the costs are incurred. Capital acquisitions for which grant funds have not been received from Federal Transit Authority (FTA) or Ohio Department of Transportation (ODOT) are recorded as capital grants receivable.

When assets acquired with capital grant funds are disposed, the Authority is required to notify the granting federal agency. A proportional amount of the proceeds or fair market value, if any, of such property may be used to acquire like-kind replacement vehicles or remitted to the granting federal agency.

(n) Classification of Revenues

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

(o) Estimates

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

(p) Reclassifications

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

GREATER DAYTON REGIONAL TRANSIT AUTHORITY

Notes to Financial Statements

December 31, 2003 and 2002

(g) New Accounting Pronouncement

In March 2003, the Governmental Accounting Standards Board (GASB) issued Statement No. 40, *Deposit and Investment Risk Disclosures – an amendment of GASB Statement No. 3*. This statement will revise the deposit and investment risks disclosed in the notes to the financial statements. The Authority will implement Statement No. 40 beginning with the year ended December 31, 2004.

(3) Accounts Receivable

Accounts receivable at December 31, 2003 and 2002 was as follows:

	2003	2002
Sales tax	\$ 8,420,731	8,272,957
Federal operating and preventive maintenance assistance	3,581,351	2,659,697
State operating and preventive maintenance assistance	—	251,699
Federal capital assistance	242,863	91,614
Interest	264,890	247,235
Warranty Claims Settlement	472,976	—
Other	513,825	354,403
Gross receivables	13,496,636	11,877,605
Less allowance for uncollectibles	(278,526)	(162,323)
Net total receivables	\$ 13,218,110	11,715,282

(4) Cash and Investments

The investment and deposit of Authority monies are governed by the provisions of the Ohio Revised Code. In accordance with these statutes, only banks located in Ohio and domestic building and loan associations are eligible to hold public deposits. The statutes also permit the Authority to invest its monies in certificates of deposit, commercial paper, savings accounts, money market accounts, the State Treasurer's Asset Reserve investment pool (STAR Ohio), and obligations of the United States Government or certain agencies thereof. The Authority may also enter into repurchase agreements with any eligible depository or any eligible dealer who is a member of the National Association of Securities Dealers for a period not exceeding thirty days. The Authority is prohibited from investing in any financial instrument, contract, or obligation whose value or return is based upon or linked to another asset or index, or both, separate from the financial instrument, contract, or obligation itself (commonly known as a derivative). The Authority is also prohibited from investing in reverse repurchase agreements.

GREATER DAYTON REGIONAL TRANSIT AUTHORITY

Notes to Financial Statements

December 31, 2003 and 2002

Public depositories must give security for all public funds on deposit. These institutions may either specifically collateralize individual accounts in lieu of amounts insured by the Federal Deposit Insurance Corporation (FDIC), or may pledge a pool of government securities valued at least 110% of the total value of public monies on deposit at the institution. Repurchase agreements must be secured by the specific government securities upon which the repurchase agreements are based. These securities must be obligations of or guaranteed by the United States and must mature or be redeemable within five years of the date of the related repurchase agreement. The market value of the securities, subject to a repurchase agreement, must exceed the value of the principal by 2% and be marked to market daily.

(a) Deposits

At December 31, 2003 and 2002, the carrying amount of the Authority's deposits was \$131,319 and \$120,132, respectively, as compared to bank balances of \$265,163 and \$1,985,126, respectively. Of the bank balances at December 31, 2003 and 2002, \$200,000, was on deposit and covered by federal depository insurance and \$65,163 and \$1,785,126, respectively, was collateralized by a pool of securities maintained by the Authority's financial institutions but not in the Authority's name.

(b) Investments

The following table presents a summary of the fair values of the Authority's investments at December 31, 2003 and 2002. All categorized investments are insured or registered and are held by the Authority's custodian (agent) in the Authority's name. The deposits in STAR Ohio (pooled funds) are not categorized because the relationship between the Authority and the investment agent is a direct contractual relationship, and the investments are not supported by a transferable instrument that evidences ownership or creditorship. These deposits are valued at the pool's share price, which is the price for which the investment could be sold as of December 31, 2003 and 2002, respectively.

	<u>Fair value</u>	
	<u>2003</u>	<u>2002</u>
Categorized:		
U.S. Government and agencies securities	\$ 39,088,466	36,038,073
Noncategorized:		
STAR Ohio (investment pool)	<u>3,258,892</u>	<u>6,966,557</u>
Total investments	<u>\$ 42,347,358</u>	<u>43,004,630</u>

Although the STAR Ohio deposits are included with investments above for risk categorization, these deposits are classified as cash and cash equivalents for financial reporting purposes.

GREATER DAYTON REGIONAL TRANSIT AUTHORITY

Notes to Financial Statements

December 31, 2003 and 2002

(5) Capital Assets

Capital asset activity for the year ended December 31, 2003 was as follows:

	Balance January 1, 2003	Additions	Deletions	Balance December 31, 2003
Capital assets not being depreciated:				
Land and land improvements	\$ 4,562,819	414,155	—	4,976,974
Construction in progress	4,686,879	119,688	2,753,161	2,053,406
Total capital assets not being depreciated	<u>9,249,698</u>	<u>533,843</u>	<u>2,753,161</u>	<u>7,030,380</u>
Capital assets being depreciated:				
Revenue producing and service equipment	96,620,204	6,660,251	17,003,935	86,276,520
Buildings and structures	93,371,198	3,736,579	1,000	97,106,777
Office furnishings, shop equipment, and other	16,894,585	1,315,413	787,388	17,422,610
Total capital assets being depreciated	<u>206,885,987</u>	<u>11,712,243</u>	<u>17,792,323</u>	<u>200,805,907</u>
Less accumulated depreciation:				
Revenue producing and service equipment	44,443,969	6,422,612	17,003,935	33,862,646
Buildings and structures	27,243,141	3,452,431	1,000	30,694,572
Office furnishings, shop equipment, and other	10,812,653	1,443,994	787,388	11,469,259
Total accumulated depreciation	<u>82,499,763</u>	<u>11,319,037</u>	<u>17,792,323</u>	<u>76,026,477</u>
Total capital assets being depreciated, net	<u>124,386,224</u>	<u>393,206</u>	<u>—</u>	<u>124,779,430</u>
Total capital assets, net	\$ <u>133,635,922</u>	<u>927,049</u>	<u>2,753,161</u>	<u>131,809,810</u>

GREATER DAYTON REGIONAL TRANSIT AUTHORITY

Notes to Financial Statements

December 31, 2003 and 2002

Capital asset activity for the year ended December 31, 2002 was as follows:

	Balance January 1, 2002	Additions	Deletions	Balance December 31, 2002
Capital assets not being depreciated:				
Land and land improvements	\$ 4,562,819	—	—	4,562,819
Construction in progress	4,734,595	—	47,716	4,686,879
Total capital assets not being depreciated	<u>9,297,414</u>	<u>—</u>	<u>47,716</u>	<u>9,249,698</u>
Capital assets being depreciated:				
Revenue producing and service equipment	89,872,289	6,747,915	—	96,620,204
Buildings and structures	90,130,539	3,240,659	—	93,371,198
Office furnishings, shop equipment, and other	16,273,163	660,622	39,200	16,894,585
Total capital assets being depreciated	<u>196,275,991</u>	<u>10,649,196</u>	<u>39,200</u>	<u>206,885,987</u>
Less accumulated depreciation:				
Revenue producing and service equipment	38,174,483	6,269,486	—	44,443,969
Buildings and structures	23,698,035	3,545,106	—	27,243,141
Office furnishings, shop equipment, and other	9,525,280	1,326,573	39,200	10,812,653
Total accumulated depreciation	<u>71,397,798</u>	<u>11,141,165</u>	<u>39,200</u>	<u>82,499,763</u>
Total capital assets being depreciated, net	<u>124,878,193</u>	<u>(491,969)</u>	<u>—</u>	<u>124,386,224</u>
Total capital assets, net	<u>\$ 134,175,607</u>	<u>(491,969)</u>	<u>47,716</u>	<u>133,635,922</u>

(6) Bonds and Notes Payable

Bonds and notes payable consist of capital facilities bonds issued for the purpose of purchasing, acquiring, constructing, replacing, improving, extending, and enlarging transit facilities. The bonds and notes were authorized to be issued and sold under resolutions passed by the board of trustees. The bonds and notes are general obligations of the Authority.

GREATER DAYTON REGIONAL TRANSIT AUTHORITY

Notes to Financial Statements

December 31, 2003 and 2002

Bond activity for the year ended December 31, 2003 was as follows:

<u>Issue</u>	<u>Interest rate</u>	<u>Balance January 1, 2003</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance December 31, 2003</u>	<u>Due within one year</u>
Series 1993	3.10 to 5.10	\$ 2,675,000	—	370,000	2,305,000	400,000
Series 1994	3.50 to 6.00	2,800,000	—	340,000	2,460,000	355,000
Series 1997	4.15 to 5.55	7,405,000	—	590,000	6,815,000	615,000
Total		\$ 12,880,000	—	1,300,000	11,580,000	1,370,000

Bond activity for the year ended December 31, 2002 was as follows:

<u>Issue</u>	<u>Interest rate</u>	<u>Balance January 1, 2002</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance December 31, 2002</u>	<u>Due within one year</u>
Series 1992	4.00 to 5.50	\$ 610,000	—	610,000	—	—
Series 1993	3.10 to 5.10	3,020,000	—	345,000	2,675,000	370,000
Series 1994	3.50 to 6.00	3,125,000	—	325,000	2,800,000	340,000
Series 1997	4.15 to 5.55	7,970,000	—	565,000	7,405,000	590,000
Total		\$ 14,725,000	—	1,845,000	12,880,000	1,300,000

The annual requirements to pay principal and interest on the bonds and notes outstanding at December 31, 2003 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004	\$ 1,370,000	617,518	1,987,518
2005	1,445,000	548,583	1,993,583
2006	1,535,000	474,390	2,009,390
2007	1,620,000	394,205	2,014,205
2008-2012	5,610,000	818,260	6,428,260
	\$ 11,580,000	2,852,956	14,432,956

GREATER DAYTON REGIONAL TRANSIT AUTHORITY

Notes to Financial Statements

December 31, 2003 and 2002

(7) Pension Plan

(a) Plan Description

The Authority contributes to the Public Employees Retirement System of Ohio (PERS), a cost sharing, multiple-employer public employee retirement system. PERS provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Chapter 145 of the Ohio Revised Code assigns the authority to establish and amend benefit provisions to the PERS board of trustees (Board). PERS issues a stand-alone financial report that includes the financial statements. That report may be obtained by writing to Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 614-466-2085 or 1-800-222-PERS (7377).

(b) Funding Policy

Plan members are required to contribute 8.5% of their annual covered salary, and the Authority is required to contribute an actuarially determined rate. The employer contribution rate for 2003, 2002, and 2001 was 13.55% of annual covered payroll. The contribution requirements of plan members and the Authority are established and may be amended by the Board. The Authority's contributions to PERS for the years ending December 31, 2003, 2002, and 2001 were \$4,049,622, \$3,972,345, and \$4,071,961, respectively, equal to the required contributions for each year. Required employer contributions are equal to 100% of the dollar amount billed to each employer.

(8) Other Post-employment Benefits (OPEB)

PERS also provides post-retirement health care coverage to age and service retirees with 10 or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. The health care coverage provided by the retirement system is considered an Other Post-employment Benefit (OPEB) as described in GASB Statement No. 12. As required by state statute, a portion of each employer's contribution to PERS (see note 7) is set aside for the funding of post-retirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The contribution rates of 13.55% to the Plan for the years ended December 31, 2003 and 2002 included a portion (5.0%) that was used to fund healthcare. The Authority's contributions for post-employment benefits were approximately \$202,481 and \$198,617 for the years ended December 31, 2003 and 2002, respectively.

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

Summary of Assumptions:

Actuarial Review – The assumptions and calculations below were based on the System's latest Actuarial Review performed as of December 31, 2002.

Funding Method – An entry age normal actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of unfunded actuarial accrued liability.

GREATER DAYTON REGIONAL TRANSIT AUTHORITY

Notes to Financial Statements

December 31, 2003 and 2002

Assets Valuation Method – All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach assets are adjusted annually to reflect 25% of the unrealized market appreciation or depreciation on investment assets.

Investment Return – The investment assumption rate for 2002 was 8.0%.

Active Employee Total Payroll – An annual increase of 4.0% compounded annually, is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4.0% base increase, were assumed to range from 0.5% to 6.3%.

Health Care – Health care costs were assumed to increase 4.0% annually.

OPEBs are advanced funded on an actuarially determined basis. The number of active participating participants at December 31, 2003 was 364,881. The actuarial value of the Retirement System's net assets available for OPEB at December 31, 2002 was \$10.0 billion (the latest date information is available). The actuarially accrued liability and the unfunded actuarial accrued liability at December 31, 2002 (the latest date information is available), based on the actuarial cost method used, were \$18.7 billion and \$8.7 billion, respectively.

(9) Risk Management

The Authority is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Effective December 31, 1994, the Authority commenced participation in the Ohio Transit Risk Pool, Inc. (OTRP) formerly the Ohio Transit Insurance Pool, Inc. (OTIP) related to its risk of property and casualty loss. Under this plan, the Authority receives property and casualty loss coverage in exchange for contributions paid. For the period ended December 31, 2003, OTRP self-insured the first \$250,000 of any qualified property loss and the first \$500,000 of any qualified casualty loss subject to a \$1,000 per loss deductible (\$25,000 for auto physical damage losses involving revenue vehicles). Per occurrence, catastrophic loss coverage is maintained by OTRP equal to \$150,000,000 for qualified property losses and \$25,000,000 for qualified casualty losses. The annual aggregate stop-loss limit for casualty is \$3,200,000.

Any underfunding of the plan's liabilities is shared by the members on a pro rata basis based on pool contribution factors comprised of: population, full-time employees, vehicles, property values, budget, net operating expenses, and claims history (double weighted). This can result in future refund or return of prior years surplus.

The Authority is also self-insured for worker's compensation claims up to a limit of \$300,000 per claim at which point stop-loss insurance becomes effective. A reserve has been provided at December 31, 2003 and 2002 for the estimated potential claim liability based upon an actuary's estimate. This liability is classified as current although some portion may not be paid within one year. Management believes, based on prior experience, that the estimated reserve for claims is adequate to satisfy all claims filed or to be filed for incidents which occurred through December 31, 2003.

GREATER DAYTON REGIONAL TRANSIT AUTHORITY

Notes to Financial Statements

December 31, 2003 and 2002

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

	<u>2003</u>	<u>2002</u>
Accrued self-insurance – beginning of year	\$ 2,631,968	2,559,811
Claims and other expenses incurred – during year	615,628	1,049,910
Claims paid – during year	<u>(1,039,763)</u>	<u>(977,753)</u>
Accrued self-insurance – end of year	<u>\$ 2,207,833</u>	<u>2,631,968</u>

(10) Capital and Other Grants

The Authority has a capital improvement program, which is primarily funded through capital grants. The purpose of this program is to provide various improvements to the transit system. The total amount approved under the capital improvement program is to be provided by grants and Authority equity, which includes participation by the FTA (approximately 80%), the Authority's funds (typically 20% depending upon ODOT participation) and, to a lesser extent, ODOT.

The Authority participates in community based transit improvement projects where management deems there to be a public transit related benefit. The Authority serves as a funding conduit for specific federal/state funding, and/or provides federal/state/local funding out of its annual allocation. In exchange for its participation, the Authority receives benefits, which may include operating rights, exclusive use agreements, or other forms of consideration. Capital grants received for such projects are recorded as "federal capital grants (passed through to sub-recipient)" offset by "capital grants to sub-recipient" in the statements of revenues, expenses and changes in net assets.

In 1998, the Authority entered into contracts with ODOT for two downtown Dayton projects, which will include Federal Highway Administration (FHWA) and FTA funds. The process for receiving these Federal funds requires the Authority to enter into a contract with ODOT for each project in the amount of \$3,303,000 for the Baseball Stadium project and \$3,675,000 for the RiverScape project. The Authority also entered into agreements with the City of Dayton, which will be responsible for all contracts associated with the transit-related portions of the Baseball Stadium project and Montgomery County, which will be responsible for all contracts associated with the transit-related portions of the RiverScape and Arts Center Foundation projects.

The Authority passes-through certain federal awards to the City of Dayton and Montgomery County for various projects. During the years ended 2003 and 2002, the City remitted \$26,000 and \$55,000 to the City of Dayton for the Baseball Stadium and related transit enhancements; \$1,162,000 and \$0 to the City of Dayton for the Wright Dunbar project; and \$2,887,000 and \$5,169,000 to Montgomery County for the Schuster Performing Arts Center.

The Authority has an obligation to ensure that the benefits received from such projects continue for a time period deemed appropriate to ensure federal/state funds have fully vested in the project and that no federal/state payback would be required by the sub-recipient. At December 31, 2003, the Authority continues to monitor the Baseball Stadium project (as described above), completed in May of 2000 with \$3,027,000 in federal funding, as well as the Main Street Project, completed in November of 1992 with \$3,185,000 in federal funding. Both of these projects have a 20 year vesting period and would require a

GREATER DAYTON REGIONAL TRANSIT AUTHORITY

Notes to Financial Statements

December 31, 2003 and 2002

partial payback of funding, based on straight line amortization, if the benefits received by the Authority are discontinued before the vesting period ends.

(11) Contingencies and Commitments

(a) Contingencies

Federally assisted capital grant programs are subject to audit by the granting agency. Management believes that no liability will arise, as a result of audits previously performed or to be performed, which might adversely affect the financial position of the Authority.

FTA grant stipulations also require the grantee to retain assets acquired by FTA funds for the full estimated asset useful life (as determined by FTA). If this provision is not met, the grantee must refund FTA's un-depreciated basis in assets disposed.

(b) ETI Trolley Buses

In 1994, the Authority entered into a \$32 million contract with Electric Transit Inc. (ETI) to purchase a new fleet of electric trolley buses. The ETI fleet consists of three prototype buses and 54 production models. In November 2000, two structural problems were discovered and 50 of the production buses were removed from revenue service. During 2001, ETI developed and tested final repair actions and retrofits with all repairs completed during the fourth quarter 2002. As of December 31, 2001, the RTA had accumulated ETI receivables in excess of \$700,000 representing diesel fuel costs associated with the electric trolley buses being out of service, outstanding warranty claims and associated labor costs, and contract and related expenses associated with hiring a third-party technical advisor to the Authority to review engineering reports submitted to the Authority by ETI. The RTA elected not to record the ETI receivables until such time collectibility becomes more certain.

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

(c) Commitments

At December 31, 2003, the Authority had outstanding purchase commitments for contracts of approximately \$2,500,000, of which approximately \$1,300,000 is for new vehicles and \$1,200,000 is for building renovation.

GREATER DAYTON REGIONAL TRANSIT AUTHORITY

Notes to Financial Statements

December 31, 2003 and 2002

(d) *Litigation*

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

(e) *Labor Contracts*

In March 2004, RTA and the American Federation of State, County and Municipal Employees, AFL-CIO (AFSCME) signed a wage re-opener agreement. The agreement provides for annual increases of 2.5% in December 2003 and 3.0% in December 2004.

In June 2003, RTA and the Amalgamated Transit Union, Local 1385 entered into a new three year contract effective April 2003. Among other things, the agreement provides for annual increases of 2.0%, 2.5%, and 3.0% in 2003, 2004, and 2005, respectively.

GREATER DAYTON REGIONAL TRANSIT AUTHORITY

OMB Circular A-133 Report

Year Ended December 31, 2003

(With Independent Auditors' Report Thereon)

GREATER DAYTON REGIONAL TRANSIT AUTHORITY

Table of Contents

	Page
Independent Auditors' Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	1
Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program, Internal Control over Compliance in accordance with OMB Circular A-133, and Schedule of Expenditures of Federal Awards	3
Schedule of Expenditures of Federal Awards	5
Notes to Schedule of Expenditures of Federal Awards	6
Schedule of Findings and Questioned Costs	7



KPMG LLP
303 East Wacker Drive
Chicago, IL 60601-5212

**Independent Auditors' Report on Compliance and on Internal Control
over Financial Reporting Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

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

We have audited the basic financial statements of Greater Dayton Regional Transit Authority (the Authority) as of and for the year ended December 31, 2003, and have issued our report thereon dated April 9, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting which we have reported to management of the Authority in a separate letter dated April 9, 2004.





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

KPMG LLP

April 9, 2004



KPMG LLP
303 East Wacker Drive
Chicago, IL 60601-5212

**Independent Auditors' Report on Compliance with Requirements
Applicable to Each Major Program, Internal Control over
Compliance in accordance with OMB Circular A-133,
and Schedule of Expenditures of Federal Awards**

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

Compliance

We have audited the compliance of Greater Dayton 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 its major federal program for the year ended December 31, 2003. The Authority's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the Authority's management. Our responsibility is to express an opinion on the Authority's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major 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 consider 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 Greater Dayton Regional Transit Authority complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2003.





Internal Control over Compliance

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

Our consideration of the Authority's internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control over compliance that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the Authority as of and for the year ended December 31, 2003, and have issued our report thereon dated April 9, 2004. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

KPMG LLP

April 9, 2004

GREATER DAYTON REGIONAL TRANSIT AUTHORITY

Schedule of Expenditures of Federal Awards

Year ended December 31, 2003

<u>Federal grantor/pass through grantor/program title</u>	<u>Grant number</u>	<u>Federal CFDA number</u>	<u>Expenditures</u>
Department of Transportation:			
Federal Transit – Section 5309 – Capital Improvement Grants	OH-03-0182	20.500	\$ 247,973
	OH-03-0189	20.500	64,899
	OH-03-0197	20.500	115,217
	OH-03-0198	20.500	618,946
	OH-03-0215	20.500	2,101,920
	OH-03-0216	20.500	1,031,435
	OH-03-0217	20.500	1,161,751
	OH-03-0220	20.500	960,513
	OH-03-0225	20.500	1,431,751
Total CFDA # 20.500			<u>7,734,405</u>
Federal Transit – Section 5307 – Capital and Operating Assistance Formula Grants	OH-90-0094	20.507	591,905
	OH-90-0295	20.507	325,493
	OH-90-0316	20.507	140,865
	OH-90-0341	20.507	120,577
	OH-90-0359	20.507	90,058
	OH-90-X380	20.507	1,379,654
	OH-90-0409	20.507	5,097,302
	OH-37-X435	20.507	6,401,969
	OH-90-X442	20.507	1,714,865
	OH-03-X475	20.507	3,581,351
Total CFDA # 20.507			<u>19,444,039</u>
Total Department of Transportation – Federal Transit Cluster			<u>\$ 27,178,444</u>

See accompanying independent auditors' report and notes to Schedule of Expenditures of Federal Awards.

GREATER DAYTON REGIONAL TRANSIT AUTHORITY

Notes to Schedule of Expenditures of Federal Awards

Year ended December 31, 2003

(1) Note A – General

The accompanying schedule of expenditures of federal awards presents the activity of all federal award programs of the Greater Dayton Regional Transit Authority (the Authority). The Authority's reporting entity is defined in note 1(a) to the Authority's financial statements. All federal awards received directly from federal agencies, as well as federal awards passed through other government agencies are included on the Schedule.

(2) Note B – Basis of Accounting

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

(3) Note C – Subrecipients

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

The City of Dayton:	
Baseball park	\$ 26,000
Wright Dunbar project	1,162,000
Montgomery County:	
Schuster Performing Arts Center	<u>2,887,000</u>
	\$ <u><u>4,075,000</u></u>

GREATER DAYTON REGIONAL TRANSIT AUTHORITY

Schedule of Findings and Questioned Costs

Year ended December 31, 2003

(1) Summary of Auditors' Results

Financial Statements

- (a) Type of auditors' report issued: **Unqualified opinion**
- (b) Internal control over financial reporting:
Material weakness (as) identified: **No**
Reportable condition(s) identified not considered to be material weaknesses: **None reported**
- (c) Noncompliance material to financial statements noted: **No**

Federal Awards

- (a) Internal control over major programs:
Material weakness (is) identified: **No**
Reportable condition(s) identified: **None reported**
- (b) Type of auditors' report issued on compliance of major programs: **Unqualified opinion**
- (c) Any audit findings disclosed that are required to be reported in accordance with Circular A-133 (Section .510(a)): **No**
- (d) Major program for the December 31, 2003 audit: **Federal Transit Cluster – CFDA numbers 20.500 and 20.507**
- (e) Dollar threshold used to distinguish between Type A and Type B programs: **\$815,353**
- (f) Auditee qualified as low-risk auditee under Section .530 of OMB Circular A-133: **Yes**

(2) Findings Relating to the Financial Statements Reported in Accordance with *Government Auditing Standards*

None

(3) Findings and Questioned Costs Relating to Federal Awards

None



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

GREATER DAYTON REGIONAL TRANSIT AUTHORITY

MONTGOMERY COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
OCTOBER 5, 2004**