GREATER DAYTON REGIONAL TRANSIT AUTHORITY

Financial Statements

December 31, 2004 and 2003

(With Independent Auditors' Report Thereon)

Auditor of State
Betty Montgomery

Board of Trustees
Greater Dayton Regional Transit Authority

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, 2004 through December 31, 2004. 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.

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

July 6, 2005

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GREATER DAYTON REGIONAL TRANSIT AUTHORITY

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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, 2004 and 2003, 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 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 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, 2004 and 2003, 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 8, 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 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 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 considering the results of our audits.

KPMG

The management's discussion and analysis on pages 3 through 8 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 8, 2005

GREATER DAYTON REGIONAL TRANSIT AUTHORITY

Management's Discussion and Analysis

December 31, 2004 and 2003

(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, 2004 and 2003. This discussion and analysis is designed to assist the reader in focusing on significant financial issues and activities and to identify any significant changes in financial position. We encourage readers to consider the information presented here in conjunction with the financial statements as a whole.

Financial Highlights for 2004

- The Authority's total net assets decreased by $3.0 million or 1.8% over the course of the year's operations causing a reduction in reserves.
- The Authority's operating expenses, including depreciation, in 2004 were $1.8 million higher than 2003 expenses. This increase is due primarily to increased claims and insurance costs in 2004. 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 $6.4 million for fiscal year 2004. This was an increase of 5.5% over the prior year, and was primarily the result of elimination of the pilot Collegiate Pass Program.
- Sales tax revenue was up $0.7 million or 2.2% in comparison to 2003. As sales tax accounts for approximately 64% of all funding, it is important that inflationary increases are realized year over year. The increase realized in 2004 was the result of a one-time distribution by the State of Ohio of previously unidentified tax dollars as well as improvements in Montgomery County's economic condition.
- Investment income decreased by $0.1 million or 4.9% in 2004 due to low interest rates and a smaller average investment balance.

Financial Highlights for 2003

- The Authority's total net assets increased by $0.3 million or 0.2% 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 $0.7 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 $0.3 million or 17.6% in 2003 due to low interest rates and a smaller average investment balance.

(Continued)

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, results 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 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 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.

(Continued)

Net Assets

		2004	2003	2002
Current assets	$	33,453,532	27,624,800	32,796,355
Long-term investments		27,059,398	33,844,555	27,871,212
Capital assets, net		131,808,769	131,809,810	133,635,922
Total assets		192,321,699	193,279,165	194,303,489
Current liabilities		16,709,605	13,173,503	13,095,479
Long-term bonds and notes payable		8,765,000	10,210,000	11,580,000
Total liabilities		25,474,605	23,383,503	24,675,479
Net assets:				
Invested in capital assets, net of related debt		121,598,769	120,229,810	120,755,922
Unrestricted		45,248,325	49,665,852	48,872,088
Total net assets	$	166,847,094	169,895,662	169,628,010

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, 2004, unchanged from 2003 as capital asset acquisitions were approximately equal to depreciation expense. Major capital asset expenditures during 2004 included the following:

- Purchase of 56 Project Mobility vehicles totaling $4.9 million,
- Facility renovations totaling $1.8 million, and
- Purchases of new fare boxes totaling $2.8 million.

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 in 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, and
- Purchases of office equipment and fixtures for the renovated buildings totaling $1.3 million.

(Continued)

Long-term Debt

The Authority has outstanding bonds and notes payable of $10,210,000 and $11,580,000 in 2004, and 2003, respectively. These balances represent decreases of $1,370,000 and $1,300,000 due to principal payments in 2004 and 2003, respectively. 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 2004 and 2003.

Net Assets

Net assets decreased $3.0 million and increased $0.3 million for the years ended December 31, 2004 and 2003, respectively. See further discussion under changes in net assets below.

Changes in Net Assets

		2004	2003	2002
Operating revenues	$	6,398,946	6,067,370	6,418,894
Operating expenses excluding depreciation		(54,466,400)	(52,761,903)	(50,725,542)
Depreciation expense		(11,373,393)	(11,319,037)	(11,141,165)
Operating loss		(59,440,847)	(58,013,570)	(55,447,813)
Net nonoperating revenues (expenses):				
Sales tax proceeds		33,324,081	32,592,292	31,899,871
Federal operating and preventive maintenance assistance		11,448,867	12,855,387	13,039,791
Federal capital grants (pass through)		1,028,438	4,074,630	5,224,208
Capital grants to sub-recipient		(1,028,438)	(4,074,630)	(5,224,208)
State operating and preventive maintenance assistance		—	—	862,602
State special fare assistance		370,264	276,277	253,924
Investment income		1,540,705	1,619,273	1,965,181
Interest expense		(614,208)	(678,339)	(769,023)
Net increase/decrease in fair value of investments		(947,706)	(718,328)	751,911
Other		298,130	1,390,180	553,831
Nonoperating revenues and expenses, net		45,420,133	47,336,742	48,558,088
Capital contributions		10,972,146	10,944,480	9,704,025
Change in net assets		(3,048,568)	267,652	2,814,300
Net assets, beginning of year		169,895,662	169,628,010	166,813,710
Net assets, end of year	$	166,847,094	169,895,662	169,628,010

(Continued)

Year Ended December 31, 2004

The Authority's operating revenues were $6.4 million during 2004, an increase of $0.3 million or 5.5% from 2003. The increase primarily resulted from approximately 600,000 more fare-paying passengers related to the cancellation of the pilot Collegiate Pass Program at the end of the 2002/2003 school year. The program provided free passes to individuals enrolled in local colleges as freshmen, with the intent to include future years' passes in overall collegiate fees

Operating expenses, including depreciation expense, were $65.8 million during 2004, an increase of $1.8 million or 2.7% from 2003. This increase was primarily the result of higher insurance costs as well as higher utility costs resulting from colder weather. The remaining increase in operating expenses is due to general inflationary increases, offset by management operating efficiencies and minimal service reductions.

Nonoperating revenues and expenses, net, were $45.4 million during 2004, a decrease of $1.9 million or 4.0% from 2003. The decrease in 2004 primarily resulted from decreases in federal operating and preventative maintenance assistance of $1.4 million and the one time gain ($0.8 million) in 2003 from the settlement with the manufacturer of the electric trolley buses (see further discussion in note 11b to the financial statements).

Year Ended December 31, 2003

The Authority's operating revenues were $6.1 million during 2003, a decrease of $0.4 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 $0.2 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 $0.8 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 $0.7 million increase in sales tax revenue due to an improved economy in Montgomery County, and an increase of $0.8 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).

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, 4 South Main Street, Dayton, OH 45401.

GREATER DAYTON REGIONAL TRANSIT AUTHORITY

Balance Sheets

December 31, 2004 and 2003

Assets	**2004**	**2003**
Current assets:		
Cash and cash equivalents (note 4)	$ 2,634,342	3,390,211
Short-term investments (note 4):		
Board designated for capital acquisition	7,574,314	5,243,911
Non-Board designated	4,130,352	—
Total short-term investments	11,704,666	5,243,911
Accounts receivable, less allowance for doubtful accounts of $280,000 in 2004 and $279,000 in 2003 (note 3)	13,116,366	13,218,110
Materials and supplies, less reserves for adjustments and obsolescence of $240,000 in 2004 and $129,000 in 2003	4,318,719	4,372,781
Prepaid expenses and deposits	1,679,439	1,399,787
Total current assets	33,453,532	27,624,800
Noncurrent assets:		
Long-term investments (note 4):		
Non-Board designated	19,139,828	23,051,932
Board designated	7,919,570	10,792,623
Total long-term investments	27,059,398	33,844,555
Capital assets (note 5):		
Land	4,976,974	4,976,974
Revenue producing and service equipment	91,800,983	86,276,520
Buildings and structures	99,466,924	97,106,777
Office furnishings, shop equipment, and other	16,357,232	17,422,610
Construction in progress	495,549	2,053,406
	213,097,662	207,836,287
Less accumulated depreciation	81,288,893	76,026,477
Capital assets, net	131,808,769	131,809,810
Total assets	$ 192,321,699	193,279,165
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	$ 5,248,065	2,566,434
Accrued payroll and related benefits	5,960,741	5,807,727
Accrued self-insurance (note 9)	2,657,428	2,207,833
Unredeemed fares	526,405	518,240
Other accrued expenses	871,966	703,269
Current maturities of bonds and notes payable (note 6)	1,445,000	1,370,000
Total current liabilities	16,709,605	13,173,503
Bonds and notes payable (note 6)	8,765,000	10,210,000
Total liabilities	25,474,605	23,383,503
Net assets:		
Invested in capital assets, net of related debt	121,598,769	120,229,810
Unrestricted	45,248,325	49,665,852
Total net assets	166,847,094	169,895,662
Total liabilities and net assets	$ 192,321,699	193,279,165

See accompanying notes to financial statements.

GREATER DAYTON REGIONAL TRANSIT AUTHORITY

Statements of Revenues, Expenses, and Changes in Net Assets

Years ended December 31, 2004 and 2003

		2004	2003
Operating revenues:			
Passenger fares	$	5,453,113	5,091,497
Special transit fares and charter service:			
Board of Education (student transportation)		896,915	899,917
Charter service		43,978	69,375
Contract service		4,940	6,581
Total operating revenues		6,398,946	6,067,370
Operating expenses:			
Labor		25,533,537	25,985,566
Fringe benefits		15,463,210	14,964,579
Contractual services		4,332,550	3,849,933
Materials and supplies		4,387,114	4,243,177
Utilities and propulsion power		1,811,437	1,458,849
Claims and insurance		2,211,991	1,210,891
Other		726,561	1,048,908
Total operating expenses excluding depreciation		54,466,400	52,761,903
Operating loss before depreciation expense		(48,067,454)	(46,694,533)
Depreciation expense		11,373,393	11,319,037
Total operating expenses		65,839,793	64,080,940
Operating loss		(59,440,847)	(58,013,570)
Nonoperating revenues (expenses):			
Sales tax proceeds		33,324,081	32,592,292
Federal operating and preventative maintenance assistance		11,448,867	12,855,387
Federal capital grants (passed through to sub-recipient)		1,028,438	4,074,630
Capital grants to sub-recipient		(1,028,438)	(4,074,630)
State special fare assistance		370,264	276,277
Interest on investments		1,540,705	1,619,273
Interest expense		(614,208)	(678,339)
Net decrease in the fair value of investments		(947,706)	(718,328)
Other		298,130	1,390,180
Total nonoperating revenues, net		45,420,133	47,336,742
Loss before capital contributions		(14,020,714)	(10,676,828)
Capital contributions		10,972,146	10,944,480
Increase (decrease) in net assets		(3,048,568)	267,652
Net assets – beginning of year		169,895,662	169,628,010
Net assets – end of year	$	166,847,094	169,895,662

See accompanying notes to financial statements.

GREATER DAYTON REGIONAL TRANSIT AUTHORITY

Statements of Cash Flows

Years ended December 31, 2004 and 2003

		2004	2003
Cash flows from operating activities:			
Receipts from fares and charters	$	6,360,966	5,526,688
Payments to suppliers		(8,632,925)	(9,945,675)
Payments for labor and employee benefits		(40,843,733)	(41,093,735)
Payments for claims and insurance		(1,762,396)	(1,635,026)
Net cash used in operating activities		(44,878,088)	(47,147,748)
Cash flows from noncapital financing activities:			
Sales tax		33,036,314	32,444,518
Federal operating and preventive maintenance assistance grants		14,272,820	11,933,733
Federal capital grants (passed through to sub-recipient)		1,028,438	4,074,630
Capital grants to sub-recipient		(1,028,438)	(4,074,630)
State operating and preventive maintenance and special fare assistance grants		148,508	527,976
Other		455,788	1,390,180
Net cash provided by noncapital financing activities		47,913,430	46,296,407
Cash flows from capital and related financing activities:			
Capital grants received		8,586,224	10,793,231
Additions to property and equipment		(11,372,352)	(9,492,925)
Interest paid on bonds and notes payable		(614,208)	(678,339)
Payments of bonds payable		(1,370,000)	(1,300,000)
Net cash used in capital and related financing activities		(4,770,336)	(678,033)
Cash flows from investing activities:			
Purchases of investment securities		(19,784,516)	(31,394,577)
Proceeds from sale or maturity of investment securities		19,501,000	27,963,635
Interest received		1,262,641	1,263,838
Net cash provided by (used in) investing activities		979,125	(2,167,104)
Net decrease in cash and cash equivalents		(755,869)	(3,696,478)
Cash and cash equivalents at beginning of year		3,390,211	7,086,689
Cash and cash equivalents at end of year	$	2,634,342	3,390,211
Reconciliation of operating loss to net cash used in operating activities:			
Operating loss	$	(59,440,847)	(58,013,571)
Adjustments to reconcile operating loss to net cash used in operating activities:			
Depreciation		11,373,393	11,319,037
Changes in assets and liabilities:			
Accounts receivable – other		(46,145)	(516,194)
Materials and supplies		54,062	409,845
Prepaid expenses and deposits		(279,653)	(354,889)
Accounts payable		2,681,631	438,067
Accrued expenses and unredeemed fares		779,471	(430,043)
Net cash used in operating activities	$	(44,878,088)	(47,147,748)

See accompanying notes to financial statements.

(1) The Authority and Reporting Entity

(a) The Authority

Greater Dayton 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 2004 will be recognized as revenue in 2004. 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.

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.

(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:

Description	Estimated useful life
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, 2004 or 2003.

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.

(Continued)

(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.

(Continued)

(q) 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, 2005.

(3) Accounts Receivable

Accounts receivable at December 31, 2004 and 2003 was as follows:

		2004	2003
Sales tax	$	8,708,499	8,420,731
Federal operating and preventive maintenance assistance		757,398	3,581,351
Ohio elderly fare assistance		221,756	—
Federal capital assistance		2,046,946	19,647
State capital assistance		581,838	223,216
Interest		203,166	264,890
Warranty claims settlement		315,318	472,976
Other		561,337	513,825
Gross receivables		13,396,258	13,496,636
Less allowance for uncollectibles		(279,892)	(278,526)
Net total receivables	$	13,116,366	13,218,110

(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.

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, 2004 and 2003, the carrying amount of the Authority's deposits was $114,870 and $131,319, respectively, as compared to bank balances of $3,214,990 and $265,163, respectively. Of the bank balances at December 31, 2004 and 2003, $200,000, was on deposit and covered by federal depository insurance and $3,014,990 and $65,163, 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, 2004 and 2003. 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, 2004 and 2003, respectively.

		Fair value	
		2004	**2003**
Categorized:			
U.S. government and agencies securities	$	38,764,064	39,088,466
Noncategorized:			
STAR Ohio (investment pool)		2,519,472	3,258,892
Total investments	$	41,283,536	42,347,358

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.

(5) Capital Assets

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

	Balance January 1, 2004	Additions	Deletions	Balance December 31, 2004
Capital assets not being depreciated:				
Land and land improvements	$ 4,976,974	—	—	4,976,974
Construction in progress	2,053,406	495,549	2,053,406	495,549
Total capital assets not being depreciated	7,030,380	495,549	2,053,406	5,472,523
Capital assets being depreciated:				
Revenue producing and service equipment	86,276,520	6,688,223	1,163,760	91,800,983
Buildings and structures	97,106,777	2,397,388	37,241	99,466,924
Office furnishings, shop equipment, and other	17,422,610	3,999,032	5,064,410	16,357,232
Total capital assets being depreciated	200,805,907	13,084,643	6,265,411	207,625,139
Less accumulated depreciation:				
Revenue producing and service equipment	33,862,646	6,232,841	1,046,581	39,048,906
Buildings and structures	30,694,572	3,438,321	37,241	34,095,652
Office furnishings, shop equipment, and other	11,469,259	1,702,231	5,027,155	8,144,335
Total accumulated depreciation	76,026,477	11,373,393	6,110,977	81,288,893
Total capital assets being depreciated, net	124,779,430	1,711,250	154,434	126,336,246
Total capital assets, net	$ 131,809,810	2,206,799	2,207,840	131,808,769

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	9,249,698	533,843	2,753,161	7,030,380
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	206,885,987	11,712,243	17,792,323	200,805,907
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	82,499,763	11,319,037	17,792,323	76,026,477
Total capital assets being depreciated, net	124,386,224	393,206	—	124,779,430
Total capital assets, net	$ 133,635,922	927,049	2,753,161	131,809,810

(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.

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

Issue	Interest rate		Balance January 1, 2004	Additions	Deletions	Balance December 31, 2004	Due within one year
Series 1993	3.10 to 5.10	$	2,305,000	—	400,000	1,905,000	425,000
Series 1994	3.50 to 6.00		2,460,000	—	355,000	2,105,000	375,000
Series 1997	4.15 to 5.55		6,815,000	—	615,000	6,200,000	645,000
Total		$	11,580,000	—	1,370,000	10,210,000	1,445,000

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

Issue	Interest rate		Balance January 1, 2003	Additions	Deletions	Balance December 31, 2003	Due within one year
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

The annual requirements to pay principal and interest on the bonds and notes outstanding at December 31, 2004 are as follows:

		Principal	Interest	Total
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		1,725,000	308,315	2,033,315
2009		1,260,000	215,280	1,475,280
2010-2012		2,625,000	294,665	2,919,665
	$	10,210,000	2,235,438	12,445,438

(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 2004, 2003, and 2002 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, 2004, 2003, and 2002, were \$4,033,792, \$4,049,622, and \$3,972,345, 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, 2004 and 2003 included a portion (4% in 2004 and 5.0% in 2003) that was used to fund healthcare. The Authority's contributions for post-employment benefits were approximately \$161,352 and \$202,481 for the years ended December 31, 2004 and 2003, 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, 2003.

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

Assets Valuation Method – 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 2003 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, 2004 was 369,885. The actuarial value of the Retirement System's net assets available for OPEB at December 31, 2003 was $10.5 billion (the latest date information is available). The actuarially accrued liability and the unfunded actuarial accrued liability at December 31, 2003 (the latest date information is available), based on the actuarial cost method used, were $26.9 billion and $16.4 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, 2004, OTRP self-insured the first $250,000 of any qualified auto physical damage loss, the first $150,000 of any qualified commercial property loss, and the first $1,000,000 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 $200,000,000 for qualified property losses (including auto physical damage) and $7,500,000 for qualified casualty losses.

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 $500,000 per claim at which point stop-loss insurance becomes effective. A reserve has been provided at December 31, 2004 and 2003 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, 2004.

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

		2004	2003
Accrued self-insurance – beginning of year	$	2,207,833	2,631,968
Claims and other expenses incurred – during year		1,319,815	615,628
Claims paid – during year		(870,220)	(1,039,763)
Accrued self-insurance – end of year	$	2,657,428	2,207,833

(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 2004 and 2003, the Authority remitted $112,000 and $26,000, respectively, to the City of Dayton for the Baseball Stadium and related transit enhancements; $915,000 and $1,162,000, respectively, to the City of Dayton for the Wright Dunbar project; and $0 and $2,887,000, respectively, 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, 2004, 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 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, 2004, the Authority had outstanding purchase commitments for contracts of approximately $2,800,000, of which approximately $2,700,000 is for new vehicles and tires with the remainder ($100,000) for building renovation.

(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, 2004

(With Independent Auditors' Report Thereon)

GREATER DAYTON REGIONAL TRANSIT AUTHORITY

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Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters 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, 2004, and have issued our report thereon dated April 8, 2005. 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 in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion 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 that might be material weaknesses. A material weakness is a reportable 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 caused by error or fraud 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.

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*.

We noted certain matters that we reported to management of the Authority in a separate letter dated April 8, 2005.

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 8, 2005

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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, 2004. 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, 2004. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2004-1 and 2004-2.

KPMG

Internal Control over Compliance

The management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the 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 the internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the Authority's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 2004-1 and 2004-2.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants caused by error or fraud 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. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider item 2004-1 to be a material weakness.

Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of the Authority as of and for the year ended December 31, 2004, and have issued our report thereon dated April 8, 2005. 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 8, 2005

GREATER DAYTON REGIONAL TRANSIT AUTHORITY

Schedule of Expenditures of Federal Awards

Year ended December 31, 2004

Federal grantor/pass through grantor/program title	Grant number	Federal CFDA number		Expenditures
Department of Transportation:				
Federal Transit – Section 5309 – Capital Improvement Grants			$	
	OH-03-0189	20.500		112,466
	OH-03-0197			454,972
	OH-03-0216	20.500		170,331
	OH-03-0217	20.500		464,916
	OH-03-0220	20.500		20,000
	OH-03-0225	20.500		748,832
	OH-03-0232	20.500		1,135,571
	OH-03-0244	20.500		2,836,047
	OH-03-0248	20.500		830,012
Total CFDA # 20.500				6,773,147
Federal Transit – Section 5307 – Capital and Operating Assistance Formula Grants	OH-90-0295	20.507		757,315
	OH-90-0316	20.507		136,887
	OH-90-0341	20.507		931,772
	OH-90-0359	20.507		65,221
	OH-90-X380	20.507		142,517
	OH-90-X409	20.507		992,021
	OH-90-X415	20.507		1,017,797
	OH-37-X435	20.507		1,104,515
	OH-90-X442	20.507		1,056
	OH-03-0465	20.507		6,742,868
	OH-03-0475	20.507		853,771
	OH-90-X483	20.507		2,478,988
Total CFDA # 20.507				15,224,728
Total Department of Transportation – Federal Transit Cluster			$	21,997,875

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, 2004

(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	$	112,466
Wright Dunbar project		914,916
	$	1,027,382

GREATER DAYTON REGIONAL TRANSIT AUTHORITY

Schedule of Findings and Questioned Costs

Year ended December 31, 2004

(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: **Yes**
Reportable condition(s) identified: **Yes**

(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)): **Yes**

(d) Major program for the December 31, 2004 audit: **Federal Transit Cluster – CFDA numbers 20.500 and 20.507**

(e) Dollar threshold used to distinguish between Type A and Type B programs: **$767,377**

(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

Finding 2004-1 Subrecipient Monitoring

Program Name: Federal Transit Cluster

CFDA # and Program Expenditures:

20.500 and 20.507	$21,977,875

Criteria:

According to OMB Circular A-133 § .400 and the OMB Circular A-133 Compliance Supplement, dated March 2004, a pass-through entity is required to (1) monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved and (2) advise recipients of requirements imposed on them by Federal laws and regulations and to require subrecipients expending $500,000 or more in Federal awards during the subrecipients fiscal year to have a single audit in accordance with OMB Circular A-133.

Condition:

The Authority passed-through $1,129,501 to subrecipients of the Federal Transit Cluster during the year ended December 31, 2004. During our testwork, we noted the following:

- For one subrecipient with expenditures of $1,028,438, the Authority did not adequately review the OMB Circular A-133 Audit report received. Specifically, they did not perform a thorough “desk review” of the report to determine whether 1) the audit was performed in accordance with OMB Circular A-133, 2) the federal funds reported in the schedule of expenditures of federal awards reconciles to funding notifications, and 3) Type A programs (as defined by OMB Circular A-133) are being audited at least every three years. Additionally, we noted that the amount passed through to the subrecipient was not included in the subrecipient’s schedule of expenditures of federal awards. It appears the program should have been audited as a major program in the subrecipient’s audit, but was not.

- For five subrecipients with expenditures of $92,063, the Authority did not communicate the specific program or CFDA number under which federal funding had been provided in grant award documents or in funding notification letters sent to subrecipients. Upon further discussion with management, they stated these funds were provided to local governments for various community projects including the construction of bus stops. We believe these local governments are subrecipients as they would be required to follow the compliance requirements that are applicable to the federal funds and the Federal Transit Cluster.

- Subrecipient grant agreement did not communicate the requirement for the subrecipient to have a single audit performed in accordance with OMB Circular A-133 and forward it to the Authority within nine months of their fiscal year-end

Questioned Costs:

Cannot be determined.

Effect:

Failure to adequately monitor subrecipients could result in federal funds being expended for unallowable purposes and subrecipients not properly administering the federal programs in accordance with laws, regulations and the grant agreement.

Recommendation:

We recommend the Authority:

- Review its current process for preparing subrecipient funding notifications to ensure all required information is properly communicated to its subrecipients.
- Implement the use of a desk review checklist and any other procedures necessary to document and ensure that a sufficient review is performed on the OMB Circular A-133 reports.
- Perform appropriate follow up procedures for all subrecipients whose OMB Circular A-133 reports include findings.

Management's Response:

RTA will implement all auditor recommendations.

(Continued)

Finding 2004-2 Buy America Requirements

Program Name: Federal Transit Cluster

CFDA # and Program Expenditures:

20.500 and 20.507	$21,977,875

Criteria:

All procurements for all steel, iron, and manufactured products in excess of $100,000 require, as a condition of responsiveness, a Buy America certificate, documentation of general waiver, per Appendix A to 49 CFR section 661.7, or documentation of specific waiver. A manufactured product is domestic if all of the manufacturing processes for the product took place in the United States and if all items or material used in the product are of United States origin.

Four types of waivers that can be obtained through a request to the FTA are if: (a) the materials and products are not produced in the United States in sufficient and reasonably available quantities and of a satisfactory quality; (b) inclusion of domestic material will increase the overall project contract by more than 25 percent; (c) FTA finds that the application of the Buy America requirements is not in the public interest (except for those items already listed in 49 CFR section 661.7, Appendix A) (Buses and other rolling stock (including train control, communication, and traction power equipment) are exempted from the Buy America requirements if the cost of their components produced in the United States is more than 60 percent of all their components and final assembly takes place in the United States); or (d) the procurement of buses or other rolling stock fails to meet the component and final assembly test as required in 49 CFR section 661.11 (49 CFR part 661).

Appendix A to 49 CFR section 661.7 provides permanent, self-executing waivers for the following items:

(1) Those articles, materials, and supplies exempted from the Buy America Act of 1933 as listed in 48 CFR section 25.104,

(2) The U.S. final assembly requirements for 15 passenger Chrysler vans and wagons,

(3) Microcomputer equipment, including software, and

(4) All “small purchases” (under $100,000) made by FTA recipients.

Condition:

KPMG reviewed all new contracts initiated during fiscal year 2004. In one out of 12 new contracts ($162,781 out of $10,948,801) the contracts did not include a Buy America certificate or any documentation of a waiver.

Questioned Costs:

None

(Continued)

Effect:

Failure to comply with the Buy America requirements could result in federal funds being expended for unallowable purposes as required by the federal programs in accordance with laws, regulations and the grant agreement.

Recommendation:

We recommend the Authority obtain Buy America certificates or the necessary waiver for all contracts, or purchases, greater than $100,000 made with FTA financial assistance.

Management's Response:

The Federal Transit Administration (FTA) will re-examine the need for a Buy America waiver. To that end, RTA is putting together a package for FTA review including the bid solicitation document and an analysis of all contracts indicating the amount awarded and the basis for the award. FTA will make a determination at a later date.

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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
AUGUST 4, 2005