GREATER DAYTON REGIONAL TRANSIT AUTHORITY

AUDIT REPORT

FOR THE YEARS ENDED DECEMBER 31, 2011 and 2010

Charles E. Harris and Associates, Inc.
Certified Public Accountants and Government Consultants

Board of Trustees
Greater Dayton Regional Transit Authority
4 South Main Street
Dayton, Ohio 45402

We have reviewed the *Report of Independent Accountants* of the Greater Dayton Regional Transit Authority, Montgomery County, prepared by Charles E. Harris & Associates, Inc., for the audit period January 1, 2011 through December 31, 2011. 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.

Dave Yost

Dave Yost
Auditor of State

June 14, 2012

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GREATER DAYTON REGIONAL TRANSIT AUTHORITY

Audit Report

For the years ended December 31, 2011 and 2010

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Rockefeller Building
614 W Superior Ave Ste1242
Cleveland OH 44113-1306
Phone - (216) 575-1630
Fax - (216) 436-2411

Charles E. Harris & Associates, Inc.
Certified Public Accountants

REPORT OF INDEPENDENT ACCOUNTANTS

Greater Dayton Regional Transit Authority
Montgomery County
4 South Main Street
Dayton, Ohio 45402

To the Board of Trustees:

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, 2011 and 2010, 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 audits to reasonably assure 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, 2011 and 2010 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 also have issued a report dated March 23, 2012 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards.* You should read it in conjunction with this report in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis*, as listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any other assurance.

We conducted our audit to opine on the financial statements that collectively comprise the Authority's basic financial statements taken as a whole. The Schedule of Expenditures of Federal Awards (schedule) provides additional information required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The schedule is management's responsibility, and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Charles E Harris Associates

Charles E. Harris & Associates, Inc.
March 23, 2012

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, 2011 and 2010. 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 2011

- The Authority's total net assets decreased by $2.5 million or 1.6% over the course of the year's operations. Increases in cash, investments, and capital assets, along with decreases in current liabilities and long-term debt were offset by the annual depreciation charge for capital assets used resulting in the net decrease in total net assets.
- Operating revenues were $9.5 million in 2011 an increase of $.7 million from 2010. This change was the result of increased riders in 2011. Ridership is showing signs of growth after declines related to the poor economic conditions in Montgomery County during 2008-2010.
- Sales tax revenue increased $2.8 million or 9.1% more than 2010 primarily due to an uptick in local economic conditions. Historically, sales tax has accounted for approximately 60% of all funding. For 2011, it represented 54% (vs. 53% in 2010). Current trends show continued improvement and management is watching this closely.
- Federal operating assistance decreased by $.8 million or 4.4% over 2010 primarily due to a change in philosophy in the use of available federal funds.
- Interest income was $.2 million or 55.3% lower than 2010 due to all-time low market rates, continued investment calls and a shrinking investment portfolio.
- Other income was $2.1 million or 152.4% higher than 2010 primarily due to a distribution during 2011 of surplus reserves by the Ohio Transit Risk Pool in which the Agency participated prior to December 1, 2006.
- Operating expenses, excluding depreciation, in 2011 increased $1.7 million or 3.2% higher than 2010. This was primarily due to above average increases in the areas of fuel, supplies, services, employee benefits and liability insurance.

Financial Highlights for 2010

- The Authority's total net assets increased by $15.5 million or 11.0% over the course of the year's operations. A major contributing factor was the passage of the American Recovery and Reinvestment Act (ARRA) which infused a total of $19.8 million of operating and capital funds which the Authority used to replace capital assets and support operations over the course of 2010 and 2009. This one-time funding has been relied upon heavily to improve cash flow and to balance the operating budget.
- Operating revenues were $8.8 million in 2010 a decrease of $.1 million from 2009. This small change was the result of slightly fewer riders in 2010. It appears the economic conditions in Montgomery County may

be leveling off or improving after the recession of 2008 and 2009 and ridership is showing signs of stabilizing.

- Sales tax revenue increased $1.5 million or 4.9% more than 2009 primarily due to an uptick in local economic conditions. Historically, sales tax has accounted for approximately 60% of all funding. For 2010, it represented 53% (vs. 52% in 2009).
- Federal operating assistance increased by $1.0 million or 5.8% over 2009 primarily due to ARRA funding which provided some one time assistance along with a change in philosophy in the use of available federal funds.
- Interest income was $.4 million or 84.1% lower than 2009 due to all-time low market rates, continued investment calls and a shrinking investment portfolio.
- Other income was $.8 million or 32.7% lower than 2009 primarily due to a distribution during 2009 of surplus reserves by the Ohio Transit Risk Pool in which the Agency participated prior to December 1, 2006.
- Operating expenses, excluding depreciation, in 2010 decreased $3.0 million or 5.3% lower than 2009. This was primarily due to cost containment efforts across the Agency. Utilization of fuel futures contracts as a hedge against the volatility of the market caused fuel expense to increase by $.3 million.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Authority's financial statements, which are 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 contained herein 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 in assets without corresponding increases in liabilities results in increased net assets, which indicates improved financial position.

The statements of revenues, expenses, and changes in net assets present information showing how the Authority's net assets changed during the fiscal year. All changes in net assets are reported as soon as the event occurs, regardless of timing of related cash flows. Thus, revenues and 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 statements are the statements of cash flows. These statements report cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities and provide answers to such questions as where did cash come from, what was cash used for, and what were the changes in the cash balances during the reporting periods.

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 Highlights of the Authority

One of the most important questions asked about the Authority's finances is "Is the Authority better or worse off as a result of this year's activities?" The Balance Sheets; Statements of Revenues, Expenses, and Changes in Net Assets; and the Statements of Cash Flows 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. Another major trend is whether the difference between current assets and current liabilities is increasing or decreasing. Although the present difference for the Authority is adequate and even improving, the diminution of that difference over the last several years is an area of potential future concern, the smaller the difference, the more difficult it becomes for an entity to meet its liquidity needs.

One will need to consider other nonfinancial factors such as changes in economic conditions, population decline or growth and new or changed governmental legislation. In this regard, the greater Dayton area has experienced the loss of numerous businesses and employment opportunities for its residents, our riders. During 2011 we saw the signs of slow but steady economic growth in our region which positively impacted the financial health of our organization.

As shown in the Statements of Revenue, Expenses and Changes in Net Assets, the Authority received from the Federal Government and the State of Ohio approximately $16.7 million and $18.0 million in 2011 and 2010, respectively. Given the financial uncertainty surrounding the economy and the increased pressure on governments to reduce spending and to achieve balanced budgets, the amount of such assistance in future years is uncertain. Loss or decrease of such assistance would have significant adverse impact on the financial results of the Authority.

It is important to highlight the infusion of $11.3 million of ARRA funds to support the Authority's operating and capital needs during 2010. This one-time funding was the result of legislative action to assist U.S. transit systems in the wake of the recession. In 2010 this funding was relied upon to balance the operating and capital budgets. No ARRA funds were available in 2011.

Also of significance, is the resolution of contract negotiations with the Amalgamated Transit Union, Local 1385 (ATU) which was completed in 2010 and removed some of the unknowns of not having a signed agreement in place. The current contract will expire in April 2012.

Net Assets	**2011**	**2010**	**2009**
Current assets	$ 32,886,395	$ 38,852,603	$ 15,683,083
Non-current assets	15,507,235	4,990,447	23,868,951
Capital assets, net	119,486,163	128,592,124	116,526,133
Total assets	167,879,793	172,435,174	156,078,167
Current liabilities	13,360,462	14,476,056	12,774,635
Long-term bonds	-	920,000	1,795,000
Total liabilities	13,360,462	15,396,056	14,569,635
Net assets:			
Invested in capital assets, net of related debt	118,566,163	126,797,124	113,901,133
Unrestricted	35,953,168	30,241,994	27,607,399
	$ 154,519,331	$ 157,039,118	$ 141,508,532

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 services. These assets are not available to liquidate liabilities or other spending.

Equity related to Capital Acquisitions is reflected in the line item "Investment in Capital Assets, Net of Related Debt". The equity includes funding provided by the Federal Transit Administration (FTA) and the State of Ohio (ODOT). Approximately 85% of the Equity pertains to the FTA and ODOT, where approximately 15% relates to local match dollars provided by the Authority. This equity cannot be liquidated to provide a source of cash flow, as any premature sales would require payments to both the FTA ($88.7 million) and ODOT ($9.5 million) for their remaining equity in capital equipment as of year-end 12-31-2011.

The Authority's investment in capital assets, net of accumulated depreciation, was $119.5 million as of December 31, 2011, a decrease of $9.1 million from 2010 as depreciation expense capital was more than asset expenditures during the year. Major capital asset expenditures during 2011 included the following:

- Renovation of the Northwest Transit Center
- Overhead Electric Distribution System Improvements including the Route 3-4 Project.

The Authority's investment in capital assets, net of accumulated depreciation, was $128.6 million as of December 31, 2010, an increase of $12.1 million from 2009 as capital asset expenditures were more than depreciation expense during the year. Major capital asset expenditures during 2010 included the following:

- Purchase of 50 Fixed Route revenue vehicles and related equipment.
- Purchase of 8 Project Mobility revenue vehicles and related equipment.

Long-term Debt

The Authority had outstanding bonds of $920,000 and $1,795,000 at December 31, 2011 and 2010, respectively. These balances represent decreases of $875,000 and $830,000 due to principal payments in 2011 and 2010, 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 Authority's Board of Trustees. The bonds are general obligations of the Authority. There were no changes to the debt structure during 2011 or 2010.

Net Assets

Net assets decreased $2.5 million in 2011 and increased $15.5 million in 2010.

Changes in Net Assets:	**2011**	**2010**	**2009**
Operating revenues	$ 9,487,149	$ 8,813,544	$ 8,888,646
Operating expenses			
Excluding depreciation	(54,608,544)	(52,942,972)	(55,903,848)
Depreciation expense	(13,173,373)	(14,018,493)	(13,839,570)
Operating Loss	(58,294,768)	(58,147,921)	(60,854,772)
Net non-operating revenues (expenses)			
Sales tax proceeds	33,796,413	30,991,673	29,530,344
Federal assistance	16,676,062	17,448,861	16,491,391
State assistance	65,213	549,668	389,417
Investment income	161,649	361,379	687,143
Interest expense	(97,943)	(142,751)	(211,810)
Net increase (decrease) in fair value of investments	(94,688)	(144,303)	(371,651)
Other	2,097,058	830,976	1,234,348
Net non-operating revenues and expenses	52,603,764	49,895,503	47,749,182
Capital grant equity	3,171,217	23,783,004	18,489,313
Change in net assets	(2,519,787)	15,530,586	5,383,723
Net assets, beginnning of year	157,039,118	141,508,532	136,124,809
Net assets, end of year	$ 154,519,331	$ 157,039,118	$ 141,508,532

Year Ended December 31, 2011

Operating revenues for the Authority were $9.5 million in 2011, an increase of $.7 million or 7.6% from 2010. This change was the result of increased ridership during the course of the year.

Operating expenses, excluding depreciation, in 2011 increased $1.7 million or 3.2% over 2010. This was primarily due to increases in vehicle fuel ($.5 million), liability insurance ($.3 million), and employee health care ($.5 million) costs.

Non-operating revenues and expenses, net, were $52.6 million during 2011, an increase of $2.7 million or 5.4% from 2010. The increase primarily resulted from a $2.8 million increase in sales taxes and a $1.2 million increase in other revenue related to a refund from the Ohio Insurance Risk Pool. A $.8 million reduction in federal assistance and a $.5 million decrease in state assistance partially offset the increases.

Year Ended December 31, 2010

Operating revenues for the Authority were $8.8 million in 2010, a decrease of $.1 million or .8% from 2009. This slight change was the result of slightly fewer riders as the fare structure did not change during the course of the year.

Operating expenses, excluding depreciation, in 2010 decreased $3.0 million or 5.3% lower than 2009. This was primarily due to cost containment efforts across the Agency which more than offset the $.3 million loss on fuel futures contracts.

Non-operating revenues and expenses, net, were $49.9 million during 2010, an increase of $2.2 million or 5.5% from 2009. The increase primarily resulted from a $1.5 million increase in sales taxes and a $1.0 million increase in federal assistance. A $.3 million reduction in investment income partially offset the increases.

Additional Information of Significance

On February 1, 2009, President Obama signed ARRA legislation which provided for, among other things, $6.9 billion for U.S. transit capital assistance. Of that amount, the Authority was awarded $11.8 million to be used to accelerate the replacement of its aging fleet. The Authority was also awarded $6.3 million to be used in the maintenance of the fleet, $.2 million for transit enhancements and, per a February 2010 amendment, $1.5 million to support general operations.

As described in Note 12 to the financial statements, during 2008 the Authority implemented a plan to mitigate the impact of significant fluctuations in the cost of diesel fuel. This was accomplished through the purchase of fuel futures contracts. Differences between the contract and actual prices will result in gains and losses on expired contracts and fuel cost. Because of the complexity of the futures market and the uncertainty in forecasting the volatility and direction of the fuel oil market, purchase of futures contracts was suspended in April 2009. RTA resumed this program in November of 2010.

In April 2009 the Authority's contract with the ATU expired. During the course of 2010, the contract was renewed until April 2012.

In May 2009 a new three-year contract was approved by the Authority and the American Federation of State, County and Municipal Employees, AFL CIO (AFSCME). Consistent with economic conditions, the contract contained a complete wage freeze for the first year with a re-opener clause for wages and medical and dental insurance for years two and three. The re-opener clause was exercised and a contract was renewed during 2010.

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 Chief Financial Officer, Greater Dayton Regional Transit Authority, 4 South Main Street, Dayton, OH 45402.

GREATER DAYTON REGIONAL TRANSIT AUTHORITY

Balance Sheets

December 31, 2011 and 2010

Assets		**2011**		**2010**
Current assets:				
Cash and cash equivalents (notes 4 & 5)	$	16,650,103	$	15,101,951
Short-term investments (notes 4 & 5):		—		3,663,484
Accounts receivable, less allowance for doubtful accounts of $63,819 in 2011 and $14,011 in 2010 (note 3)		11,447,186		15,450,500
Materials and supplies, net		3,101,366		2,686,612
Prepaid expenses and deposits		1,687,740		1,950,056
Total current assets		32,886,395		38,852,603
Non-current assets:				
Long-term investments (notes 4 & 5):		15,507,235		4,990,447
Capital assets (note 6):				
Land		7,361,536		7,361,536
Revenue producing and service equipment		99,519,031		99,718,318
Buildings and structures		117,040,168		114,962,026
Office furnishings, shop equipment and other		24,029,627		22,233,237
Construction in progress		3,368,576		3,310,831
Less accumulated depreciation		(131,832,775)		(118,993,824)
Total capital assets - net		119,486,163		128,592,124
Total non-current assets		134,993,398		133,582,571
Total assets	$	167,879,793	$	172,435,174

Liabilities and Net Assets		**2011**		**2010**
Current liabilities:				
Accounts payable	$	1,360,428	$	2,841,636
Accrued payroll and related benefits		5,416,387		5,539,319
Accrued self-insurance (note 10)		3,937,264		3,626,358
Unearned fares and state assistance		1,322,393		1,267,189
Other accrued expenses		403,990		326,554
Current maturities of bonds and notes payable (note 7)		920,000		875,000
Total current liabilities		13,360,462		14,476,056
Bonds and notes payable (note 7)		—		920,000
Total liabilities		13,360,462		15,396,056
Net assets:				
Invested in capital assets, net of related debt		118,566,163		126,797,124
Unrestricted		35,953,168		30,241,994
Total net assets		154,519,331		157,039,118
Total liabilities and net assets	$	167,879,793	$	172,435,174

See accompanying notes to financial statements.

GREATER DAYTON REGIONAL TRANSIT AUTHORITY

Statements of Revenues, Expenses, and Changes in Net Assets

Years ended December 31, 2011 and 2010

	2011	2010
Operating revenues:		
Passenger fares	$ 9,076,843	$ 8,413,425
Special transit fares:		
Board of Education (student transportation)	403,110	389,766
Contract service	7,196	10,353
Total operating revenues	9,487,149	8,813,544
Operating expenses:		
Labor	24,416,839	24,034,231
Fringe benefits	16,688,558	16,229,501
Contractual services	3,501,236	3,310,741
Materials and supplies	6,633,798	5,947,879
Utilities and propulsion power	1,232,648	1,481,255
Claims and insurance	1,750,000	1,483,449
Other	385,465	455,916
Total operating expenses excluding depreciation	54,608,544	52,942,972
Operating loss before depreciation expense	(45,121,395)	(44,129,428)
Depreciation expense	13,173,373	14,018,493
Total operating expenses	67,781,917	66,961,465
Operating loss	(58,294,768)	(58,147,921)
Nonoperating revenues (expenses):		
Sales tax proceeds	33,796,413	30,991,673
Federal assistance	16,676,062	17,448,861
State assistance	65,213	549,668
Interest on investments	161,649	361,379
Interest expense	(97,943)	(142,751)
Net decrease in the fair value of investments	(94,688)	(144,303)
Other	2,097,058	830,976
Total nonoperating revenues, net	52,603,764	49,895,503
Loss before capital grant equity	(5,691,004)	(8,252,418)
Capital grant equity	3,171,217	23,783,004
Increase (decrease) in net assets	(2,519,787)	15,530,586
Net assets – beginning of year	157,039,118	141,508,532
Net assets – end of year	$ 154,519,331	$ 157,039,118

See accompanying notes to financial statements.

GREATER DAYTON REGIONAL TRANSIT AUTHORITY

Statements of Cash Flows

Years ended December 31, 2011 and 2010

	2011	2010
Cash flows from operating activities:		
Receipts from fares	$ 9,649,485	$ 8,950,668
Payments to suppliers	(13,309,574)	(10,237,417)
Payments for labor and employee benefits	(41,228,329)	(40,064,432)
Payments for claims and insurance	(1,439,094)	(1,225,873)
Net cash used in operating activities	(46,327,512)	(42,577,054)
Cash flows from noncapital financing activities:		
Sales tax	33,097,580	30,460,859
Federal assistance grants	16,824,348	15,745,419
State assistance grants	—	557,804
Other	2,097,058	830,977
Net cash provided by noncapital financing activities	52,018,986	47,595,059
Cash flows from capital and related financing activities:		
Capital grants received	7,670,981	19,273,336
Additions to property and equipment	(4,067,412)	(26,067,504)
Interest paid on bonds and notes payable	(97,943)	(142,751)
Payments of bonds payable	(875,000)	(830,000)
Net cash provided (used) in capital and related financing activities	2,630,626	(7,766,919)
Cash flows from investing activities:		
Purchases of investment securities	(33,205,000)	(15,000,000)
Proceeds from sale or maturity of investment securities	26,250,000	29,865,000
Interest received	181,052	689,210
Net cash provided (used) by investing activities	(6,773,948)	15,554,210
Net increase in cash and cash equivalents	1,548,152	12,805,296
Cash and cash equivalents at beginning of year	15,101,951	2,296,655
Cash and cash equivalents at end of year	$ 16,650,103	$ 15,101,951
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	$ (58,294,768)	$ (58,147,921)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	13,173,373	14,018,493
Changes in assets and liabilities:		
Accounts receivable – other	41,919	(218,898)
Materials and supplies	(414,755)	33,752
Prepaid expenses and deposits	262,316	89,235
Accounts payable	(1,481,207)	742,612
Accrued expenses and unredeemed fares	385,610	905,673
Net cash used in operating activities	$ (46,327,512)	$ (42,577,054)

See accompanying notes to financial statements.

(1) The Authority and Reporting Entity

(a) The Authority

The 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. Certain amounts related to the 2010 financial statements were reclassified to be consistent with the 2011 presentation.

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 2011 will be recognized as revenue in 2011. 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. Investments with maturities of greater than three months and twelve months or less are reported as short-term investments.

(e) Board Designations

Annually the Board of Trustees designates amounts to be required for each of the following:

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 of two months of budgeted operating expenses.

(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 purchased prior to January 1, 2009 with an initial, individual cost of more than $500 ($2,500 after December 31, 2008 and $5,000 after December 31, 2009) and an estimated useful life in excess of a year. Purchased or constructed capital assets are reported at cost or estimated historical cost. 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. The Authority believes that the change in capitalization policy did not materially affect operating results.

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

Capital assets are removed from the Agency's records when the assets are disposed.

(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, 2011 or 2010.

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.

(k) Sales Taxes

The Authority receives the proceeds of a one-half percent sales and use tax 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 Operating and Preventative Maintenance Assistance Funds

Federal operating and preventative maintenance assistance funds to be received by the Authority under the Urban Mass Transportation Assistance Act of 1964, as amended, are recorded and reflected in income in the period to which they are applicable. The authority had $11.6 million in federal funds awarded but not yet used as of year-end 12-31-11 and $10.6 million at 12-31-10. These funds can be used in future years for Preventative Maintenance, ADA Operating Assistance and Job Access Reverse Commute (JARC) & New Freedom Operating projects as specified in the grant agreements.

(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 the Federal Transit Administration (FTA) or Ohio Department of Transportation (ODOT) are recorded as capital grants receivable. The authority had $11.7 million in federal funds awarded but not yet used as of year-end 12-31-11 and $8.0 million at 12-31-10. These funds can be used in future years for Capital Purchases, JARC & New Freedom Capital Projects, and Planning projects as specified in the grant agreements.

When assets acquired with capital grant funds are disposed of and proceeds exceed $5,000, 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 equipment or remitted to the granting federal agency.

(n) Classification of Revenues

The Authority has classified its revenues as either operating or non-operating. Operating revenue includes activities that have the characteristics of exchange transactions including passenger fares and special transit fares and contract service. Non-operating revenue includes activities that have the characteristics of non-exchange transactions, such as sales tax proceeds and most federal, state, and local grants.

(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) Derivatives

The Governmental Accounting Standards Board (GASB) issued Statement No. 53, Accounting and Reporting for Derivative Instruments effective for fiscal years beginning after June 15, 2009. The Statement provides, among other things, the accounting and reporting requirements that the Authority will utilize for its future fuel hedging activity.

A derivative instrument is an agreement that transfers risk from one party to another and is typically used for risk management or investment purposes. The use of derivative instruments by governmental entities has become significantly more prevalent over the past several years. These instruments, though sometimes highly complex and requiring special expertise and ongoing monitoring, effectively and predictably manage risk exposure.

(3) Accounts Receivable

Accounts receivable at December 31, 2011 and 2010 were as follows:

	2011	2010
Sales Tax	$ 9,086,454	$ 8,387,622
Federal Operating and Preventive Maintenance Assistance	1,407,230	1,555,516
Federal Capital Grants	343,703	2,568,819
State Capital Grants	-	2,274,648
Interest	22,219	34,396
Other	651,399	643,510
Gross Receivables	11,511,005	15,464,511
Less Allowance for Uncollectibles	(63,819)	(14,011)
Net Total Receivables	$ 11,447,186	$ 15,450,500

(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). However, Ohio Attorney General Opinion No. 89-080 authorized the use of forward pricing mechanisms, see Note 12 to the Financial Statements for specific details of this program. The fuel futures working capital balance was $684,800 at December 31, 2011 and $121,811 at December 31, 2010. These funds are required by the commodity broker to ensure ongoing trade availability. The Authority is also prohibited from investing in reverse repurchase agreements.

(a) Deposits

Custodial Credit Risk is the risk that, in the event of a bank failure, the Authority's deposits may not be returned. 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 105% 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.

At December 31, 2011 and 2010, the carrying amount of the Authority's deposits was $13,863,056 and $192,028, respectively, as compared to bank balances of $15,070,199 and $400,570, respectively. Of the bank balances at December 31, 2011 and 2010, $250,000 was covered by federal depository insurance with the excess balances collateralized by a pool of securities maintained by the Authority's financial institution but not in the name of the authority.

(b) Investments

As of December 31, 2011, the Authority had the following investments and maturities:

Investment Type		Fair Value	Cost	Maturity(1)	Rating(2)
Federal Home Loan Bank	$	15,507,235	15,493,244	1,722	AAA/Aaa
STAR Ohio(3)	$	2,102,247	2,102,247	Daily	AAAm

As of December 31, 2010, the Authority had the following investments and maturities:

Investment Type		Fair Value	Cost	Maturity(1)	Rating(2)
Federal Home Loan Bank	$	8,653,931	8,545,252	1,095	AAA/Aaa
STAR Ohio(3)	$	14,788,112	14,788,112	Daily	AAAm

(1) Weighted Maturity - Days
(2) Moody's/S&P
(3) Although the STAR Ohio deposits are included with investments for risk categorization, they are classified as cash and cash equivalents for financial reporting purposes.

Custodial credit risk for an investment is the risk that in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Authority's $15,507,235 investment in U.S. governmental agency instruments are held in the Authority's name by its custodian (agent).

Interest Rate Risk is the possibility that changes in interest rates will adversely affect the fair value of an investment. The Authority's investment policy limits investment maturities to 5 years from date of settlement unless the investment is matched to a specific obligation or debt of the Authority.

Credit Risk is the possibility that an issuer or other counterparty to an investment will not fulfill its obligation. The Authority's investment policy limits investments to, among others, obligations of the US government or agencies thereof. The investment in STAR Ohio is a direct contractual relationship and the investments are not supported by a transferable instrument that evidences ownership or creditorship.

In addition to the foregoing, there is the risk that issuers of investments with call options will exercise said options thus reducing anticipated returns. This is especially true in situations where debt instruments are issued with higher than market rates, and a call provision, in anticipation of a falling market. The call provision serves as protection for the issuer against a flat or falling interest rate market.

(5) Board Designations

The Board of Trustees has designated the following amounts to be set aside for the following purposes:

	2011	2010
Capital Acquisitions	$ 9,418,741	$ 3,327,223
Working Capital	10,208,000	9,700,000
Self Insurance	4,000,000	3,500,000
	$ 23,626,741	$ 16,527,223

In reference to the Balance Sheet, these designations are intended to reduce unrestricted net assets.

(6) Capital Assets

Capital asset activity for the year ended December 31, 2011 was as follows:

Issue	Balance January 1, 2011	Additions	Deletions	Balance December 31, 2011
Capital assets not being depreciated:				
Land and land improvements	$ 7,361,536	$ -	$ -	$ 7,361,536
Construction in progress	3,310,831	57,745	-	3,368,576
Total capital assets not being depreciated	10,672,367	57,745	-	10,730,112
Capital assets being depreciated:				
Revenue producing and service equipment	99,718,318	136,473	335,760	99,519,031
Buildings and structures	114,962,026	2,078,142	-	117,040,168
Office furnishings, shop equipment, and other	22,233,237	1,837,186	40,796	24,029,627
Total capital assets being depreciated	236,913,581	4,051,801	376,556	240,588,826
Less accumulated depreciation:				
Revenue producing and service equipment	41,892,629	7,710,531	293,626	49,309,534
Buildings and structures	56,581,614	4,013,431	-	60,595,045
Office furnishings, shop equipment, and other	20,519,581	1,449,411	40,796	21,928,196
Total accumulated depreciation	118,993,824	13,173,373	334,422	131,832,775
Total capital assets being depreciated, net	117,919,757	(9,121,572)	42,134	108,756,051
Total capital assets, net	$ 128,592,124	$ (9,063,827)	$ 42,134	$ 119,486,163

Capital asset activity for the year ended December 31, 2010 was as follows:

Issue	Balance January 1, 2010	Additions	Deletions	Balance December 31, 2010
Capital assets not being depreciated:				
Land and land improvements	$ 7,361,536	$ -	$ -	$ 7,361,536
Construction in progress	1,993,622	1,317,209	-	3,310,831
Total capital assets not being depreciated	9,355,158	1,317,209	-	10,672,367
Capital assets being depreciated:				
Revenue producing and service equipment	90,265,308	22,520,963	13,067,953	99,718,318
Buildings and structures	113,076,442	1,885,584	-	114,962,026
Office furnishings, shop equipment, and other	21,812,192	534,861	113,816	22,233,237
Total capital assets being depreciated	225,153,942	24,941,408	13,181,769	236,913,581
Less accumulated depreciation:				
Revenue producing and service equipment	46,740,102	8,046,347	12,893,820	41,892,629
Buildings and structures	52,316,732	4,264,882	-	56,581,614
Office furnishings, shop equipment, and other	18,926,133	1,707,264	113,816	20,519,581
Total accumulated depreciation	117,982,967	14,018,493	13,007,636	118,993,824
Total capital assets being depreciated, net	107,170,975	10,922,915	174,133	117,919,757
Total capital assets, net	$ 116,526,133	$ 12,240,124	$ 174,133	$ 128,592,124

(7) Bonds Payable

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

Bond activity for the year ended December 31, 2011 was as follows:

Issue	Interest Rate	Balance January 1 2011	Additions	Deletions	Balance December 31, 2011	Due Within One Year
Series 1997	4.15 to 5.55	$ 1,795,000	$ -	$ 875,000	$ 920,000	$ 920,000

Bond activity for the year ended December 31, 2010 was as follows:

Issue	Interest Rate	Balance January 1 2010	Additions	Deletions	Balance December 31, 2010	Due Within One Year
Series 1997	4.15 to 5.55	$ 2,625,000	$ -	$ 830,000	$ 1,795,000	$ 875,000

The annual requirements to pay principal and interest on the bonds outstanding at December 31, 2011 are as follows:

Year	Principal	Interest	Total
2012	$ 920,000	$ 55,070	$ 975,070

(8) Pension Plan

A. Ohio Public Employees Retirement System (OPERS) administers three separate pension plans as described below:

1. The Traditional Pension Plan - a cost-sharing, multiple-employer defined benefit pension plan.
2. The Member-Directed Plan - a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the Member-Directed Plan, members accumulate retirement assets equal to the value of member and (vested) employer contributions plus any investment earnings.
3. The Combined Plan - a cost-sharing, multiple-employer defined benefit pension plan. Under the Combined Plan, OPERS invests employer contributions to provide a formula retirement benefit similar in nature to, but less than, the Traditional Pension Plan benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the Member-Directed Plan.

B. OPERS provides retirement, disability, survivor and death benefits and annual cost-of living adjustments to members of the Traditional Pension and Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits.

C. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

D. OPERS issues a stand-alone financial report. Interested parties may obtain a copy by visiting https://www.opers.org/investments/cafr.shtml, writing to OPERS, 277 East Town Street, Columbus, OH 43215-4642, or calling 614-222-5601 or 1-800-222-7377

E. The Ohio Revised Code provides statutory authority for member and employer contributions. For 2011, member and employer contribution rates were consistent across all three plans. While members in the state and local divisions may participate in all three plans, law enforcement and public safety divisions exist only within the Traditional Pension Plan.

The 2011 member contribution rates were 10.0% of covered payroll for members in state and local classifications. Public safety and law enforcement members contributed 11.0% and 11.6%, respectively.

The 2011 employer contribution rate for state and local employers was 14.00% of covered payroll. The law enforcement and public safety division employer contribution rate was 18.10% of covered payroll.

F. Plan members are required to contribute a percentage of their annual covered salary (10% in 2011 and 2010), and the Authority is required to contribute an actuarially determined rate. The employer contribution rates were 14% for 2011 and 2010, 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 OPERS for the years ended December 31, 2011, 2010, and 2009 were $4,051,757, $3,912,005, and $3,935,416, respectively, equal to the required contributions for each year. Required employer contributions are equal to 100% of the dollar amount billed to each employer.

(9) Other Post-Employment Benefits

A. Plan Description

Ohio Public Employees Retirement System (OPERS) administers three separate pension plans: The Traditional Pension Plan—a cost-sharing, multiple-employer defined benefit pension plan; the Member-Directed Plan—a defined contribution plan; and the Combined Plan—a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

OPERS maintains a cost-sharing multiple employer defined benefit post-employment health care plan, which includes a medical plan, prescription drug program and Medicare Part B premium reimbursement, to qualifying members of both the Traditional Pension and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage.

In order to qualify for post-employment health care coverage, age-and-service retirees under the Traditional Pension and Combined Plans must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement 45.

The Ohio Revised Code permits, but does not mandate, OPERS to provide OPEB benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

OPERS issues a stand-alone financial report. Interested parties may obtain a copy by visiting https://www.opers.org/investments/cafr.shtml, writing to OPERS, 277 East Town Street, Columbus, OH 43215-4642, or calling 614-222-5601 or 1-800-222-7377

B. Funding Policy

The Ohio Revised Code provides the statutory authority requiring public employers to fund post retirement health care through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside for the funding of post retirement health care benefits.

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2011, state and local employers contributed at a rate of 14.00% of covered payroll and public safety and law enforcement employers contributed at 18.10%. These are the maximum employer contribution rates permitted by the Ohio Revised Code. Active members do not make contributions to the OPEB Plan.

OPERS' Post Employment Health Care plan was established under, and is administrated in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Board of Trustees determines the portion of the employer contribution rate that will be set aside for funding of post employment health care benefits. The portion of employer contributions allocated to health care for members in the Traditional Plan was 4.0% during calendar year 2011. The portion of employer contributions allocated to health care for members in the Combined Plan was 6.05% during calendar year 2011. The portion of employer contributions allocated to health care for the calendar year beginning January 1, 2012 remained the same, but they are subject to change based on Board action. Employers will be notified if the portion allocated to health care changes during calendar year 2012 The OPERS Board of Trustees is also authorized to establish rules for the retiree, or their surviving beneficiaries, to pay a portion of the health care benefits provided. Payment amounts vary depending on the number of covered dependents and the coverage selected.

C. Employer Specific Information.

The rates stated in Section B, above, are the contractually required contribution rates for OPERS. The Authority's contributions for post-employment benefits were $1,157,587, $1,537,148, and $1,641,134 for the years ended December 31, 2011, 2010, and 2009, respectively. For 2011 this was estimated by multiplying actual employer contributions for calendar year 2011 by 0.2857 for state and local employees.

D. OPERS Retirement Board Implements its Health Care Preservation Plan.

The Health Care Preservation Plan (HCPP) adopted by the OPERS Board of Trustees on September 9, 2004, was effective January 1, 2007. Member and employer contribution rates for state and local employers increased on January 1 of each year from 2006 to 2008. Rates for law and public safety employers increased over a six year period beginning on January 1, 2006, with a final rate increase on January 1, 2011. These rate increases allowed additional funds to be allocated to the health care plan.

(10) 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 1, 2006, the Authority entered into contracts with a number of insurance companies whereby it receives loss coverage in exchange for premiums. Loss limits and deductibles are established for each type of coverage by the specific insurer. At December 31, 2011 liability reserves for this type of risk totaled $989,535 and at December 31, 2010 totaled $800,780.

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, 2011 and 2010 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, 2011.

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

		2011		**2010**
Accrued self-insurance - beginning of year	$	2,825,578	$	2,868,782
Current year additions		874,384		814,707
Claims paid - during year		(752,233)		(857,911)
Accrued self-insurance - end of year	$	2,947,729	$	2,825,578

(11) 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 funded by grants and Authority equity, which includes participation by the FTA (generally 80% except for ARRA funding which is 100%) and the Authority (typically 20% depending upon ODOT and other local sources' participation).

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 included Federal Highway Administration (FHWA) and FTA funds. The process for receiving these Federal funds required 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, who was responsible for all contracts associated with the transit-related portions of the Baseball Stadium project and Montgomery County, which was responsible for all contracts associated with the transit-related portions of the RiverScape and Arts Center Foundation projects.

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, 2011, the Authority continues to monitor the Baseball Stadium project completed in May of 2000 with $3,027,000 in Federal funding, the Main Street Project, completed in November of 1992 with $3,185,000 in Federal funding, and the Schuster Performing Arts Center project completed in 2003 with $10,342,330 in Federal funding. All 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.

(12) Energy Forward Pricing Mechanisms

Pursuant to Ohio Attorney General Opinion No. 89-080 dated October 16, 1989, the Board of Trustees authorized the use of forward pricing mechanisms (e.g. commodity-type futures) as a budget risk reduction tool to manage price variability and cost/budget uncertainty associated with the purchase of diesel fuel.

In April 2008, the Authority began utilizing #2 heating oil futures contracts (contracts) as hedges against open market diesel fuel price fluctuations. The Authority limits contracts to 95% of expected consumption in any one month. The initial value of each contract is zero. When fuel is purchased, contracts are exercised, thereby effectively tying the fuel price to the price of #2 heating oil as of the date of the contract's creation. For 2011 a gain of $562,989 and for 2010 a loss of $276,727 were recognized as decreases/increases in fuel expense. On December 31, 2011, the remaining open contracts had $11,489 of unrealized gain which corresponds to the expected cost of fuel being higher over future fiscal periods.

There are certain risks attached to this program. The Authority may face increased costs if: 1) fuel consumption falls below the contract levels, and 2) if the closing value of the contract is below its nominal value.

During 2009, the purchase of futures contracts was suspended; however, during November 2010 RTA resumed fuel hedging program.

(13) Contingencies and Commitments

(a) Contingencies

Federally assisted capital grant programs are subject to audit by the granting agency. Management believes that no material liability, if any, will arise, as a result of audits previously performed or to be performed.

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) Commitments

At December 31, 2011, the Authority had outstanding purchase commitments of less than $1 million for various capital projects in progress including the renovation of facilities, work on the overhead wire system, capital tire leases, computer software, and equipment purchases.

(c) Litigation

Management believes that any ongoing litigation in the normal course of business will not materially affect the Authority's financial results or financial position.

(d) Labor Contracts

In April 2009, the Authority's contract with the Amalgamated Transit Union, Local 1385 (ATU) expired. Negotiations concluded during 2010. A new labor agreement running through April 1, 2012 was signed by both parties.

In May 2009, the Authority and the American Federation of State, County and Municipal Employees, AFL CIO (AFSCME) signed a new three-year contract effective December 1, 2008. Consistent with economic conditions, the new contract does not include a wage increase. The contract does provide for the ability to renegotiate wages and the employee share of medical and dental insurance in the second and third years of the contract.

Greater Dayton Regional Transit Authority

Schedule of Expenditures of Federal Awards

For the year ended December 31, 2011

Federal Grantor/Program Title	Grant Number	Federal CFDA Number	Grant Award Date	Accrual Method Expenditures
FTA - Section 5309 Grants				
	OH-03-0289	20.500	Apr-06	$ 18,226
	OH-04-0044	20.500	Sep-08	742,500
	OH-04-0045	20.500	Sep-09	434,588
	OH-04-0080	20.500	Dec-10	6,836
	OH-05-0100	20.500	Jun-10	1,628,985
	OH-05-0102	20.500	Aug-10	3,960,670
	OH-05-0104	20.500	Aug-11	139,796
		5309	**Total**	**6,931,601**
FTA - Section 5307 Grants				
	OH-90-X541	20.507	Apr-06	59,973
	OH-90-X615	20.507	Mar-08	161,029
	OH-90-X664	20.507	Aug-09	873,032
	OH-90-X681	20.507	Aug-10	3,078,946
	OH-90-X732	20.507	Aug-11	6,510,540
		5307	**Total**	**10,683,520**
Passed through the Ohio Department of Transportation				
Federal Highway Administration Funded Project				
STP Transfer	OH-95-X066	20.507	May-11	2,794,964
		Passed through ODOT	**Total**	**2,794,964**
FTA - JARC/NF Grants				
5316	OH-37-X052	20.516	Aug-08	49,497
5316	OH-37-X063	20.516	Sep-09	114,673
5317	OH-57-X025	20.521	Sep-09	60,880
		5316/5317	**Total**	**225,050**
TOTAL EXPENDITURES TO FEDERAL AWARDS				**$ 20,635,135**

Greater Dayton Regional Transit Authority

Note to the Schedule of Expenditures of Federal Awards

For the Year Ended December 31, 2011

1. Summary of Significant Accounting Policies

The accompanying Schedule of Expenditures of Federal Awards (the “Schedule”) reflects the expenditures of the Greater Dayton Regional Transit Authority under programs financed by the U.S. Government for the year ended December 31, 2011. The Schedule has been prepared in accordance with the requirements of OMB Circular A-133, “Audits of States, Local Governments, and Non-Profit Organizations,” using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

For purposes of the Schedule, federal awards include the following:

- Direct federal awards
- Pass-through funds received from non-federal organizations made under federally supported programs conducted by those organizations.

Rockefeller Building
614 W Superior Ave Ste 1242
Cleveland OH 44113-1306
Charles E. Harris & Associates, Inc.
Certified Public Accountants
Office phone - (216) 575-1630
Fax - (216) 436-2411

INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

Greater Dayton Regional Transit Authority
Montgomery County
4 South Main Street
Dayton, Ohio 45402

To the Board of Trustees:

We have audited the basic financial statements of the Greater Dayton Regional Transit Authority (the Authority), as of and for the year ended December 31, 2011. 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 the Comptroller General of the United States' *Government Auditing Standards*.

Internal Controls Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and timely corrected.

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

<u>Compliance and Other Matters</u>

As part of reasonably assuring whether the Authority's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grants agreements, noncompliance with which could directly and materially affect 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 we must report under *Government Auditing Standards.*

We intend this report solely for the information and use of management, the finance committee, members of the Board of Trustees, federal awarding agencies and pass-through entities, and others within the Authority. We intend it for no one other than these specified parties.

Charles E. Harris & Associates, Inc.
March 23, 2012

Rockefeller Building
614 W Superior Ave Ste 1242
Cleveland OH 44113-1306
Office phone - (216) 575-1630
Fax - (216) 436-2411

Charles E. Harris & Associates, Inc.
Certified Public Accountants

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

Greater Dayton Regional Transit Authority
Montgomery County
4 South Main Street
Dayton, Ohio 45402

To the Board of Trustees:

Compliance

We have audited the compliance of the Greater Dayton Regional Transit Authority (Authority), with the types of compliance requirements described in *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could directly and materially affect each of the Authority's major federal program for the year ended December 31, 2011. The summary of auditor's results section of the accompanying Schedule of Findings identifies the Authority's major federal program. The Authority's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to opine on the Authority's compliance based on our audit.

Our compliance audit followed 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*. These standards and OMB Circular A-133 require that we plan and perform the audit to reasonably assurance whether noncompliance occurred with the compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the Authority's compliance with these requirements and performing other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Authority's compliance with these requirements.

In our opinion, the Authority complied, in all material respects, with the requirements referred to above that could directly and materially affect its major federal program for the year ended December 31, 2011.

Internal Control Over Compliance

The Authority's management 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 directly and materially affect a major federal program, to determine our auditing procedures for the purpose of opining on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of opining on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the Authority's internal control over compliance.

A *deficiency* in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent or to timely detect and correct, noncompliance with a federal program compliance requirement. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected.

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

We intend this report solely for the information and use of management, the finance committee, members of the Board of Trustees, others within the Authority and federal awarding agencies and pass-through entities. It is not intended for anyone other than these specified parties.

Charles E Harris Associates

Charles E. Harris & Associates, Inc.
March 23, 2012

Schedule of Findings

A. Summary of Audit Results

1. The auditor's report expresses an unqualified opinion on the basic financial statements.

2. There were no material control weaknesses reported at the financial statement level.

3. There were no significant deficiencies disclosed during the audit.

4. No instances of noncompliance material to the financial statements of the Authority were disclosed during the audit.

5. No material control weaknesses were reported for major federal programs.

6. No significant deficiencies in internal control over major programs were disclosed.

7. The auditor's report on compliance for the major federal award program for the Authority expresses an unqualified opinion.

8. No findings required to be reported under Section .510(a) of OMB Circular A-133.

9. The program tested as a major program was Federal Transit Administration Cluster: CFDA #20.500 and #20.507.

10. The dollar threshold for distinguishing Type A and Type B programs was $619,054.

11. The Authority was determined to be a low-risk auditee.

B. Findings - Financial Statement Audit

None

C. Findings - Federal Transit Cluster, CFDA #20.500 and #20.507.

None

STATUS OF PRIOR AUDIT'S CITATIONS AND RECOMMENDATIONS

The prior audit report, as of December 31, 2010, reported no material citations or recommendations.

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
JUNE 26, 2012