

**SOUTHWEST OHIO REGIONAL
TRANSIT AUTHORITY**

Single Audit Report
for the Year Ended
December 31, 2003



**Auditor of State
Betty Montgomery**

Board of Trustees
Southwest Ohio Regional Transit Authority
Cincinnati, Ohio

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

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

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

August 24, 2004

This Page is Intentionally Left Blank.

TABLE OF CONTENTS

BASIC FINANCIAL STATEMENTS

Independent Auditors' Report	1-2
Management's Discussion and Analysis	3-7
Balance Sheets	8-9
Statements of Revenues, Expenses and Changes in Net Assets	10-11
Statements of Cash Flows	12-13
Notes to Basic Financial Statements	14-30

SUPPLEMENTAL SCHEDULE

Supplemental Schedule of Expenditures of Federal Awards	31-32
Note to the Supplemental Schedule of Expenditures of Federal Awards	33

REPORTS ON COMPLIANCE AND INTERNAL CONTROL

Independent Auditors' Report on Compliance and on Internal Control Over Financial Reporting Based on the Audit Performed in Accordance with <i>Government Auditing Standards</i>	34
Independent Auditors' Report on Compliance and Internal Control Over Compliance Applicable to Each Major Federal Award Program	35-36

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

37

STATUS OF PRIOR YEAR COMMENTS

ON INTERNAL CONTROL AND LEGAL COMPLIANCE	38
--	----

AUTHORITY OFFICIALS

39

INFORMATION REGARDING THE COMPREHENSIVE ANNUAL FINANCIAL REPORT

40

This Page is Intentionally Left Blank.

INDEPENDENT AUDITORS' REPORT

**Board of Trustees
Southwest Ohio Regional Transit Authority
Cincinnati, Ohio**

We have audited the accompanying balance sheets of the Southwest Ohio Regional Transit Authority (the "Authority") as of December 31, 2003 and 2002 and the related statements of revenues, expenses, and changes in net assets and of cash flows for the years then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the respective financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the respective 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, such financial statements present fairly, in all material respects, the financial position of the Authority as of December 31, 2003 and 2002, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 11 to the financial statements, during 2003, the Authority adopted Governmental Accounting Standards Board ("GASB") Statement No. 34, Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments: Omnibus, GASB Statement No. 37, Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments: Omnibus, and GASB Statement No. 38, Certain Financial Statement Note Disclosures.

Management's Discussion and Analysis on pages 3 - 7 is not a required part of the basic financial statements but is supplementary information required by the GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the Authority's basic financial statements. The accompanying supplemental schedule of expenditures of federal awards for the year ended December 31, 2003 is presented for purpose of additional

analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the 2003 basic financial statements. This schedule is the responsibility of the Authority's management. Such information has been subjected to the auditing procedures applied in our audit of the 2003 basic financial statements and, in our opinion, is fairly stated, in all material respects, when considered in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 1, 2004, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our 2003 audit.

Deloitte & Touche LLP

June 1, 2004

Southwest Ohio Regional Transit Authority

Management's Discussion and Analysis

As financial management of the Southwest Ohio Regional Transit Authority (the "Authority"), we offer readers of these financial statements this narrative overview and analysis of the financial activities of the Authority for the fiscal year ended December 31, 2003. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities and to identify any significant changes in financial position. We encourage readers to consider the information presented here in conjunction with the financial statements as a whole.

Financial Highlights

- The Authority's total net assets decreased over the course of the year's operations, due to depreciation expense in excess of capital purchases.
- The Authority's 2003 operating expenses, excluding depreciation and amortization and the grant pass through, were \$2.0 million higher than 2002 operating expenses. This 2.7% increase is due mainly to a new labor contract, fuel and parts costs along with casualty and liability costs.
- Operating revenues for the Authority were \$15.6 million for the fiscal year of 2003. This was an increase of 5.1% over the prior year, and was primarily due to the loss of Clear Air fare subsidy. In 2002 our fares were reduced to 50¢ from June through August due to receiving this subsidy.
- Transit Fund revenue required from the City of Cincinnati increased \$5.5 million to compensate for a \$2.1 million decline in investment income due to lower interest rates and fair market value adjustment, a \$1.4 million reduction in federal maintenance grants and reimbursements, \$.7 million passed through to the City of Cincinnati for the construction of the Riverfront Transit Center and \$1.3 million to cover higher fuel costs and other expenses. These funds reflect an increase of \$2.2 million from the Transit Fund, the use of 2002 positive variation and local capital in the amount of \$2.3 million, \$.7 million of special project funds passed through to the City of Cincinnati for the Riverfront Transit Center and \$.3 million from prior years funding for other capital projects.
- Investment income, including changes in fair value of investments, decreased by \$2.1 million or 82.7% in 2003 due to the decrease in interest rates, portfolio performance, and balances available for investment.

Overview of the Financial Statements

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

Required Financial Statements

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

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

Southwest Ohio Regional Transit Authority

Management's Discussion and Analysis (continued)

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

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

Notes to the Financial Statements

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

Financial Analysis of the Authority

One of the most important questions asked about the Authority's finances is "Is the Authority as a whole better off or worse off as a result of this year's activities?" The 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 non-financial factors such as changes in economic conditions, population decline or growth, and new or changed governmental legislation.

Condensed Statements of Net Assets December 31, 2003 and 2002

	2003	2002
Current assets	\$54,146,499	\$58,165,022
Non-current assets	4,007,360	4,827,110
Capital assets-net	<u>77,697,454</u>	<u>80,839,279</u>
Total assets	<u>135,851,313</u>	<u>143,831,411</u>
Current liabilities	30,985,723	35,612,916
Non-current liabilities	<u>26,688,644</u>	<u>26,874,380</u>
Total liabilities	<u>57,674,367</u>	<u>62,487,296</u>
Net assets:		
Invested in capital assets, net of related debt	59,061,094	60,826,661
Restricted	513,532	164,259
Unrestricted	<u>18,602,320</u>	<u>20,353,295</u>
Total net assets	<u>\$78,176,946</u>	<u>\$81,344,115</u>

Southwest Ohio Regional Transit Authority

Management's Discussion and Analysis (continued)

Net assets decreased \$3.2 million to \$78.2 million in 2003, down from \$81.3 million in 2002. The 3.9% decrease in net assets was principally due to depreciation expense in excess of capital additions.

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

Condensed Statement of Changes in Net Assets Years Ended December 31, 2003 and 2002

	2003	2002
Operating revenues	\$15,636,886	\$14,872,572
Operating expenses excluding depreciation and grant pass through	(74,354,350)	(72,384,955)
Depreciation and amortization	(9,549,897)	(9,212,023)
Operating loss before grant pass through	(68,267,361)	(66,724,406)
Grant pass through-Riverfront Transit Center	(3,943,394)	(713,250)
Operating loss	(72,210,755)	(67,437,656)
Net non-operating revenues (expenses):		
Transit Fund assistance	36,807,865	32,051,739
Federal maintenance grants and reimbursements	14,017,803	15,463,606
State ADA assistance & fuel tax reimbursement	985,279	981,926
State special fare assistance	322,417	334,612
Investment income	698,606	1,576,235
Net (decrease) increase in fair value of investments	(259,140)	971,734
Non-transportation revenue	512,875	541,145
Local operating grants and special fare assistance	5,631,759	5,591,386
Non-operating revenues and expenses, net before grant pass through	58,717,464	57,512,383
Transit fund grant pass through-Riverfront Transit Center	735,309	—
Federal grant pass through-Riverfront Transit Center	3,208,085	713,250
	62,660,858	58,225,633
Capital Contributions	6,382,728	14,230,986
Change in net assets	(3,167,169)	5,018,963
Net assets, beginning of year	81,344,115	76,325,152
Net assets, end of year	<u>\$78,176,946</u>	<u>\$81,344,115</u>

Southwest Ohio Regional Transit Authority

Management's Discussion and Analysis (continued)

The Authority's operating revenues increased \$.8 million to \$15.6 million in 2003 from \$14.9 million in 2002. This 5.1% increase is due to not offering the reduced Summer Clean Air Fare in 2003 since we did not receive the subsidy funding. Operating expenses, excluding depreciation and amortization, increased by \$5.2 million as compared to the prior year. \$3.2 million of that increase was due to federal and local funds passed through to the City of Cincinnati for the completion of the Riverfront Transit Center. The remaining \$2.0 million increase was due to increased wages, fringes, materials and supply costs and casualty and liability costs.

The 2003 increase in other non-operating revenues of \$4.4 million is primarily related to recognition of income from the City of Cincinnati income tax - transit fund, \$2.3 million carryover from prior year and \$2.5 million from 2003. Also, the Authority recognized \$3.9 million in funds passed through to the City of Cincinnati for the completion of the Riverfront Transit Center. These have been offset by a \$1.4 million decrease in Federal maintenance grants and reimbursements, a \$.9 million decrease in Investment Income, and a \$1.2 million decrease in fair value of investments. The Authority's allocation of Federal Section 5307 funds decreased by \$2.2 million in 2003. This reduction is not clearly reflected in the financial statements because Clermont County and BCRTA chose to pay for contracted services to their areas by passing through a portion of their Section 5307 Federal Allocation to SORTA.

Cash Flows

Net cash used for operating activities increased by \$2 million in 2003 as a result of increased operating expenses partially offset by increased passenger fare revenues. Net cash provided by non-capital financing activities increased \$7.2 million, due to a combination of increased funding from the City of Cincinnati Transit Fund and federal maintenance grants and reimbursements. The increase from the City Transit Fund is due to \$1.4 million increase in operating funding available in 2003, and use of prior year carryover and deferred capital of \$2.6 million and \$.7 million pass through to the City for the Riverfront Transit Center. The increase in the Federal grants and reimbursements is due to the \$2.5 million increase in the Riverfront Transit Center funds passed through to the city. Net cash used in capital and related financing activities decreased \$7.6 million as a result of decreased capital grant funding and not financing current year acquisitions with capital leases as we did in 2002. Net cash used in investing activities increased by \$9.1 million with reductions in investment securities and interest received.

Capital Asset and Debt Administration

Capital Assets: The Authority's investment in capital assets amounts to \$77.7 million, net of accumulated depreciation as of December 31, 2003, a decrease of \$3.1 million (3.9%). Capital assets include land and land improvements, revenue producing and service equipment, buildings and structures, shop equipment, office furnishings and computer equipment. Major capital asset expenditures during the current fiscal year include the following:

- Rehabilitation of the Bond Hill building roof totaling \$.7 million.
- Rehabilitation & expansion of the facility that houses our Access paratransit operation totaling \$4 million

Southwest Ohio Regional Transit Authority

Management's Discussion and Analysis (concluded)

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

Long-term Debt: The Authority has outstanding leases on buses in the amount of \$18,636,360. This debt consists of an \$8,636,360 lease on 24 Gillig busses and 40 paratransit buses which matures in 2006 and a \$10,000,000 lease on 38 Gillig buses which matures in 2011. See Note 7 to the financial statements for more detailed information regarding capital leases.

Requests for Information

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

Southwest Ohio Regional Transit Authority

**Balance Sheets
as of December 31, 2003 and 2002**

ASSETS	2003	2002
Current assets:		
Cash and cash equivalents (Note 4)	\$2,257,149	\$10,426,592
Investments (Note 4)	42,443,628	38,439,141
Receivables:		
Federal assistance	5,497,978	4,673,126
State assistance	146,759	823,433
Other	2,543,305	2,524,252
Inventory of materials and supplies	1,064,451	1,109,365
Prepaid expenses and other current assets	193,229	169,113
Total current assets	<u>54,146,499</u>	<u>58,165,022</u>
Non-current assets:		
Cash and cash equivalents (Notes 4 and 7)	3,042,041	4,585,746
Receivables for capital assistance	965,319	241,364
Total non-current assets	<u>4,007,360</u>	<u>4,827,110</u>
Capital assets (Notes 5 and 7):		
Land and buildings	14,661,089	14,638,237
Improvements	13,141,379	7,845,941
Revenue vehicles	95,222,413	95,563,453
Other equipment	24,281,551	23,311,298
Total	147,306,432	141,358,929
Less allowance for depreciation and amortization	<u>69,608,978</u>	<u>60,519,650</u>
Capital assets-net	<u>77,697,454</u>	<u>80,839,279</u>
Total assets	<u>\$135,851,313</u>	<u>\$143,831,411</u>

(continued)

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

Southwest Ohio Regional Transit Authority
Balance Sheets
as of December 31, 2003 and 2002 (continued)

LIABILITIES AND NET ASSETS	2003	2002
Current liabilities:		
Accounts payable	\$1,436,931	\$1,355,186
Accrued payroll	1,100,960	971,693
Accrued payroll taxes and other benefits (Note 8)	4,139,186	4,175,961
Current portion of estimated claims payable (Note 9)	875,000	1,770,000
Current portion of capital lease obligation (Note 7)	—	1,376,358
Other current liabilities	1,996,303	2,455,640
Advance from City of Cincinnati		
Income Tax-Transit Fund (Note 3):		
For current operations	1,277,195	3,349,019
For capital purposes	20,160,148	20,159,059
Total current liabilities	<u>30,985,723</u>	<u>35,612,916</u>
Non-current liabilities:		
Capital expenditures payable	931,212	356,935
Deferred capital grants	2,528,509	4,421,487
Estimated claims payable, net of current portion (Note 9)	4,407,460	3,223,450
Capital lease obligation, net of current portion (Note 7)	18,636,360	18,636,360
Accrued pension cost (Note 8)	185,103	236,148
Total non-current liabilities	<u>26,688,644</u>	<u>26,874,380</u>
Total liabilities	<u>57,674,367</u>	<u>62,487,296</u>
Net assets:		
Invested in capital assets, net of related debt	59,061,094	60,826,561
Restricted	513,532	164,259
Unrestricted	18,602,320	20,353,295
Total net assets	<u>78,176,946</u>	<u>81,344,115</u>
Total liabilities and net assets	<u>\$135,851,313</u>	<u>\$143,831,411</u>

(concluded)

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

Southwest Ohio Regional Transit Authority

**Statements of Revenues, Expenses and Changes in Net Assets
for the years ended December 31, 2003 and 2002**

	2003	2002
Operating revenues		
Passenger fares for transit service	\$14,757,975	\$13,846,443
Special transit fares	486,613	411,610
Auxiliary transportation revenue	392,298	614,519
Total	15,636,886	14,872,572
 Operating expenses other than depreciation:		
Labor	36,271,527	35,486,589
Fringe benefits	15,970,741	15,766,539
Materials and supplies consumed	8,222,477	7,308,553
Services	2,704,432	3,244,190
Utilities	1,340,968	1,216,215
Casualty and liability	1,342,778	547,257
Taxes	895,527	863,904
Purchased transportation services	5,840,101	6,115,799
Leases and rentals	454,645	488,117
Miscellaneous	1,311,154	1,347,792
Sub-total	74,354,350	72,384,955
Grant pass-through–Riverfront Transit Center	3,943,394	713,250
Total	78,297,744	73,098,205
 Depreciation and Amortization (Note 5)	9,549,897	9,212,023
Total operating expenses	87,847,641	82,310,228
 Operating loss	(72,210,755)	(67,437,656)
 Non-operating revenues (expenses):		
Federal maintenance grants and reimbursements (Note 6)	14,017,803	15,463,606
Federal grant pass-through–Riverfront Transit Center (Note 6)	3,208,085	713,250
State maintenance grants, reimbursements and special fare assistance (Note 6)	1,307,696	1,316,538
Local operating grants and special fare assistance (Note 6)	5,631,759	5,591,386
Investment income-net (Note 7)	698,606	1,576,235
Increase (decrease) in fair value of investments	(259,140)	971,734
Non-transportation revenue	512,875	541,145
Total	25,117,684	26,173,894
 Loss before operating assistance provided by City of Cincinnati Income Tax-Transit Fund and capital grant activity	(47,093,071)	(41,263,762)

(continued)

Southwest Ohio Regional Transit Authority

**Statements of Revenues, Expenses and Changes in Net Assets
for the years ended December 31, 2003 and 2002 (continued)**

	2003	2002
Operating assistance from the City of Cincinnati Income Tax-Transit Fund grant pass-through- Riverfront Transit Center (Note 3)	\$735,309	—
Operating assistance from the City of Cincinnati Income Tax-Transit Fund (Note 3)	<u>36,807,865</u>	<u>\$32,051,739</u>
Net loss before capital grant activity	(9,549,897)	(9,212,023)
Capital grant revenue (Notes 2C and 6)	<u>6,382,728</u>	<u>14,230,986</u>
Increase (decrease) in net assets during the year	(3,167,169)	5,018,963
Net assets, beginning of year	<u>81,344,115</u>	<u>76,325,152</u>
Net assets, end of year	<u>\$78,176,946</u>	<u>\$81,344,115</u>

(concluded)

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

Southwest Ohio Regional Transit Authority

**Statements of Cash Flows
for the years ended December 31, 2003 and 2002**

	2003	2002
Cash flows from operating activities:		
Receipts from fares and charters	\$15,158,762	\$14,508,719
Payments to suppliers	(23,464,124)	(22,096,697)
Payments for labor and employee benefits	(51,920,999)	(51,262,423)
Payments for claims and insurance	<u>(1,955,712)</u>	<u>(1,319,633)</u>
Net cash used in operating activities	<u>(62,182,073)</u>	<u>(60,170,034)</u>
Cash flows from noncapital financing activities:		
Transfer from City of Cincinnati Income Tax-Transit Fund	35,471,350	28,438,939
Federal maintenance grants and reimbursements	16,401,036	15,629,326
State maintenance grants, reimbursements and special fare assistance	1,984,370	2,890,358
Other local operating assistance received	<u>5,631,759</u>	<u>5,355,673</u>
Net cash provided by noncapital financing activities	<u>59,488,515</u>	<u>52,314,296</u>
Cash flows from capital and related financing activities:		
Capital grants received:		
City of Cincinnati Income Tax-Transit Fund	53,900	5,651,585
Federal, state and other local	3,740,242	2,399,397
Additions to capital assets	(5,855,396)	(14,137,331)
Interest paid on capital lease obligation	(924,797)	(721,169)
Payments of capital lease obligation	(1,376,358)	—
Proceeds from capital lease obligation	<u>—</u>	<u>10,000,000</u>
Net cash provided by (used in) capital and related financing activities	<u>(4,362,409)</u>	<u>3,192,482</u>
Cash flows from investing activities:		
Net cash (payments for) receipts from investment securities	(4,269,285)	3,947,976
Interest received	<u>1,612,104</u>	<u>2,495,317</u>
Net cash provided by (used in) investing activities	<u>(2,657,181)</u>	<u>6,443,293</u>
Net increase (decrease) in cash and cash equivalents	(9,713,148)	1,780,037

(continued)

Southwest Ohio Regional Transit Authority

**Statements of Cash Flows
for the years ended December 31, 2003 and 2002 (continued)**

	2003	2002
Cash and cash equivalents at beginning of year	<u>\$15,012,338</u>	<u>\$13,232,301</u>
Cash and cash equivalents at end of year	<u>\$5,299,190</u>	<u>\$15,012,338</u>
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$(72,210,755)	\$(67,437,656)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization	9,549,897	9,212,023
Non-transportation revenue	512,875	541,145
Changes in assets and liabilities:		
Other receivables	(19,053)	(183,869)
Inventory of materials and supplies	44,914	(66,029)
Prepaid expenses and other current assets	(24,116)	(44,917)
Accounts payable	81,745	(1,098,642)
Accrued expenses	92,492	232,180
Other liabilities	(499,082)	(823,149)
Estimated claims payable	<u>289,010</u>	<u>(501,120)</u>
Net cash used in operating activities	<u>\$(62,182,073)</u>	<u>\$(60,170,034)</u>
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES		
Increase (decrease) in fair value of investments	<u>\$(259,140)</u>	<u>\$971,734</u>

(concluded)

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

Southwest Ohio Regional Transit Authority

Notes to the Financial Statements for the years ended December 31, 2003 and 2002

1. Organization and Reporting Entity

A. Organization

The Southwest Ohio Regional Transit Authority ("SORTA" or the "Authority") is responsible for the operation of the Greater Cincinnati public transit system. SORTA is organized under Sections 306.30 through 306.53 of the Ohio Revised Code and is not subject to income taxes. SORTA, which is the policy-making body for the transit system known as Metro, operates under an agreement with the City of Cincinnati (the "City") (see Note 3).

B. Reporting Entity

The Authority has adopted the provisions of Statement No. 14 of the Governmental Accounting Standards Board ("GASB"), "The Financial Reporting Entity". Accordingly, the accompanying financial statements include only the accounts and transactions of the Authority. Under the criteria specified in Statement No. 14, the Authority has no component units nor is it considered a component unit of the City of Cincinnati or Hamilton County, Ohio. The Authority is, however, considered to be a related organization to Hamilton County by virtue of the fact that SORTA's Board of Trustees is appointed by the Hamilton County Board of Commissioners.

These conclusions regarding the financial reporting entity are based on the concept of financial accountability. The Authority is not financially accountable for any other organization nor is the City or Hamilton County accountable for SORTA. This is evidenced by the fact that the Authority is a legally and fiscally separate and distinct organization under the provisions of the Ohio Revised Code.

2. Summary of Significant Accounting Policies

A. Basis of Accounting

The accompanying financial statements were prepared in accordance with accounting principles generally accepted in the United States of America which require the accrual basis of accounting. Under this basis of accounting, revenues and expenses are recognized in the period earned or incurred. All transactions are accounted for in a single enterprise fund. In accordance with GASB Statement No. 20 "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting," the Authority has elected not to apply the provisions of the Statements and Interpretations of the Financial Accounting Standards Board issued after November 30, 1989. The Authority will continue applying all applicable pronouncements issued by the GASB.

The measurement focus is on the determination of revenues, expenses, financial position, and cash flows as the identification of these items is necessary for appropriate capital maintenance, public policy, management control, accountability, and the calculation of amounts due under the City/SORTA agreement (see Note 3).

Southwest Ohio Regional Transit Authority

Notes to the Financial Statements for the years ended December 31, 2003 and 2002 (continued)

B. Net Asset Classifications

GASB Statement No. 34 (see Note 11) requires the classification of net assets into the following three components:

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

C. Nonexchange Transactions

The Authority follows GASB Statement No. 33, “Accounting and Financial Reporting for Nonexchange Transactions”. In general, GASB Statement No. 33 establishes accounting and financial reporting standards about when to report the results of nonexchange transactions involving financial or capital resources. In a nonexchange transaction, an entity gives (or receives) value without directly receiving or giving equal value in return. The Authority’s principal nonexchange transactions involve the receipt of monies from the City Income Tax-Transit Fund (see Note 3) along with federal, state and local grants for operating assistance as well as the acquisition of property, facilities and equipment. Substantially all of the Authority’s nonexchange transactions represent reimbursement-type grants, which are recorded as revenue in the period the related expenditures are incurred. Any monies received in advance of the period in which the related expenditures are incurred, are recorded as deferred revenue until the expenditures are incurred.

D. Passenger Fares

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

E. Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the Authority considers all highly liquid investments (including restricted assets and SORTA’s investment in the State Treasury Asset Reserve of Ohio (“STAROhio”)) with a maturity of three months or less when purchased to be cash equivalents.

F. Investments

The Authority’s investments (including cash equivalents) are recorded at fair value (based on quoted market prices) except that short-term, highly liquid debt investments, with a remaining maturity at the time of purchase of one year or less are reported at amortized cost.

Southwest Ohio Regional Transit Authority

**Notes to the Financial Statements
for the years ended December 31, 2003 and 2002 (continued)**

The Authority has invested funds in STAROhio, an investment pool managed by the State Treasurer's office which allows governments within the state to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price, which is the price at which the investment could be sold.

G. Inventory of Materials and Supplies

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

H. Restricted Assets

Restricted assets consist of funds received under various capital grants from the Federal Transit Administration ("FTA"), the Ohio Department of Transportation ("ODOT"), and the local matching share received from the City Income Tax-Transit Fund. Restricted assets also include funds received under a master lease-purchase agreement and not yet expended. These assets are restricted for capital and other project expenditures.

I. Capital Assets and Depreciation

Capital assets are stated at cost and include expenditures which substantially increase the utility or useful lives of existing assets. Maintenance parts are expensed when placed in service. Routine maintenance and repairs are expensed as incurred.

Assets acquired with capital grants or under capital lease are also included in capital assets, and depreciation/amortization of the cost of those assets is included in the Statements of Revenues, Expenses and Changes in Net Assets.

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

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

J. Claims

As described in Note 9, SORTA is self-insured for public liability, personal injury, third-party property damage, and workers' compensation claims. SORTA recognizes a liability for such claims if information prior to the issuance of the financial statements indicates that it

Southwest Ohio Regional Transit Authority

Notes to the Financial Statements for the years ended December 31, 2003 and 2002 (continued)

is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated.

The liability recorded includes the estimated incremental expenses to be incurred to settle the claims, including legal fees. Claims liabilities are based on evaluations of individual claims and a review of experience with respect to the probable number and nature of claims arising from losses that have been incurred but have not yet been reported. The claims liabilities represent the estimated ultimate cost of settling the claims, including the effects of inflation and other societal and economic factors. Estimated future recoveries on settled and unsettled claims, such as subrogations, if any, are evaluated in terms of their estimated realizable value and deducted from the liability for unpaid claims. Any adjustments resulting from the actual settlement of the claims are reflected in earnings at the time the adjustments are determined.

K. Compensated Absences

Vacation pay is accrued and charged to expense as earned. Because rights to sick pay do not vest, SORTA recognizes such costs when they are incurred.

L. Budgetary Accounting and Control

SORTA's annual budget is prepared on the accrual basis of accounting. The budget includes amounts for current year revenues and expenses as well as new capital projects.

The Authority maintains budgetary control by not permitting total operating expenses (excluding depreciation and amortization) and expenditures for individual capital projects to exceed revenue sources without approval by the Board of Trustees. No budget amendments were passed for 2003 and 2002. All budget amounts lapse at year end.

M. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America require 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.

3. Federal Grants and Local Reimbursements

SORTA receives capital assistance from the U.S. Department of Transportation under the Urban Mass Transportation Act of 1964 (the "Act"), as amended. Among other requirements of the Act, state and local governments must provide a proportionate share of funds and/or support (as defined by the Federal Transit Administration guidelines) for capital assistance.

Southwest Ohio Regional Transit Authority

Notes to the Financial Statements for the years ended December 31, 2003 and 2002 (continued)

In addition to federal and state capital assistance, funding is also provided by a portion of the City income tax approved by the residents of the City and designated for transit operations. Operating assistance provided from the City Income Tax-Transit Fund represents SORTA's net loss before such assistance, excluding depreciation/amortization and losses on the disposal of assets purchased with capital grants. Any portion unremitted for the year is recorded as a receivable. Any overadvanced amount for the year is recorded as an advance from the City Income Tax-Transit Fund or as deferred capital grants representing the Authority's matching local share requirements under the Act.

An agreement between the City and SORTA requires the City to maintain a transit fund into which the proceeds of the income tax designated for transit operations are deposited. This fund provides all necessary local (other than operating revenues) operating and capital assistance to SORTA. The agreement also contains certain provisions regarding service standards and fares. This agreement is of indefinite duration but may be terminated by providing 180 days written notice to the other party. If terminated, the City will assume all outstanding commitments that SORTA incurred in carrying out the agreement.

4. Cash and Investments

The investment and deposit of Authority monies are governed by the provisions of the Ohio Revised Code and the Authority's established policies. Accordingly, only banks located in Ohio and domestic building and loan associations are eligible to hold public deposits. The Authority is also permitted to invest its monies in certificates of deposit, savings accounts, money market accounts, the State Treasurer's investment pool (STAROhio), and obligations of the United States government and certain agencies thereof. The Authority may also enter into repurchase agreements for a period not exceeding thirty days with banks located within the State of Ohio with which the Authority has signed a Master Repurchase Agreement. At the time of making an investment, the Authority's Treasurer must reasonably expect that the investment can be held until maturity. To the extent possible, the Treasurer will attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow requirement, the Treasurer will not directly invest in securities maturing more than five years from the settlement date of purchase. The weighted average maturity of all securities cannot exceed two years.

Public depositories must give security for all public funds on deposit. These institutions may either specifically collateralize individual accounts in excess of amounts insured by the Federal Deposit Insurance Corporation (FDIC), may pledge a pool of government securities valued at least 105% of the total value of public monies on deposit at the institution, or may deposit surety company bonds which when executed shall be for an amount in excess of collateral requirements. Repurchase agreements must be secured by the specific government securities upon which the repurchase agreements are based. These securities must be obligations of or guaranteed by the United States and must mature or be redeemable within five years of the date of the related repurchase agreement. The market value of the securities subject to a repurchase agreement must exceed the value of the principal by 2% and be marked to market daily. State law does not require security for public deposits and investments to be maintained in the Authority's name.

Southwest Ohio Regional Transit Authority

Notes to the Financial Statements for the years ended December 31, 2003 and 2002 (continued)

The Authority is prohibited from investing in any financial instrument, contract, or obligation whose value or return is based upon or linked to another asset or index, or both, separate from the financial instrument, contract, or obligation itself (commonly known as a "derivative"). The Authority is also prohibited from investing in reverse repurchase agreements.

As of December 31, 2003, the Authority maintained restricted cash and cash equivalents of \$3,042,041, and unrestricted cash and investments of \$44,700,777. The total cash and investments of \$47,742,818 consisted of \$8,325,457 in deposits and \$39,417,361 in investments.

A. Deposits

At December 31, 2003, the carrying amount of the Authority's deposits was \$8,325,457 and the bank balance was \$10,213,621, \$10,130,204 of which was covered by federal depository insurance, surety bonds provided by a commercial insurance company, or collateralized with securities held by the Federal Reserve in SORTA's name and \$83,417 was uninsured and uncollateralized as defined by the GASB.

B. Investments

The Authority's investments are detailed below and are categorized in accordance with the criteria established by the GASB to indicate the level of credit risk assumed as of December 31, 2003. Category 1 includes investments that are insured or registered for which the securities are held by the Authority or its agent in the Authority's name. Category 2 includes investments that are uninsured and unregistered for which the securities are held by the counterparty's trust department or agent in the Authority's name. Category 3 includes uninsured and unregistered investments for which securities are held by the counterparty or by its trust department or agent but not in the Authority's name.

Description	Category			Carrying Amount	Fair Value
	1	2	3		
U.S. Government & Agency securities	\$36,849,310	\$ —	\$ —	\$36,849,310	\$36,896,904
STAROhio				2,568,051	2,568,051
Total				\$39,417,361	\$39,464,955

The Authority's investment in STAROhio has not been categorized as to credit risk because it represents an investment pool that is not evidenced by securities that exist in physical or book entry form. Investments in STAROhio are valued at STAROhio's share price which is the price at which the investment could be redeemed on December 31, 2003.

The Authority's deposits and investments are included in the accompanying balance sheets under the captions "Cash and cash equivalents" and "Investments".

Southwest Ohio Regional Transit Authority

**Notes to the Financial Statements
for the years ended December 31, 2003 and 2002 (continued)**

5. Capital Assets

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

	Balance January 1, 2003	Additions	Deletions	Balance December 31, 2003
Capital Assets Not Being Depreciated:				
Land	<u>\$13,159,558</u>	<u>\$6,352</u>	<u>—</u>	<u>\$13,165,910</u>
Total Capital Assets Not Being Depreciated	<u>13,159,558</u>	<u>6,352</u>	<u>—</u>	<u>13,165,910</u>
Capital Assets Being Depreciated:				
Buildings	1,478,679	16,500	—	1,495,179
Improvements	7,845,941	5,295,438	—	13,141,379
Revenue Vehicles	95,563,453	—	\$341,040	95,222,413
Other Equipment	<u>23,311,298</u>	<u>1,111,383</u>	<u>141,130</u>	<u>24,281,551</u>
Total Capital Assets Being Depreciated	<u>128,199,371</u>	<u>6,423,321</u>	<u>482,170</u>	<u>134,140,522</u>
Less Accumulated Depreciation:				
Buildings	121,588	39,850	—	161,438
Improvements	2,888,890	710,815	—	3,599,705
Revenue Vehicles	44,433,843	6,718,817	341,040	50,811,620
Other Equipment	<u>13,075,329</u>	<u>2,080,415</u>	<u>119,529</u>	<u>15,036,215</u>
Total Accumulated Depreciation	<u>60,519,650</u>	<u>9,549,897</u>	<u>460,569</u>	<u>69,608,978</u>
Total Capital Assets Being Depreciated, Net	<u>67,679,721</u>	<u>(3,126,576)</u>	<u>21,601</u>	<u>64,531,544</u>
Total Capital Assets, Net	<u>\$80,839,279</u>	<u>\$(3,120,224)</u>	<u>\$21,601</u>	<u>\$77,697,454</u>

Southwest Ohio Regional Transit Authority

**Notes to the Financial Statements
for the years ended December 31, 2003 and 2002 (continued)**

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

	Balance January 1, 2002	Additions	Deletions	Balance December 31, 2002
Capital Assets Not Being Depreciated:				
Land	<u>\$13,272,192</u>	<u>—</u>	<u>\$112,634</u>	<u>\$13,159,558</u>
Total Capital Assets Not Being Depreciated	<u>13,272,192</u>	<u>—</u>	<u>112,634</u>	<u>13,159,558</u>
Capital Assets Being Depreciated:				
Buildings	1,379,242	\$99,437	—	1,478,679
Improvements	6,892,379	955,585	2,023	7,845,941
Revenue Vehicles	96,957,006	10,684,083	12,077,636	95,563,453
Other Equipment	<u>23,339,402</u>	<u>2,121,278</u>	<u>2,149,382</u>	<u>23,311,298</u>
Total Capital Assets Being Depreciated	<u>128,568,029</u>	<u>13,860,383</u>	<u>14,229,041</u>	<u>128,199,371</u>
Less Accumulated Depreciation:				
Buildings	85,184	36,404	—	121,588
Improvements	2,410,688	480,225	2,023	2,888,890
Revenue Vehicles	49,862,926	6,648,553	12,077,636	44,433,843
Other Equipment	<u>13,156,271</u>	<u>2,046,841</u>	<u>2,127,783</u>	<u>13,075,329</u>
Total Accumulated Depreciation	<u>65,515,069</u>	<u>9,212,023</u>	<u>14,207,442</u>	<u>60,519,650</u>
Total Capital Assets Being Depreciated, Net	<u>63,052,960</u>	<u>4,648,360</u>	<u>21,599</u>	<u>67,679,721</u>
Total Capital Assets, Net	<u>\$76,325,152</u>	<u>\$4,648,360</u>	<u>\$134,233</u>	<u>\$80,839,279</u>

Prior to 1986, under terms of the operating agreement with the City, SORTA agreed to operate transportation equipment and certain operating facilities which had been purchased by the City primarily under FTA and ODOT capital grants.

During 1986, the City transferred the title to existing transit system physical assets, except for real estate, construction projects and certain assets which had been conveyed to a bank under a sale and leaseback arrangement.

If the assets not conveyed by the City in 1986 (real estate, construction projects, and certain other assets having an estimated aggregate cost of approximately \$28.3 million at December 31, 2003) had been owned by SORTA, the provision for depreciation for the years ended December 31, 2003 and 2002 would have increased approximately \$650,000 in each year.

In case of termination of the City/SORTA operating agreement, all assets operated by SORTA for the City are to be returned to the City.

Southwest Ohio Regional Transit Authority

**Notes to the Financial Statements
for the years ended December 31, 2003 and 2002 (continued)**

6. Grants, Reimbursements, and Special Fare Assistance

Grants, reimbursements, and special fare assistance included in the Statements of Revenues and Expenses and Changes in Net Assets for the years ended December 31, 2003 and 2002 consist of the following:

	2003	2002
Non-operating revenues:		
Federal:		
FTA-Maintenance and Other Assistance	<u>\$14,017,803</u>	<u>\$15,463,606</u>
FTA-grant pass-through-Riverfront Transit Center	<u>\$3,208,085</u>	<u>\$713,250</u>
State:		
ODOT-Fuel Tax Reimbursement	\$836,905	\$805,170
ODOT-Elderly and Handicapped Grant	322,417	334,612
ODOT-Maintenance and Other Assistance	148,374	176,756
Total	<u>\$1,307,696</u>	<u>\$1,316,538</u>
Local:		
Cincinnati Board of Education Contract	\$4,548,257	\$4,602,380
Hamilton County	444,295	340,155
Warren County	54,662	52,464
Butler County	—	178,473
Deerfield Township	36,518	30,261
Clermont County	216,808	189,632
City of Fairfield	23,623	—
City of West Chester	20,100	—
City of Mason	36,518	30,260
City of Lebanon	4,610	14,630
Other	246,368	153,131
Total	<u>\$5,631,759</u>	<u>\$5,591,386</u>
Capital grant revenue:		
Federal	\$2,271,321	\$991,872
State	3,003,262	873,554
Local	1,108,145	12,365,560
Total	<u>\$6,382,728</u>	<u>\$14,230,986</u>

7. Lease Commitments

SORTA leases its administrative offices under lease agreements which are accounted for as operating leases. Rent expense under these leases, which includes certain short-term leases, was approximately \$261,000 in 2003 and \$263,000 in 2002.

At December 31, 2003, the minimum future payments under leases with terms extending beyond one year are as follows:

Southwest Ohio Regional Transit Authority

**Notes to the Financial Statements
for the years ended December 31, 2003 and 2002 (continued)**

<u>Year</u>	<u>Amount</u>
2004	\$ 260,135
2005	267,986
2006	266,650
2007	277,177
2008	288,173
2009	146,907
Total	<u>\$1,507,028</u>

SORTA also leases 102 revenue vehicles under two master lease-purchase agreements with local financial institutions. Based on the terms of the agreements, they have been classified as capital leases. The capitalized cost and accumulated amortization recorded for these vehicles amounted to \$18,587,672 and \$3,654,459, respectively, at December 31, 2003. Unspent proceeds of the capital leases totalling \$48,688 are included in restricted cash and investments in the accompanying balance sheet as of December 31, 2003.

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

<u>Year</u>	<u>Amount</u>
2004	\$892,064
2005	890,925
2006	9,527,285
2007	475,000
2008	475,000
2009-2011	<u>11,187,500</u>
Total minimum lease payments	23,447,774
Less amount representing interest	<u>4,811,414</u>
 Present value of net minimum lease payments	 18,636,360
Less principal amount due in 2004	 <u>—</u>
 Amount due after 2004	 <u>\$18,636,360</u>

During the years ended December 31, 2003 and 2002, the Authority recognized \$913,498 and \$919,082, respectively, of interest expense under its capital leases. During February 2004, the Authority refinanced the \$10 million capital lease obligation at substantially the same terms and to take advantage of a lower effective interest rate. The refinancing of the lease is expected to yield a savings over the life of the agreement of approximately \$400,000.

Southwest Ohio Regional Transit Authority

Notes to the Financial Statements for the years ended December 31, 2003 and 2002 (continued)

8. Retirement Benefits

A. Public Employees Retirement System of Ohio

Plan Description. Effective July 1, 1991, all employees of the Authority are required to be members of the Public Employees Retirement System of Ohio ("PERS"), a cost-sharing, multiple-employer defined benefit pension plan. Authority to establish and amend benefits is provided by State statute per Chapter 145 of the Ohio Revised Code. PERS issues a stand-alone financial report that includes financial statements and required supplementary information. The financial report may be obtained by making a written request to the Public Employees Retirement System of Ohio, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-6705 or 1-800-222-PERS (7377).

PERS administers three separate pension plans as described below:

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

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

Funding Policy. The Ohio Revised Code provides statutory authority for employee and employer contributions. Employees other than law enforcement personnel are required to contribute 8.5% of their covered payroll to PERS. The 2003 and 2002 employer contribution rate for local government employer units was 13.55% of covered payroll including 5.0% that is used to fund postretirement health care benefits. The Authority's total contributions to PERS for pension benefits (excluding the amount relating to postretirement benefits) for the years ended December 31, 2003, 2002 and 2001 were \$3,339,000, \$3,281,000, and \$3,520,000, respectively, equal to 100% of the required contribution for each year.

B. Private Pension Plans

Plan Description. Certain retirees (31 at January 1, 2004) continue to participate in the private pension plans which originated under the privately owned transit system (Cincinnati

Southwest Ohio Regional Transit Authority

**Notes to the Financial Statements
for the years ended December 31, 2003 and 2002 (continued)**

Transit, Inc.) acquired by the City in 1973. SORTA administers these single-employer, defined benefit pension plans and is reimbursed by the City for the costs of the plans (Note 3). The pension costs of the private plans are expected to decline in future years. The private pension plans do not issue stand-alone financial reports.

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

Annual Pension Cost and Net Pension Obligation. SORTA's annual pension cost and net pension obligation pertaining to the private pension plans as of and for the years ended December 31, 2003, 2002 and 2001 were determined using the unit credit actuarial cost method as follows:

	2003	2002	2001
Annual required contribution	—	—	—
Interest on net pension obligation	—	—	—
Actuarial adjustment to net pension obligation	<u>\$(8,546)</u>	<u>—</u>	<u>\$4,881</u>
Annual pension cost	(8,546)	—	4,881
Contribution/benefit payments made	<u>(42,499)</u>	<u>\$(56,595)</u>	<u>(64,620)</u>
Decrease in net pension obligation	(51,045)	(56,595)	(59,739)
Net pension obligation beginning of year	<u>236,148</u>	<u>292,743</u>	<u>352,482</u>
Net pension obligation end of year	<u><u>\$185,103</u></u>	<u><u>\$236,148</u></u>	<u><u>\$292,743</u></u>

The net pension obligation was actuarially determined using a mortality assumption obtained from the Unisex Pension Table for 1984 and the 2003 and 2002 amounts are recognized as non-current liabilities on the accompanying balance sheets. Because future benefit increases are not assured and are not expected to be material, this factor was not considered in the determination of the net pension obligation and annual pension cost.

C. Other Postemployment Benefits

Benefits Provided Through PERS. The authority provides health care benefits as a post-employment benefit (as defined by GASB Statement No. 12) through its contributions to PERS. In addition to the pension benefit described in Note 8A, PERS provides post-retirement health care benefits to qualifying members of both the TP and CO Plans; however, health care benefits are not statutorily guaranteed. Members of the MD Plan do not qualify for ancillary benefits, including post-employment health care coverage. In order to qualify for post-retirement health care coverage, age and service retirees must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is also available. The health care coverage provided by PERS is considered an Other Post-employment Benefit ("OPEB") as described in GASB Statement No. 12.

Southwest Ohio Regional Transit Authority

Notes to the Financial Statements for the years ended December 31, 2003 and 2002 (continued)

A portion of each employer's contribution to PERS is set aside for the funding of post-retirement health care. The Ohio Revised Code provides statutory authority for employer contributions. For the Authority, 5.0% of covered payroll was the portion of the 13.55% total contribution rate for 2003 that was used to fund health care for the year. The Ohio Revised Code provides the statutory authority requiring public employers to fund postretirement health care through their contributions to PERS.

The assumptions and calculations noted below were based on PERS' latest actuarial review performed as of December 31, 2002. An entry-age normal actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of the unfunded actuarial accrued liability. All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach, assets are adjusted annually to reflect 25% of unrealized market appreciation or depreciation on investment assets. The assumed rate of return on investments for 2002 was 8.0%. An annual increase of 4.0%, compounded annually, is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4.0% base increase, were assumed to range from 0.5% to 6.3%. Health care costs were assumed to increase 4.0% annually.

OPEB provided through PERS are advance-funded on an actuarially determined basis. The total number of active contributing participants in the TP and CO Plans was 364,881 at December 31, 2003. The Authority's contributions to PERS for other post-employment benefits for the years ended December 31, 2003 and 2002 were \$1,935,000 and \$1,919,000, respectively, equal to 100% of the required contributions for each year. The actuarial value of PERS' net assets available for OPEB at December 31, 2002 was \$10.0 billion. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$18.7 billion and \$8.7 billion, respectively.

In December 2001, PERS adopted the Health Care "Choices" Plan in its continuing effort to respond to the rise in the cost of health care. The Choices Plan is offered to all persons newly hired in a PERS covered position after January 1, 2003, with no prior service credit accumulated toward health care coverage. Choices, as the name suggests, will incorporate a cafeteria approach, offering a more broad range of health care options. The plan uses a graded scale from ten to thirty years of service to calculate a monthly health care benefit. This is in contrast to the ten-year "cliff" eligibility standard for the present plan. Each benefit recipient will be free to select the option that best meets his or her needs. Recipients will fund health care costs in excess of their monthly health care benefit. The Plan will also offer a spending account feature, enabling the benefit recipient to apply his or her allowance toward specific medical expenses, much like a Medical Spending Account.

In response to the adverse investment returns experienced by PERS from 2000 through 2002, and the continued staggering rate of health care inflation, PERS Board is considering extending "Choices" type cost cutting measures to all active members and benefit recipients. The PERS Board has not determined the exact changes that will be made to the health care plan. However, changes to the Plan are expected to be approved by the summer of 2004.

Southwest Ohio Regional Transit Authority

**Notes to the Financial Statements
for the years ended December 31, 2003 and 2002 (continued)**

Other Benefits Provided. In addition to the other postemployment benefits provided by PERS, SORTA also provides postemployment health care benefits to former employees of Cincinnati Transit, Inc., who do not qualify for PERS health care benefits, and a \$1,500 life insurance benefit to each retired hourly employee. The life insurance benefits are provided through group insurance arrangements which are funded by SORTA through payment of monthly insurance premiums. The health care benefits were previously provided by group insurance arrangements which were funded by SORTA through payment of monthly insurance premiums. Effective March 1, 1997, SORTA became self-insured for such health care benefits. As of December 31, 2003, 4 individuals were receiving health care benefits and 378 individuals were eligible to receive life insurance benefits.

SORTA has recorded the following accrued liabilities in accrued payroll taxes and other benefits on its balance sheet for these postemployment benefits at December 31:

	<u>2003</u>	<u>2002</u>
Health care benefits	\$ 7,805	\$ 37,183
Life insurance benefits	\$297,150	\$272,384

These liabilities represent the present value of the estimated future health care benefits and life insurance premiums that are expected to be paid for retirees who were eligible for benefits as of each of the dates indicated. The liability for life insurance benefits includes a provision for estimated amounts which will be paid for existing employees.

These liabilities were determined based on the following assumptions:

	2003	2002
Medical inflation assumptions	**	**
Future annual increases in life insurance premiums	2.00%	2.00%
Remaining life expectancy*	Individually Determined	
Medical		
Life	14.6 yrs.	14.6 yrs.
Interest factor	6.00%	6.00%

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

** 7% in 2004, decreasing to 5% in 2008 and thereafter.

The total expense recognized by the Authority for postemployment benefits not provided under PERS was approximately \$45,000 and \$54,000 for the years ended December 31, 2003 and 2002, respectively.

Southwest Ohio Regional Transit Authority

**Notes to the Financial Statements
for the years ended December 31, 2003 and 2002 (continued)**

9. Risk Management

SORTA is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or acts of God. Blanket insurance coverage has been obtained to cover damage or destruction to the Authority's property and SORTA is self-insured for public liability, personal injury, and third-party property damage claims. In addition, the City of Cincinnati has appropriated \$3,000,000 of funds held in the City Income Tax-Transit Fund (see Note 3). These funds may be used to fund individual claims against SORTA to the extent that each claim is in excess of \$100,000 per incident. Claims expense and a liability are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated.

Employee health care benefits are provided under a group insurance arrangement and, on January 1, 1995, the Authority became self-insured for workers' compensation benefits. Prior to 1995, SORTA was insured through the State of Ohio for workers' compensation benefits. The State of Ohio Bureau of Workers' Compensation continues to be liable for all claims prior to January 1, 1995. As shown below, the estimated amount due for workers' compensation claims is included in the accrual for estimated claims payable. SORTA carries liability insurance to cover any workers' compensation claim in excess of \$250,000 through December 31, 2001, and \$350,000 thereafter. The workers' compensation liability includes an amount for claims that may have been incurred but not reported. The claims liability has been calculated on an actuarial basis considering the effects of inflation, recent claim settlement trends including frequency and amount of pay-outs, and other economic factors. The present value of the workers' compensation liability is calculated using an interest rate of 3.34%.

The changes in the liabilities for self-insured risks for the years ended December 31, 2003 and 2002 are as follows:

	<u>Workers' Compensation</u>	<u>Public Liability and Property Damage</u>	<u>Total</u>
Balance, January 1, 2002	\$3,572,000	\$1,922,570	\$5,494,570
Claims, net of changes in estimates	252,780	565,733	818,513
Payments	<u>(494,255)</u>	<u>(825,378)</u>	<u>(1,319,633)</u>
Balance, December 31, 2002	3,330,525	1,662,925	4,993,450
Claims, net of changes in estimates	855,154	1,389,568	2,244,722
Payments	<u>(626,377)</u>	<u>(1,329,335)</u>	<u>(1,955,712)</u>
Balance, December 31, 2003	<u>\$3,559,302</u>	<u>\$1,723,158</u>	<u>\$5,282,460</u>

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

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

Southwest Ohio Regional Transit Authority

Notes to the Financial Statements for the years ended December 31, 2003 and 2002 (continued)

10. Contingencies and Commitments

A. Litigation and Claims

It is the Authority's policy, within certain limits (see Note 9), to act as self-insurer for certain insurable risks consisting primarily of public liability, property damage, and workers' compensation. At December 31, 2003, SORTA had been named in various public liability and property damage claims and suits, some of which seek significant damages. The ultimate outcome of those matters cannot be determined; however, it is the opinion of management that any resulting liability to the Authority in excess of the amount provided for in the accompanying balance sheets, and which is not covered by insurance, will not have a material adverse effect on the Authority's financial position.

B. Federal and State Grants

Under the terms of the Authority's various grants, periodic audits are required where certain costs could be questioned as not being eligible expenditures under the terms of the grants. At December 31, 2003, there were no questioned costs that had not been resolved with appropriate federal and state agencies. Questioned costs could still be identified during audits to be conducted in the future. In the opinion of SORTA's management, no material grant expenditures will be disallowed.

11. New Accounting Pronouncements

Effective January 1, 2003, the Authority implemented the provisions of GASB Statement No. 34, "Basic Financial Statements--and Management's Discussion and Analysis--for State and Local Governments," Statement No. 37, "Basic Financial Statements--and Management's Discussion and Analysis--for State and Local Governments: Omnibus," and Statement No. 38, "Certain Financial Statement Disclosures." These statements revise accounting and reporting standards for general purpose external financial reporting by governmental units. These statements change the Authority's presentation of net assets and require the inclusion of management's discussion and analysis. The implementation of these statements had no impact on the Authority's net assets.

During May 2002, the GASB issued Statement No. 39, "Determining Whether Certain Organizations are Component Units (an amendment of GASB Statement No. 14)." This statement amends Statement No. 14 to provide additional guidance to determine whether certain organizations for which the primary government is not financially accountable should be reported as a component unit based on the nature and significance of their relationship with the primary government. Generally, this Statement requires reporting, as a component unit, an organization that raises and holds economic resources for the direct benefit of a governmental unit. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2003. The Authority has not determined the impact, if any, that this Statement will have on its financial statements.

Southwest Ohio Regional Transit Authority

Notes to the Financial Statements for the years ended December 31, 2003 and 2002 (concluded)

During March 2003, the GASB issued Statement No. 40, "Deposits and Investment Risk Disclosures (an amendment of GASB Statement No. 3)." This Statement addresses disclosures related to common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. As an element of interest rate risk, this Statement requires certain disclosures of investments that have fair values that are highly sensitive to changes in interest rates. Deposit and investment policies related to the risks identified in this Statement also should be disclosed. The provisions of this Statement are effective for financial statements of periods beginning after June 15, 2004. The Authority has not determined the impact, if any, that this Statement will have on its financial statements.

During November 2003, the GASB issued Statement No. 42, "Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries." This Statement establishes accounting and financial reporting standards for impairment of capital assets. Under provisions of this Statement, a capital asset is considered impaired when its service has declined significantly and unexpectedly. This Statement also clarifies and establishes accounting requirements for insurance recoveries. The provisions of this Statement are effective for fiscal periods beginning after December 15, 2004. The Authority has not determined the impact, if any, that this Statement will have on its financial statements.

Southwest Ohio Regional Transit Authority

**Supplemental Schedule of Expenditures of Federal Awards
for the year ended December 31, 2003**

Federal Grantor/Pass-through Grantor/ Program Title	Federal CFDA Number	Federal and Pass-through Grant Number	Grant Expenditures
U.S. Department Of Transportation			
Federal Transit Cluster			
Direct Program:			
Federal Transit Administration-Capital and Operating Assistance Formula Grants	20.507	OH-90-X176	\$ 12,014
		OH-90-X203	17,878
		OH-90-X233	19,687
		OH-90-X265	146,513
		OH-90-X276	255,608
		OH-90-X319	16,634
		OH-90-X343	35,013
		OH-90-X367	88,993
		OH-90-X392	219,615
		OH-90-X438	<u>13,813,038</u>
Total CFDA #20.507			<u>14,624,993</u>
Direct Program:			
Federal Transit Administration-Capital Improvements Grant	20.500	OH-03-0192	3,208,085
Passed-through the Ohio Department of Transportation-Federal Transit Administration- Capital Improvements Grant			
	20.500	OH-03-0214	<u>1,494,590</u>
Total CFDA #20.500			<u>4,702,675</u>
Total-U.S. Department of Transportation-Federal Transit Cluster			<u>19,327,668</u>
Direct Program:			
Federal Transit Administration-Reserve Commute Job Access	20.516	OH-37-4010	<u>89,840</u>

(continued)

Southwest Ohio Regional Transit Authority

**Supplemental Schedule of Expenditures of Federal Awards
for the year ended December 31, 2003 (continued)**

Federal Grantor/Pass-through Grantor/ Program Title	Federal CFDA Number	Federal and Pass-through Grant Number	Grant Expenditures
Direct Program:			
Department of Homeland Security- Domestic Preparedness Training Program	97.005	OH-40-X002	<u>41,866</u>
Total Expenditures of Federal Awards- All U.S. Department of Transportation			<u>\$19,459,374</u>

See note to the Supplemental Schedule of Expenditures of Federal Awards

Southwest Ohio Regional Transit Authority

**Note to the Supplemental Schedule of Expenditures of Federal Awards
for the year ended December 31, 2003**

1. Basis of Presentation

The accompanying Supplemental Schedule of Expenditures of Federal Awards (the "Schedule") reflects the expenditures of the Southwest Ohio Regional Transit Authority under programs financed by the U.S. government for the year ended December 31, 2003. The Schedule has been prepared in accordance with the requirements of OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations", using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

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

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

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON THE AUDIT PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

**Board of Trustees
Southwest Ohio Regional Transit Authority
Cincinnati, Ohio**

We have audited the basic financial statements of the Southwest Ohio Regional Transit Authority (the "Authority") as of and for the year ended December 31, 2003 and have issued our report thereon dated June 1, 2004 which contained an explanatory paragraph describing the implementation of new accounting pronouncements by the Authority. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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

Internal Control Over Financial Reporting

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

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

Deloitte & Touche LLP

June 1, 2004

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND INTERNAL CONTROL OVER COMPLIANCE APPLICABLE TO EACH MAJOR FEDERAL AWARD PROGRAM

**Board of Trustees
Southwest Ohio Regional Transit Authority
Cincinnati, Ohio**

Compliance

We have audited the compliance of the Southwest Ohio Regional Transit Authority (the "Authority") with the types of compliance requirements described in the U.S. Office of Management and Budget ("OMB") Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended December 31, 2003. The Authority's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Authority's management. Our responsibility is to express an opinion on the Authority's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Authority's compliance with those requirements.

In our opinion, the Authority complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2003.

Internal Control Over Compliance

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

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be

material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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

Deloitte & Touche LLP

June 1, 2004

Southwest Ohio Regional Transit Authority
Schedule of Findings and Questioned Costs
for the Year Ended December 31, 2003

Summary of Auditors' Results

- **Type of Report Issued on the Financial Statements as of and for the Year Ended December 31, 2003–Unqualified.**
- **Reportable Conditions in Internal Control Disclosed by the Audit of the Financial Statements–N/A. (None reported)**
- **Noncompliance Noted that is Material to the Financial Statements of the Authority–None.**
- **Reportable Conditions in Internal Control Over Major Federal Financial Assistance Programs Disclosed by the Audit of the Financial Statements–N/A. (None reported)**
- **Type of Report Issued on Compliance for Major Federal Financial Assistance Programs–Unqualified.**
- **The audit did not disclose any audit findings which are required to be reported under Section .510(a) of OMB Circular A-133.**
- **Major Federal Financial Assistance Programs Identified for the Year Ended December 31, 2003:**
 - **Federal Transit Cluster:**
 - **CFDA #20.500 Federal Transit Capital Improvement Grants**
 - **CFDA #20.507 Federal Transit Capital and Operating Assistance Formula Grants**
 - **Dollar Threshold Used to Distinguish Between Type A and Type B Programs–\$583,781**
 - **The Authority is considered to be a Low-Risk Auditee as defined under OMB Circular A-133.**

Findings Related to the Financial Statements that are Required to be Reported Under *Government Auditing Standards*

None

Findings and Questioned Costs Relating to Federal Awards

None

Southwest Ohio Regional Transit Authority

**Status of Prior Year Comments on Internal Control and Legal Compliance
for the year ended December 31, 2003**

There were no comments on internal control and legal compliance included in the prior year reports.

Southwest Ohio Regional Transit Authority

**Authority Officials
as of December 31, 2003**

BOARD OF TRUSTEES	
Chairman	Timothy R. Williams
Trustees	Benjamin Gettler Richard M. Haines Robert L. Harris Stephan M. Louis Thomas A. Luken Daniel S. Peters Melody Sawyer Richardson Lamont Taylor

ADMINISTRATION	
CEO, General Manager & Secretary-Treasurer	Paul Jablonski
Assistant General Manager – Administration	Barry E. Frank
Assistant General Manager – Operations	Michael L. Brown

**Southwest Ohio Regional Transit Authority
Hamilton County, Ohio**

**COMPREHENSIVE ANNUAL FINANCIAL REPORT
For the Fiscal Year Ended December 31, 2003**

**Timothy R. Williams, Jr.
Chairman
Board of Trustees**

**Paul C. Jablonski
CEO & General Manager
Metro Operating Division**

**Prepared by:
Department of Accounting and Budget**

Southwest Ohio Regional Transit Authority
COMPREHENSIVE ANNUAL FINANCIAL REPORT
For the Fiscal Year Ended December 31, 2003

TABLE OF CONTENTS	PAGE
Introductory Section	
Letter of Transmittal	1
Reporting Entity	2
Economic Condition and Outlook	4
Major Initiatives	5
Financial Information	6
Other Information	9
Board of Trustees and Administration	10
Table of Organization	11
Certificate of Achievement for Excellence in Financial Reporting	12
Financial Section	
Independent Auditors' Report	13
Management's Discussion and Analysis	15
Financial Statements:	
Balance Sheets	20
Statements of Revenues, Expenses and Changes in Net Assets	22
Statements of Cash Flows	24
Notes to the Financial Statements	26
Supplemental Schedule of Revenues, Expenses and Changes in Net Assets - Budget and Actual (GAAP Basis)	43
Statistical Section	
Revenues by Source	44
Revenues by Source (Graph Presentation)	45
Revenues and Operating Assistance —	
Comparison to Industry Trend Data	46
City Income Tax-Transit Fund	47
Passenger Fares vs. Operating Expenses	48
Passenger Fares Recovery Ratio	49
Expenses by Object Class	50
Operating Expenses per Vehicle Hour	51
Operating Expenses —	
Comparison to Industry Trend Data	52
Operating Statistics	53
Fare Rate Structure	55
Demographic Statistics	56
Miscellaneous Statistics	57

SORTA

Southwest Ohio Regional Transit Authority

414 Walnut Street, Suite 408
Cincinnati, Ohio 45202-3913
513/651-3020

June 1, 2004

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

The Comprehensive Annual Financial Report (CAFR) of the Southwest Ohio Regional Transit Authority (SORTA or Metro) for the fiscal year ended December 31, 2003, is hereby respectfully submitted. This CAFR was prepared by the Department of Accounting and Budget and represents SORTA's commitment to provide accurate, concise and high-quality financial information to its Board of Trustees, interested parties and residents in its service area.

Trustees

Benjamin Gettler
Chairman

Lamont Taylor
Vice Chairman

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

This CAFR contains financial statements and statistical data which provide full disclosure of all of SORTA's material financial operations. The financial statements, supplemental schedules, statistical information, and all data contained herein are the representations of SORTA's management. SORTA's management bears the responsibility for the accuracy, completeness and fairness of this CAFR presentation.

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to SORTA for its comprehensive annual financial report for the fiscal year ended December 31, 2002. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily-readable and efficiently-organized comprehensive annual financial report, whose contents conform to program standards. Such a CAFR must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. SORTA received a Certificate of Achievement for its last submission to GFOA (fiscal year ended 2002) as well as the previous eleven years. We believe our current report continues to conform to the Certificate of Achievement program requirements, and we are submitting it to GFOA.

This CAFR is divided into the following three sections:

- **Introductory Section** contains this letter of transmittal, a list of the members of the Board of Trustees and Administration, and a Table of Organization.
- **Financial Section** includes the Independent Auditors' Report, Management's Discussion and Analysis, the financial statements (with related footnotes) for the fiscal years ended December 31, 2003 and 2002, and actual revenues, expenses, and changes in net assets for the fiscal year ended December 31, 2003, compared to the budgeted amounts. During 2003 we adopted Governmental Accounting Standards Board (GASB) Statement 34, Basic Financial Statements and Management's Discussion and Analysis, and the selected GASB Statements No. 37 and 38. The impact of the adoption of these statements is discussed in this section.
- **Statistical Section** provides financial, economic, and demographic information which is useful for indicating trends for comparative fiscal periods.

REPORTING ENTITY

General

SORTA's reporting entity has been defined in accordance with Governmental Accounting Standards Board (GASB) Statement No. 14. Accordingly, the financial statements contained within this comprehensive annual financial report include only the accounts and transactions of SORTA. A complete discussion of SORTA's reporting entity is included in Note 1 to the financial statements.

SORTA was created under Chapter 306 of the Ohio Revised Code by a resolution of the Hamilton County Board of Commissioners adopted on October 2, 1968. SORTA's service area is comprised of 219 square miles in Hamilton County, 18 square miles in Clermont County, 16 square miles in Warren County and 7 square miles in Butler County. This service area encompasses 13 townships, 16 villages and 22 cities, including the City of Cincinnati.

Commencement of Operations and Funding

Voters approved a City of Cincinnati income tax increase for transit in November 1972, which permitted the City's purchase of the privately-owned Cincinnati Transit Inc. bus system. On February 8, 1973, an agreement (the City/SORTA agreement) was executed providing terms for the operation of the transit system and delineating the obligations of SORTA and the City of Cincinnati. SORTA's operation of the service commenced August 15, 1973.

SORTA receives operating and capital assistance from the U.S. Department of Transportation under the Urban Mass Transportation Act of 1964 (the Act), as amended. Among other requirements of the Act, state and local governments must provide a proportionate share of funds and/or support (as defined by the Federal Transit Administration guidelines) for operating and capital assistance. In this regard, under the terms of the City/SORTA agreement, the City provides operating and capital assistance to SORTA from revenues derived from the income tax designated for transit operations. Operating assistance provided represents SORTA's net loss before such assistance, excluding depreciation and losses on the disposal of assets purchased with capital grants.

Facilities

SORTA's six facilities are located at:

- **1014 Vine Street, Suite 2000, a leased facility in downtown Cincinnati, houses Metro's administrative offices, along with the office of SORTA staff and Board of Trustees.**
- **120 East Fourth Street, a leased facility in downtown Cincinnati, operated jointly with the Transit Authority of Northern Kentucky (TANK) and provides customer services, bus rider information, and sales services.**
- **Bond Hill Operating Division, 4700 Paddock Road, provides indoor storage for up to 145 buses and light maintenance work areas.**
- **Queensgate Operating Division and Maintenance Support Facility, 1401 Bank Street, provides indoor storage for up to 280 buses. Both heavy and light maintenance is performed at this location. The radio control room is also housed at this facility.**

- **Silverton Assessment and Training Center, 7000 Montgomery Road.** This facility is for assessment and training for people with disabilities.
- **Paratransit Operating Facility, 1801 Transpark Drive.** This is the site from which our specialized transportation service for customers who are unable to use fixed route service operates. This is a purchased transportation service.

Services

SORTA, through its operating division, Metro, provides fixed-route, demand-response (Access), and special-event services in Hamilton County, Ohio. Some fixed-route service is also provided in adjacent Butler County, Clermont County and Warren County. A detailed discussion of SORTA's services is listed below:

- **53 Metro fixed bus routes, most of which are multi-branch, provide 136 local or express services: 46 local services operating seven days a week; 9 local services operating six days a week (Monday through Saturday); 32 local services operating five days a week (Monday through Friday); and 49 commuter express services, operating primarily during weekday rush hours.**
- **Metro's fixed-route service hours are: weekdays, from 4:18 a.m. to 1:34 a.m. the next day; Saturdays, 4:41 a.m. to 1:14 a.m. the next day; and Sundays and holidays, 5:12 a.m. to 1:12 a.m. the next day.**
- **SORTA estimates that it will provide approximately 937,000 hours of Metro fixed-route bus service in 2004, which will yield approximately 13.4 million vehicle miles of operation, including nonrevenue miles. In 2003, Metro provided 957,000 hours of fixed route service, yielding 13.5 million vehicle miles of operation, including nonrevenue miles, and 23.9 million rides.**
- **Based on a review of 2000 Census data, it is estimated that 80% of the residents of the service area live within three-quarters of a mile of Metro fixed-route bus services.**
- **Access, a demand-responsive, shared-ride service for persons with disabilities, is managed and operated by a private contractor which uses SORTA's fleet of 45 lift-equipped vehicles and 7 ambulatory vehicles. SORTA's Access Manager provides oversight for this service. SORTA projects that in 2004 it will provide approximately 266,000 passenger trips and more than 2.7 million vehicle miles of Access service. In 2003, Access provided 271,000 passenger trips and 2.7 million vehicle miles. This decrease is due to limiting hours non-ADA service is available.**

Management, Board of Trustees

SORTA is managed by a Board of Trustees (the "Board") which is vested by Ohio law with the powers necessary to manage SORTA. The legislation and agreements establishing SORTA provide for a nine-member Board serving overlapping three-year terms. All board members are appointed by the Hamilton County Board of Commissioners and four members are recommended by the Mayor of the City of Cincinnati with the advice and consent of City Council.

Administration

The administration of SORTA, subject to the policies and supervision of its Board of Trustees, is directed by a general manager/CEO. The senior staff is selected by the general manager/CEO. A Table of Organization which depicts the key functional responsibilities is shown on page 14 of this Introductory Section.

ECONOMIC CONDITION AND OUTLOOK

General

Hamilton County (SORTA's primary service area) is situated in the southwest corner of Ohio. The county seat is the City of Cincinnati, which is located on the southern boundary of the state on the Ohio River. The Cincinnati Metropolitan Statistical Area (MSA) consists of 13 counties: Brown, Butler, Clermont, Hamilton and Warren in Ohio; Boone, Campbell, Gallatin, Grant, Kenton and Pendleton in Kentucky; and Dearborn and Ohio in Indiana. The MSA population in 2002 was 2,040,746. Hamilton County's population of 845,303 comprises more than 40 percent of the 13-county total.

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

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

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

Unemployment in Hamilton County has tracked closely with that of the nation. The Cincinnati area unemployment rate for 2003 was 7.3 percent, compared with a national average of 6.0 percent. This has been largely due to job losses in manufacturing, but projections show that gains in construction, retail, service, health care, insurance and financial sectors will help this region outpace the nation over the long term. In fact, predictions by the Economic Advisory Committee of the Greater Cincinnati Chamber of Commerce call for the local unemployment rate to fall to 4.9 percent in 2004 on the basis of these gains.

Population

Population in SORTA's principal service area since 1960 has been as follows:

<u>Year</u>	<u>Cincinnati</u>	<u>Hamilton County</u>
1960	502,550	864,121
1970	452,524	924,018
1980	385,497	873,224
1990	364,040	867,881
2000	331,285	845,303

Source: U.S. Bureau of the Census

Recent population changes in Hamilton County do not appear to have had a substantial effect on SORTA's ridership. SORTA's motor bus ridership has been averaging between 24 million and 29 million rides per year over the past 10 years. Metro experienced a small decline of 236 thousand passengers in 2003 due to job loss in the economy.

Employment

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

<u>Year</u>	Average Unemployment Rates		
	<u>Hamilton County (1)</u>	<u>Ohio (1)</u>	<u>U.S. (2)</u>
1999	3.6%	4.3%	4.2%
2000	3.6%	4.1%	4.0%
2001	3.6%	4.3%	4.8%
2002	5.1%	5.7%	5.8%
2003 (1)	5.1%	6.1%	6.0%

Source: (1) Ohio Bureau of Employment Services

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

Housing and Building Permits

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

MAJOR INITIATIVES

Recent Developments

Highlights from Metro's operations in 2003 include the following:

- Provided 23.9 million passenger trips on Metro fixed route service.

- **Provided 271,448 passenger trips on Access paratransit service.**
- **Completed Phases I and II of the renovation of the Access paratransit facility.**
- **Inaugurated service on new Routes 66 and 67, linking workers from the inner city with jobs in suburban communities.**
- **Provided transit service to Tall Stacks, a major festival celebrating Cincinnati's riverboat heritage. Over the five days of the event, Metro provided more than 68,815 passenger trips between suburban park and ride lots and the Riverfront Transit Center.**
- **Unveiled public art projects created by local artists in Metro's Riverfront Transit Center. These included a mosaic depicting Cincinnati icons and a bronze relief of Cincinnati Olympic hero William DeHart Hubbard, the first African-American to win a gold medal in an Olympic event.**

Future Projects

Initiatives planned or undertaken in 2004 include:

- **On February 1, Metro implemented a zone fare increase for travel outside the City of Cincinnati and introduced a universal transfer policy.**
- **Starting in May, Metro began streamlining most routes and schedules to improve efficiency, make them easier to use and provide more direct service. This process will be completed by September, 2004.**
- **Metro opened the solicitation process for artists to create public art as part of the redesign of Government Square, its downtown transit hub, which is slated to begin in 2004.**
- **Metro will take delivery of 23 new Gillig Phantom 40-foot transit coaches in 2004.**
- **Metro kicked off *TransitWorks*, a program designed to encourage employers to subsidize their employees' transit use and take advantage of tax breaks as allowed by the Internal Revenue Code.**

FINANCIAL INFORMATION

Internal Control Structure

The management of SORTA is responsible for establishing and maintaining an internal control structure designed to ensure that SORTA's assets are protected from loss, theft, or misuse. Its responsibility is also to ensure that accurate accounting data is compiled to allow for the preparation of financial statements in conformity with accounting principles generally accepted in the United States of America.

In developing and evaluating SORTA's accounting systems, emphasis is placed on the adequacy of internal controls. Internal accounting controls are designed to provide reasonable, but not absolute, assurance regarding the protection of assets against loss from unauthorized use or disposition, and the reliability of financial records used to prepare financial statements. The concept of "reasonable assurance" recognizes that the cost of the control should not exceed the benefits likely to be derived, and that the evaluation of costs and benefits requires estimates and judgments by management.

All internal control evaluations occur within the above framework. Management believes that SORTA's internal accounting controls adequately safeguard assets and provide reasonable

assurance of proper recording of financial transactions. Management also believes that the data, as presented herein, is accurate in all material respects, that it presents fairly the financial position, results of operations and cash flows of SORTA, and that all disclosures necessary to enable the reader to obtain an understanding of SORTA's financial affairs have been included.

Basis of Accounting

SORTA's accounting records are maintained on the accrual basis. The activities are accounted for in a single enterprise (proprietary-type) fund.

Budgetary Controls

The annual accrual-basis operating budget and capital budget are proposed by SORTA's management and adopted by the Board of Trustees in a public meeting. The annual budget is prepared using overall guidelines established after consideration of SORTA's long-range financial plan. All capital and operating items exceeding \$25,000 receive Board approval prior to purchase. The long-range plan, updated annually, projects revenue sources over the next five years and establishes service levels and growth commensurate with such revenue limits.

SORTA maintains budgetary control by not permitting total operating expenses and expenditures for individual capital projects to exceed their appropriations without approval by the Board of Trustees. Management ensures that expenses and capital expenditures stay within the total appropriation. On a monthly basis, the Board reviews budget variations. It is the responsibility of each department to administer its operations in such a manner as to ensure that the use of funds is consistent with the goals and programs authorized by the Board of Trustees.

Retirement Plans

All SORTA employees are covered under the Public Employees Retirement System of Ohio (PERS), a statewide public retirement (including disability retirement) system. Employees contribute to PERS at a statutory rate of 8.5% of earnable salary or compensation, and SORTA contributes 13.55% of the same base for 2003. These contribution rates are actuarially determined and statutorily mandated.

SORTA has a "pickup" (assume and pay) program with respect to all of the statutorily required contributions of employees. Under the pickup program, employee compensation is reduced by the amount of the contributions to PERS that is paid by SORTA on behalf of the employees. In addition, Federal and state income taxes are deferred on the compensation until the amounts are withdrawn from PERS. PERS is not subject to the funding and vesting requirements of the Federal Employee Retirement Income Security Act of 1974.

PERS was created by and operates pursuant to the Ohio Revised Code. The Ohio General Assembly could decide to amend the format of PERS and could revise the contribution rates or basis of contributions made by SORTA as well as the plan's benefit levels.

Federal law requires SORTA employees hired after March 31, 1986, to participate in the Federal Medicare program, which requires matching employer and employee contributions, each being 1.45% of the taxable wages. Otherwise, SORTA employees are not currently covered under the Federal Social Security Act.

SORTA also administers a private pension plan under which benefits are no longer being accrued.

Other Post-employment Benefits

PERS also provides post-retirement health care coverage to those employees who retire with ten or more years of qualifying Ohio service credit as well as health care coverage for disability recipients and primary survivor recipients. A portion of each employer's contribution to **PERS** is set aside to fund these benefits (5% of wages in 2003).

SORTA also provides post-employment health care to former employees of Cincinnati Transit Inc. who do not qualify for **PERS** health care benefits. **SORTA** became self-insured for these benefits March 1, 1997.

All bargaining unit retirees are provided with a \$1,500 life insurance benefit which is funded through the purchase of group insurance.

A liability of approximately \$305,000 is recorded on **SORTA's** balance sheet at December 31, 2003, which represents the present value of the estimated future health and life insurance costs that are expected to be paid for current employees as well as those who are presently retired.

Cash Management and Investments

SORTA utilizes a cash management and investment procedure which attempts to maximize the financial return (while minimizing risk of loss) on all available funds. Cash balances are invested within the constraints imposed by **SORTA's** investment policy and the Ohio Revised Code after obtaining competitive quotations. In accordance with these provisions, only banks located in Ohio and domestic building and loan associations are eligible to hold public deposits. The provisions also permit **SORTA** to invest its monies in certificates of deposit, savings accounts, money market accounts, the state treasurer's investment pool ("STAROhio"), and obligations of the United States government or certain agencies thereof. **SORTA** may also enter into repurchase agreements for a period not exceeding thirty days with banks located in the State of Ohio with which **SORTA** has signed a Master Repurchase Agreement.

Substantially all deposits and investments are either covered by Federal depository insurance, surety bonds, held by **SORTA's** agent in **SORTA's** name or covered by specific collateral held in **SORTA's** name.

Risk Management

SORTA is self-insured for public liability and property damage claims. Claims are normally paid with **SORTA's** general operating revenues. The City Income Tax-Transit Fund has \$3 million of its balance restricted to satisfy potential catastrophic or extraordinary losses (in excess of \$100,000).

SORTA, starting January 1, 1995, became self-insured for Worker's Compensation benefits. **SORTA** carries liability insurance to cover any claim in excess of \$350,000.

SORTA is insured for general health and hospitalization benefits as well as life and accidental death and dismemberment benefits.

Blanket insurance coverage is maintained for property and equipment. In addition, **SORTA** has insurance to protect against internal losses.

OTHER INFORMATION

Independent Audit

SORTA's independent auditor, Deloitte & Touche LLP, has rendered an unqualified audit report on SORTA's financial statements for the fiscal year ended December 31, 2003.

SORTA also participates in the Federal single audit program, which consists of a single audit of all Federally-funded programs administered by SORTA. As a requirement for continued funding eligibility, participation in the single audit program is mandatory for most local governments, including SORTA. The single audit performed by Deloitte & Touche LLP met the requirements set forth by the State of Ohio and the Federal Single Audit Act of 1984 (as amended) and related OMB Circular A-133. The single audit report for the fiscal year ended December 31, 2003 contained no findings.


Certificate of Achievement Program

It is the intention of SORTA's management to submit this and future CAFR's for review under the GFOA's "Certificate of Achievement for Excellence in Financial Reporting" program. Management believes the current report conforms to the program requirements and expects that participation will result in continued improvement in SORTA's financial reporting in future years.

Acknowledgements

The publication of this report is a reflection of the level of excellence and professionalism SORTA's Department of Accounting and Budget has attained. It demonstrates the extent of SORTA's accountability to its taxpayers and creditors.

This report would not have been possible without the determination and high standards of the entire staff of the Department of Accounting and Budget. Special thanks is extended to the Communications Department staff for their assistance. SORTA wishes to thank all who contributed to this project.


Michael L. Brown
Interim General Manager
Assistant General Manager,
Operations


Barry E. Frank
Interim Secretary/Treasurer
Assistant General Manager,
Administration

**Southwest Ohio Regional Transit Authority
Board of Trustees and Administration as of December 31, 2003**

Members of the Board of Trustees

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

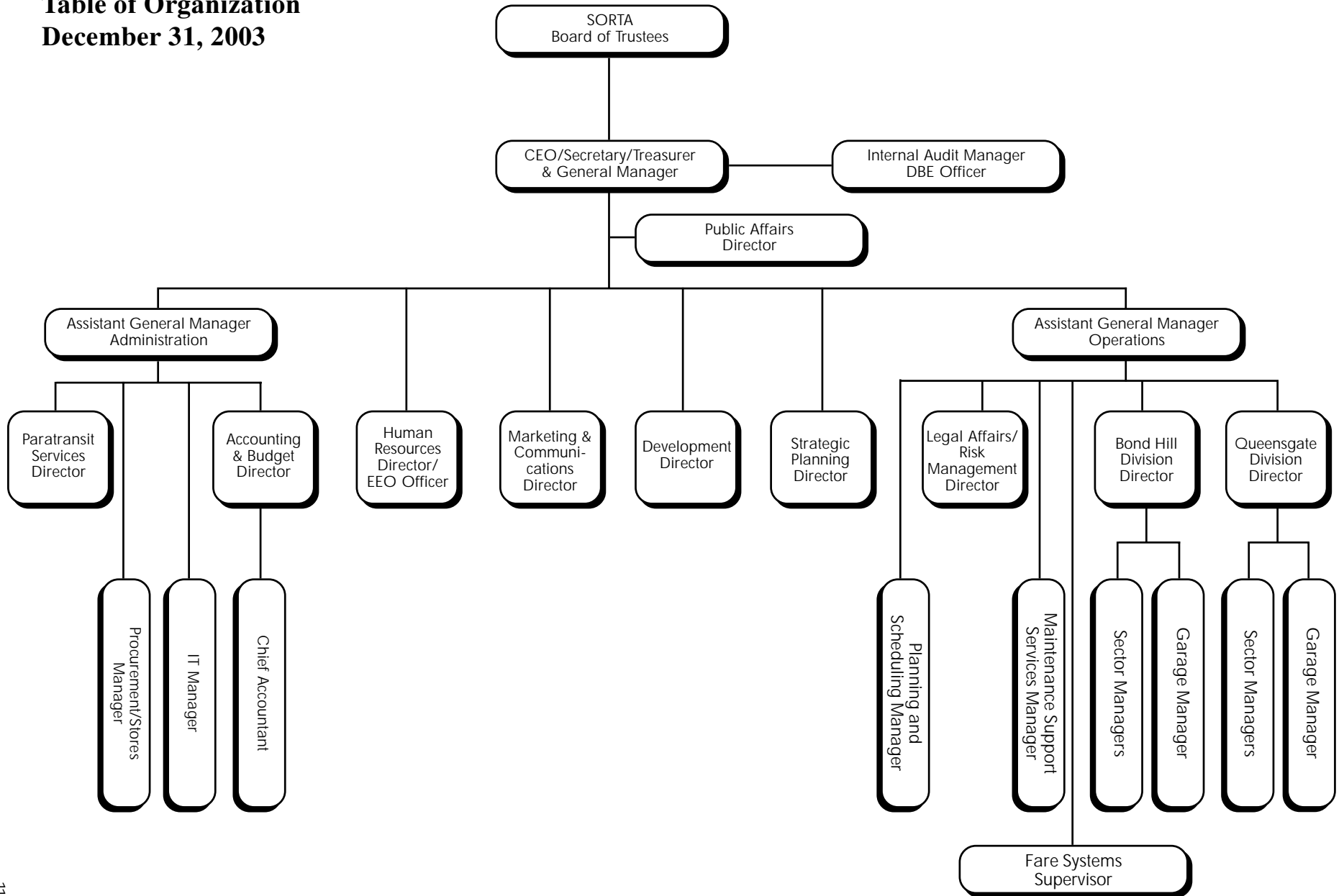
Administration

Paul C. Jablonski, CEO, secretary/treasurer & general manager*
Michael L. Brown, assistant general manager, Operations
Barry E. Frank, assistant general manager, Administration

Vaughn B. Davis, director, Human Resources/EEO officer
William Desmond, director and counsel, Legal Affairs/Risk Management
Don DeVore, manager, Maintenance Support Services
Timothy Harrington, manager, Information Technology
Sallie L. Hilvers, director, Public Affairs
Cathy Hugenberg, director, Accounting and Budget
Ted C. Meyer, manager, Planning and Scheduling
Mary Moning, director, Access
Carl L. Palmer, director, Development
Rita D. Potts, director, Marketing and Communications
Timothy J. Reynolds, director, Strategic Planning
Jerry Roetting, manager, Procurement
Carlos R. Rowland, director, Queensgate Operating Division
William R. Spraul, director, Bond Hill Operating Division

* Resigned as of January 28, 2004. Replaced on an interim basis by Mike Brown as Interim General Manager and Barry Frank as Interim Secretary/Treasurer.

**Southwest Ohio Regional Transit Authority
Table of Organization
December 31, 2003**



INTRODUCTORY SECTION

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Southwest Ohio Regional Transit Authority

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
December 31, 2002

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director



Deloitte & Touche LLP
Suite 2500
127 Public Square
Cleveland, Ohio 44114-1303

Tel: (216) 589-1300
Fax: (216) 589-1369
www.us.deloitte.com

INDEPENDENT AUDITORS' REPORT

**Board of Trustees
Southwest Ohio Regional Transit Authority
Cincinnati, Ohio**

We have audited the accompanying balance sheets of the Southwest Ohio Regional Transit Authority (the "Authority") as of December 31, 2003 and 2002 and the related statements of revenues, expenses, and changes in net assets and of cash flows for the years then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the respective financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the respective 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, such financial statements present fairly, in all material respects, the financial position of the Authority as of December 31, 2003 and 2002, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 11 to the financial statements, during 2003, the Authority adopted Governmental Accounting Standards Board ("GASB") Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments: Omnibus*, GASB Statement No. 37, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments: Omnibus*, and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*.

Management's Discussion and Analysis on pages 15 - 19 is not a required part of the basic financial statements but is supplementary information required by the GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedule of revenues, expenses, and changes in net assets—budget and actual (GAAP basis) for the year ended December 31, 2003 is presented for purpose of additional analysis and is not a required part of the Authority's 2003 basic financial statements. This schedule is the responsibility of the Authority's management. Such schedule has been subjected to the auditing procedures applied in our audit of the 2003 basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The statistical data on pages 44 - 57 is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Authority. Such additional information has not been subjected to the auditing procedures applied in our audits of the basic financial statements, and, accordingly, we express no opinion on it.

Deloitte & Touche LLP

June 1, 2004

Southwest Ohio Regional Transit Authority

Management's Discussion and Analysis

As financial management of the Southwest Ohio Regional Transit Authority (the "Authority"), we offer readers of these financial statements this narrative overview and analysis of the financial activities of the Authority for the fiscal year ended December 31, 2003. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities and to identify any significant changes in financial position. We encourage readers to consider the information presented here in conjunction with the financial statements as a whole.

Financial Highlights

- The Authority's total net assets decreased over the course of the year's operations, due to depreciation expense in excess of capital purchases.
- The Authority's 2003 operating expenses, excluding depreciation and amortization and the grant pass through, were \$2.0 million higher than 2002 operating expenses. This 2.7% increase is due mainly to a new labor contract, fuel and parts costs along with casualty and liability costs.
- Operating revenues for the Authority were \$15.6 million for the fiscal year of 2003. This was an increase of 5.1% over the prior year, and was primarily due to the loss of Clear Air fare subsidy. In 2002 our fares were reduced to 50¢ from June through August due to receiving this subsidy.
- Transit Fund revenue required from the City of Cincinnati increased \$5.5 million to compensate for a \$2.1 million decline in investment income due to lower interest rates and fair market value adjustment, a \$1.4 million reduction in federal maintenance grants and reimbursements, \$.7 million passed through to the City of Cincinnati for the construction of the Riverfront Transit Center and \$1.3 million to cover higher fuel costs and other expenses. These funds reflect an increase of \$2.2 million from the Transit Fund, the use of 2002 positive variation and local capital in the amount of \$2.3 million, \$.7 million of special project funds passed through to the City of Cincinnati for the Riverfront Transit Center and \$.3 million from prior years funding for other capital projects.
- Investment income, including changes in fair value of investments, decreased by \$2.1 million or 82.7% in 2003 due to the decrease in interest rates, portfolio performance, and balances available for investment.

Overview of the Financial Statements

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

Required Financial Statements

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

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

Southwest Ohio Regional Transit Authority

Management's Discussion and Analysis (continued)

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

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

Notes to the Financial Statements

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

Financial Analysis of the Authority

One of the most important questions asked about the Authority's finances is "Is the Authority as a whole better off or worse off as a result of this year's activities?" The 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 non-financial factors such as changes in economic conditions, population decline or growth, and new or changed governmental legislation.

**Condensed Statements of Net Assets
December 31, 2003 and 2002**

	2003	2002
Current assets	\$54,146,499	\$58,165,022
Non-current assets	4,007,360	4,827,110
Capital assets-net	<u>77,697,454</u>	<u>80,839,279</u>
Total assets	<u>135,851,313</u>	<u>143,831,411</u>
Current liabilities	30,985,723	35,612,916
Non-current liabilities	<u>26,688,644</u>	<u>26,874,380</u>
Total liabilities	<u>57,674,367</u>	<u>62,487,296</u>
Net assets:		
Invested in capital assets, net of related debt	59,061,094	60,826,561
Restricted	513,532	164,259
Unrestricted	<u>18,602,320</u>	<u>20,353,295</u>
Total net assets	<u>\$78,176,946</u>	<u>\$81,344,115</u>

Southwest Ohio Regional Transit Authority

Management's Discussion and Analysis (continued)

Net assets decreased \$3.2 million to \$78.2 million in 2003, down from \$81.3 million in 2002. The 3.9% decrease in net assets was principally due to depreciation expense in excess of capital additions.

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

Condensed Statement of Changes in Net Assets
Years Ended December 31, 2003 and 2002

	2003	2002
Operating revenues	\$15,636,886	\$14,872,572
Operating expenses excluding depreciation and grant pass through	(74,354,350)	(72,384,955)
Depreciation and amortization	(9,549,897)	(9,212,023)
Operating loss before grant pass through	(68,267,361)	(66,724,406)
Grant pass through-Riverfront Transit Center	(3,943,394)	(713,250)
Operating loss	(72,210,755)	(67,437,656)
Net non-operating revenues (expenses):		
Transit Fund assistance	36,807,865	32,051,739
Federal maintenance grants and reimbursements	14,017,803	15,463,606
State ADA assistance & fuel tax reimbursement	985,279	981,926
State special fare assistance	322,417	334,612
Investment income	698,606	1,576,235
Net (decrease) increase in fair value of investments	(259,140)	971,734
Non-transportation revenue	512,875	541,145
Local operating grants and special fare assistance	5,631,759	5,591,386
Non-operating revenues and expenses, net before grant pass through	58,717,464	57,512,383
Transit fund grant pass through-Riverfront Transit Center	735,309	—
Federal grant pass through-Riverfront Transit Center	3,208,085	713,250
	62,660,858	58,225,633
Capital Contributions	6,382,728	14,230,986
Change in net assets	(3,167,169)	5,018,963
Net assets, beginning of year	81,344,115	76,325,152
Net assets, end of year	\$78,176,946	\$81,344,115

Southwest Ohio Regional Transit Authority

Management's Discussion and Analysis (continued)

The Authority's operating revenues increased \$.8 million to \$15.6 million in 2003 from \$14.9 million in 2002. This 5.1% increase is due to not offering the reduced Summer Clean Air Fare in 2003 since we did not receive the subsidy funding. Operating expenses, excluding depreciation and amortization, increased by \$5.2 million as compared to the prior year. \$3.2 million of that increase was due to federal and local funds passed through to the City of Cincinnati for the completion of the Riverfront Transit Center. The remaining \$2.0 million increase was due to increased wages, fringes, materials and supply costs and casualty and liability costs.

The 2003 increase in other non-operating revenues of \$4.4 million is primarily related to recognition of income from the City of Cincinnati income tax - transit fund, \$2.3 million carryover from prior year and \$2.5 million from 2003. Also, the Authority recognized \$3.9 million in funds passed through to the City of Cincinnati for the completion of the Riverfront Transit Center. These have been offset by a \$1.4 million decrease in Federal maintenance grants and reimbursements, a \$.9 million decrease in Investment Income, and a \$1.2 million decrease in fair value of investments. The Authority's allocation of Federal Section 5307 funds decreased by \$2.2 million in 2003. This reduction is not clearly reflected in the financial statements because Clermont County and BCRTA chose to pay for contracted services to their areas by passing through a portion of their Section 5307 Federal Allocation to SORTA.

Cash Flows

Net cash used for operating activities increased by \$2 million in 2003 as a result of increased operating expenses partially offset by increased passenger fare revenues. Net cash provided by non-capital financing activities increased \$7.2 million, due to a combination of increased funding from the City of Cincinnati Transit Fund and federal maintenance grants and reimbursements. The increase from the City Transit Fund is due to \$1.4 million increase in operating funding available in 2003, and use of prior year carryover and deferred capital of \$2.6 million and \$.7 million pass through to the City for the Riverfront Transit Center. The increase in the Federal grants and reimbursements is due to the \$2.5 million increase in the Riverfront Transit Center funds passed through to the city. Net cash used in capital and related financing activities decreased \$7.6 million as a result of decreased capital grant funding and not financing current year acquisitions with capital leases as we did in 2002. Net cash used in investing activities increased by \$9.1 million with reductions in investment securities and interest received.

Capital Asset and Debt Administration

Capital Assets: The Authority's investment in capital assets amounts to \$77.7 million, net of accumulated depreciation as of December 31, 2003, a decrease of \$3.1 million (3.9%). Capital assets include land and land improvements, revenue producing and service equipment, buildings and structures, shop equipment, office furnishings and computer equipment. Major capital asset expenditures during the current fiscal year include the following:

- Rehabilitation of the Bond Hill building roof totaling \$.7 million.
- Rehabilitation & expansion of the facility that houses our Access paratransit operation totaling \$4 million

Southwest Ohio Regional Transit Authority

Management's Discussion and Analysis (concluded)

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

Long-term Debt: The Authority has outstanding leases on buses in the amount of \$18,636,360. This debt consists of an \$8,636,360 lease on 24 Gillig buses and 40 paratransit buses which matures in 2006 and a \$10,000,000 lease on 38 Gillig buses which matures in 2011. See Note 7 to the financial statements for more detailed information regarding capital leases.

Requests for Information

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

Southwest Ohio Regional Transit Authority

**Balance Sheets
as of December 31, 2003 and 2002**

ASSETS	2003	2002
Current assets:		
Cash and cash equivalents (Note 4)	\$2,257,149	\$10,426,592
Investments (Note 4)	42,443,628	38,439,141
Receivables:		
Federal assistance	5,497,978	4,673,126
State assistance	146,759	823,433
Other	2,543,305	2,524,252
Inventory of materials and supplies	1,064,451	1,109,365
Prepaid expenses and other current assets	193,229	169,113
Total current assets	<u>54,146,499</u>	<u>58,165,022</u>
Non-current assets:		
Cash and cash equivalents (Notes 4 and 7)	3,042,041	4,585,746
Receivables for capital assistance	965,319	241,364
Total non-current assets	<u>4,007,360</u>	<u>4,827,110</u>
Capital assets (Notes 5 and 7):		
Land and buildings	14,661,089	14,638,237
Improvements	13,141,379	7,845,941
Revenue vehicles	95,222,413	95,563,453
Other equipment	24,281,551	23,311,298
Total	147,306,432	141,358,929
Less allowance for depreciation and amortization	<u>69,608,978</u>	<u>60,519,650</u>
Capital assets-net	<u>77,697,454</u>	<u>80,839,279</u>
Total assets	<u>\$135,851,313</u>	<u>\$143,831,411</u>

(continued)

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

Southwest Ohio Regional Transit Authority

Balance Sheets

as of December 31, 2003 and 2002 (continued)

LIABILITIES AND NET ASSETS	2003	2002
Current liabilities:		
Accounts payable	\$1,436,931	\$1,355,186
Accrued payroll	1,100,960	971,693
Accrued payroll taxes and other benefits (Note 8)	4,139,186	4,175,961
Current portion of estimated claims payable (Note 9)	875,000	1,770,000
Current portion of capital lease obligation (Note 7)	—	1,376,358
Other current liabilities	1,996,303	2,455,640
Advance from City of Cincinnati		
Income Tax-Transit Fund (Note 3):		
For current operations	1,277,195	3,349,019
For capital purposes	20,160,148	20,159,059
Total current liabilities	<u>30,985,723</u>	<u>35,612,916</u>
Non-current liabilities:		
Capital expenditures payable	931,212	356,935
Deferred capital grants	2,528,509	4,421,487
Estimated claims payable, net of current portion (Note 9)	4,407,460	3,223,450
Capital lease obligation, net of current portion (Note 7)	18,636,360	18,636,360
Accrued pension cost (Note 8)	185,103	236,148
Total non-current liabilities	<u>26,688,644</u>	<u>26,874,380</u>
Total liabilities	<u>57,674,367</u>	<u>62,487,296</u>
Net assets:		
Invested in capital assets, net of related debt	59,061,094	60,826,561
Restricted	513,532	164,259
Unrestricted	18,602,320	20,353,295
Total net assets	<u>78,176,946</u>	<u>81,344,115</u>
Total liabilities and net assets	<u>\$135,851,313</u>	<u>\$143,831,411</u>

(concluded)

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

Southwest Ohio Regional Transit Authority

Statements of Revenues, Expenses and Changes in Net Assets
for the years ended December 31, 2003 and 2002

	2003	2002
Operating revenues		
Passenger fares for transit service	\$14,757,975	\$13,846,443
Special transit fares	486,613	411,610
Auxiliary transportation revenue	392,298	614,519
Total	<u>15,636,886</u>	<u>14,872,572</u>
Operating expenses other than depreciation:		
Labor	36,271,527	35,486,589
Fringe benefits	15,970,741	15,766,539
Materials and supplies consumed	8,222,477	7,308,553
Services	2,704,432	3,244,190
Utilities	1,340,968	1,216,215
Casualty and liability	1,342,778	547,257
Taxes	895,527	863,904
Purchased transportation services	5,840,101	6,115,799
Leases and rentals	454,645	488,117
Miscellaneous	1,311,154	1,347,792
Sub-total	<u>74,354,350</u>	<u>72,384,955</u>
Grant pass-through-Riverfront Transit Center	3,943,394	713,250
Total	<u>78,297,744</u>	<u>73,098,205</u>
Depreciation and Amortization (Note 5)	<u>9,549,897</u>	<u>9,212,023</u>
Total operating expenses	<u>87,847,641</u>	<u>82,310,228</u>
Operating loss	<u>(72,210,755)</u>	<u>(67,437,656)</u>
Non-operating revenues (expenses):		
Federal maintenance grants and reimbursements (Note 6)	14,017,803	15,463,606
Federal grant pass-through-Riverfront Transit Center (Note 6)	3,208,085	713,250
State maintenance grants, reimbursements and special fare assistance (Note 6)	1,307,696	1,316,538
Local operating grants and special fare assistance (Note 6)	5,631,759	5,591,386
Investment income-net (Note 7)	698,606	1,576,235
Increase (decrease) in fair value of investments	(259,140)	971,734
Non-transportation revenue	512,875	541,145
Total	<u>25,117,684</u>	<u>26,173,894</u>
Loss before operating assistance provided by City of Cincinnati Income Tax-Transit Fund and capital grant activity	(47,093,071)	(41,263,762)

(continued)

Southwest Ohio Regional Transit Authority

**Statements of Revenues, Expenses and Changes in Net Assets
for the years ended December 31, 2003 and 2002 (continued)**

	2003	2002
Operating assistance from the City of Cincinnati Income Tax-Transit Fund grant pass-through- Riverfront Transit Center (Note 3)	\$735,309	—
Operating assistance from the City of Cincinnati Income Tax-Transit Fund (Note 3)	<u>36,807,865</u>	<u>\$32,051,739</u>
Net loss before capital grant activity	(9,549,897)	(9,212,023)
Capital grant revenue (Notes 2C and 6)	<u>6,382,728</u>	<u>14,230,986</u>
Increase (decrease) in net assets during the year	(3,167,169)	5,018,963
Net assets, beginning of year	<u>81,344,115</u>	<u>76,325,152</u>
Net assets, end of year	<u>\$78,176,946</u>	<u>\$81,344,115</u>

(concluded)

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

Southwest Ohio Regional Transit Authority

Statements of Cash Flows

for the years ended December 31, 2003 and 2002

	2003	2002
Cash flows from operating activities:		
Receipts from fares and charters	\$15,158,762	\$14,508,719
Payments to suppliers	(23,464,124)	(22,096,697)
Payments for labor and employee benefits	(51,920,999)	(51,262,423)
Payments for claims and insurance	<u>(1,955,712)</u>	<u>(1,319,633)</u>
Net cash used in operating activities	<u>(62,182,073)</u>	<u>(60,170,034)</u>
Cash flows from noncapital financing activities:		
Transfer from City of Cincinnati Income Tax-Transit Fund	35,471,350	28,438,939
Federal maintenance grants and reimbursements	16,401,036	15,629,326
State maintenance grants, reimbursements and special fare assistance	1,984,370	2,890,358
Other local operating assistance received	<u>5,631,759</u>	<u>5,355,673</u>
Net cash provided by noncapital financing activities	<u>59,488,515</u>	<u>52,314,296</u>
Cash flows from capital and related financing activities:		
Capital grants received:		
City of Cincinnati Income Tax-Transit Fund	53,900	5,651,585
Federal, state and other local	3,740,242	2,399,397
Additions to capital assets	(5,855,396)	(14,137,331)
Interest paid on capital lease obligation	(924,797)	(721,169)
Payments of capital lease obligation	(1,376,358)	—
Proceeds from capital lease obligation	<u>—</u>	<u>10,000,000</u>
Net cash provided by (used in) capital and related financing activities	<u>(4,362,409)</u>	<u>3,192,482</u>
Cash flows from investing activities:		
Net cash (payments for) receipts from investment securities	(4,269,285)	3,947,976
Interest received	<u>1,612,104</u>	<u>2,495,317</u>
Net cash provided by (used in) investing activities	<u>(2,657,181)</u>	<u>6,443,293</u>
Net increase (decrease) in cash and cash equivalents	<u>(9,713,148)</u>	<u>1,780,037</u>

(continued)

Southwest Ohio Regional Transit Authority

Statements of Cash Flows

for the years ended December 31, 2003 and 2002 (continued)

	2003	2002
Cash and cash equivalents at beginning of year	<u>\$15,012,338</u>	<u>\$13,232,301</u>
Cash and cash equivalents at end of year	<u>\$5,299,190</u>	<u>\$15,012,338</u>
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$(72,210,755)	\$(67,437,656)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization	9,549,897	9,212,023
Non-transportation revenue	512,875	541,145
Changes in assets and liabilities:		
Other receivables	(19,053)	(183,869)
Inventory of materials and supplies	44,914	(66,029)
Prepaid expenses and other current assets	(24,116)	(44,917)
Accounts payable	81,745	(1,098,642)
Accrued expenses	92,492	232,180
Other liabilities	(499,082)	(823,149)
Estimated claims payable	<u>289,010</u>	<u>(501,120)</u>
Net cash used in operating activities	<u>\$(62,182,073)</u>	<u>\$(60,170,034)</u>
Noncash investing, capital and financing activities		
Increase (decrease) in fair value of investments	<u>\$(259,140)</u>	<u>\$971,734</u>

(concluded)

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

Southwest Ohio Regional Transit Authority

Notes to the Financial Statements for the years ended December 31, 2003 and 2002

1. Organization and Reporting Entity

A. Organization

The Southwest Ohio Regional Transit Authority ("SORTA" or the "Authority") is responsible for the operation of the Greater Cincinnati public transit system. SORTA is organized under Sections 306.30 through 306.53 of the Ohio Revised Code and is not subject to income taxes. SORTA, which is the policy-making body for the transit system known as Metro, operates under an agreement with the City of Cincinnati (the "City") (see Note 3).

B. Reporting Entity

The Authority has adopted the provisions of Statement No. 14 of the Governmental Accounting Standards Board ("GASB"), "The Financial Reporting Entity". Accordingly, the accompanying financial statements include only the accounts and transactions of the Authority. Under the criteria specified in Statement No. 14, the Authority has no component units nor is it considered a component unit of the City of Cincinnati or Hamilton County, Ohio. The Authority is, however, considered to be a related organization to Hamilton County by virtue of the fact that SORTA's Board of Trustees is appointed by the Hamilton County Board of Commissioners.

These conclusions regarding the financial reporting entity are based on the concept of financial accountability. The Authority is not financially accountable for any other organization nor is the City or Hamilton County accountable for SORTA. This is evidenced by the fact that the Authority is a legally and fiscally separate and distinct organization under the provisions of the Ohio Revised Code.

2. Summary of Significant Accounting Policies

A. Basis of Accounting

The accompanying financial statements were prepared in accordance with accounting principles generally accepted in the United States of America which require the accrual basis of accounting. Under this basis of accounting, revenues and expenses are recognized in the period earned or incurred. All transactions are accounted for in a single enterprise fund. In accordance with GASB Statement No. 20 "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting," the Authority has elected not to apply the provisions of the Statements and Interpretations of the Financial Accounting Standards Board issued after November 30, 1989. The Authority will continue applying all applicable pronouncements issued by the GASB.

The measurement focus is on the determination of revenues, expenses, financial position, and cash flows as the identification of these items is necessary for appropriate capital maintenance, public policy, management control, accountability, and the calculation of amounts due under the City/SORTA agreement (see Note 3).

Southwest Ohio Regional Transit Authority

Notes to the Financial Statements

for the years ended December 31, 2003 and 2002 (continued)

B. Net Asset Classifications

GASB Statement No. 34 (see Note 11) requires the classification of net assets into the following three components:

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

C. Nonexchange Transactions

The Authority follows GASB Statement No. 33, "Accounting and Financial Reporting for Nonexchange Transactions". In general, GASB Statement No. 33 establishes accounting and financial reporting standards about when to report the results of nonexchange transactions involving financial or capital resources. In a nonexchange transaction, an entity gives (or receives) value without directly receiving or giving equal value in return. The Authority's principal nonexchange transactions involve the receipt of monies from the City Income Tax-Transit Fund (see Note 3) along with federal, state and local grants for operating assistance as well as the acquisition of property, facilities and equipment. Substantially all of the Authority's nonexchange transactions represent reimbursement-type grants, which are recorded as revenue in the period the related expenditures are incurred. Any monies received in advance of the period in which the related expenditures are incurred, are recorded as deferred revenue until the expenditures are incurred.

D. Passenger Fares

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

E. Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the Authority considers all highly liquid investments (including restricted assets and SORTA's investment in the State Treasury Asset Reserve of Ohio ("STAROhio")) with a maturity of three months or less when purchased to be cash equivalents.

F. Investments

The Authority's investments (including cash equivalents) are recorded at fair value (based on quoted market prices) except that short-term, highly liquid debt investments, with a remaining maturity at the time of purchase of one year or less are reported at amortized cost.

Southwest Ohio Regional Transit Authority

**Notes to the Financial Statements
for the years ended December 31, 2003 and 2002 (continued)**

The Authority has invested funds in STAROhio, an investment pool managed by the State Treasurer's office which allows governments within the state to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price, which is the price at which the investment could be sold.

G. Inventory of Materials and Supplies

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

H. Restricted Assets

Restricted assets consist of funds received under various capital grants from the Federal Transit Administration ("FTA"), the Ohio Department of Transportation ("ODOT"), and the local matching share received from the City Income Tax-Transit Fund. Restricted assets also include funds received under a master lease-purchase agreement and not yet expended. These assets are restricted for capital and other project expenditures.

I. Capital Assets and Depreciation

Capital assets are stated at cost and include expenditures which substantially increase the utility or useful lives of existing assets. Maintenance parts are expensed when placed in service. Routine maintenance and repairs are expensed as incurred.

Assets acquired with capital grants or under capital lease are also included in capital assets, and depreciation/amortization of the cost of those assets is included in the Statements of Revenues, Expenses and Changes in Net Assets.

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

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

J. Claims

As described in Note 9, SORTA is self-insured for public liability, personal injury, third-party property damage, and workers' compensation claims. SORTA recognizes a liability for such claims if information prior to the issuance of the financial statements indicates that it

Southwest Ohio Regional Transit Authority

**Notes to the Financial Statements
for the years ended December 31, 2003 and 2002 (continued)**

is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated.

The liability recorded includes the estimated incremental expenses to be incurred to settle the claims, including legal fees. Claims liabilities are based on evaluations of individual claims and a review of experience with respect to the probable number and nature of claims arising from losses that have been incurred but have not yet been reported. The claims liabilities represent the estimated ultimate cost of settling the claims, including the effects of inflation and other societal and economic factors. Estimated future recoveries on settled and unsettled claims, such as subrogations, if any, are evaluated in terms of their estimated realizable value and deducted from the liability for unpaid claims. Any adjustments resulting from the actual settlement of the claims are reflected in earnings at the time the adjustments are determined.

K. Compensated Absences

Vacation pay is accrued and charged to expense as earned. Because rights to sick pay do not vest, SORTA recognizes such costs when they are incurred.

L. Budgetary Accounting and Control

SORTA's annual budget is prepared on the accrual basis of accounting. The budget includes amounts for current year revenues and expenses as well as new capital projects.

The Authority maintains budgetary control by not permitting total operating expenses (excluding depreciation and amortization) and expenditures for individual capital projects to exceed revenue sources without approval by the Board of Trustees. No budget amendments were passed for 2003 and 2002. All budget amounts lapse at year end.

M. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America require 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.

3. Federal Grants and Local Reimbursements

SORTA receives capital assistance from the U.S. Department of Transportation under the Urban Mass Transportation Act of 1964 (the "Act"), as amended. Among other requirements of the Act, state and local governments must provide a proportionate share of funds and/or support (as defined by the Federal Transit Administration guidelines) for capital assistance.

Southwest Ohio Regional Transit Authority

Notes to the Financial Statements for the years ended December 31, 2003 and 2002 (continued)

In addition to federal and state capital assistance, funding is also provided by a portion of the City income tax approved by the residents of the City and designated for transit operations. Operating assistance provided from the City Income Tax-Transit Fund represents SORTA's net loss before such assistance, excluding depreciation/amortization and losses on the disposal of assets purchased with capital grants. Any portion unremitted for the year is recorded as a receivable. Any overadvanced amount for the year is recorded as an advance from the City Income Tax-Transit Fund or as deferred capital grants representing the Authority's matching local share requirements under the Act.

An agreement between the City and SORTA requires the City to maintain a transit fund into which the proceeds of the income tax designated for transit operations are deposited. This fund provides all necessary local (other than operating revenues) operating and capital assistance to SORTA. The agreement also contains certain provisions regarding service standards and fares. This agreement is of indefinite duration but may be terminated by providing 180 days written notice to the other party. If terminated, the City will assume all outstanding commitments that SORTA incurred in carrying out the agreement.

4. Cash and Investments

The investment and deposit of Authority monies are governed by the provisions of the Ohio Revised Code and the Authority's established policies. Accordingly, only banks located in Ohio and domestic building and loan associations are eligible to hold public deposits. The Authority is also permitted to invest its monies in certificates of deposit, savings accounts, money market accounts, the State Treasurer's investment pool (STAROhio), and obligations of the United States government and certain agencies thereof. The Authority may also enter into repurchase agreements for a period not exceeding thirty days with banks located within the State of Ohio with which the Authority has signed a Master Repurchase Agreement. At the time of making an investment, the Authority's Treasurer must reasonably expect that the investment can be held until maturity. To the extent possible, the Treasurer will attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow requirement, the Treasurer will not directly invest in securities maturing more than five years from the settlement date of purchase. The weighted average maturity of all securities cannot exceed two years.

Public depositories must give security for all public funds on deposit. These institutions may either specifically collateralize individual accounts in excess of amounts insured by the Federal Deposit Insurance Corporation (FDIC), may pledge a pool of government securities valued at least 105% of the total value of public monies on deposit at the institution, or may deposit surety company bonds which when executed shall be for an amount in excess of collateral requirements. Repurchase agreements must be secured by the specific government securities upon which the repurchase agreements are based. These securities must be obligations of or guaranteed by the United States and must mature or be redeemable within five years of the date of the related repurchase agreement. The market value of the securities subject to a repurchase agreement must exceed the value of the principal by 2% and be marked to market daily. State law does not require security for public deposits and investments to be maintained in the Authority's name.

Southwest Ohio Regional Transit Authority

Notes to the Financial Statements

for the years ended December 31, 2003 and 2002 (continued)

The Authority is prohibited from investing in any financial instrument, contract, or obligation whose value or return is based upon or linked to another asset or index, or both, separate from the financial instrument, contract, or obligation itself (commonly known as a "derivative"). The Authority is also prohibited from investing in reverse repurchase agreements.

As of December 31, 2003, the Authority maintained restricted cash and cash equivalents of \$3,042,041, and unrestricted cash and investments of \$44,700,777. The total cash and investments of \$47,742,818 consisted of \$8,325,457 in deposits and \$39,417,361 in investments.

A. Deposits

At December 31, 2003, the carrying amount of the Authority's deposits was \$8,325,457 and the bank balance was \$10,213,621, \$10,130,204 of which was covered by federal depository insurance, surety bonds provided by a commercial insurance company, or collateralized with securities held by the Federal Reserve in SORTA's name and \$83,417 was uninsured and uncollateralized as defined by the GASB.

B. Investments

The Authority's investments are detailed below and are categorized in accordance with the criteria established by the GASB to indicate the level of credit risk assumed as of December 31, 2003. Category 1 includes investments that are insured or registered for which the securities are held by the Authority or its agent in the Authority's name. Category 2 includes investments that are uninsured and unregistered for which the securities are held by the counterparty's trust department or agent in the Authority's name. Category 3 includes uninsured and unregistered investments for which securities are held by the counterparty or by its trust department or agent but not in the Authority's name.

Description	Category			Carrying Amount	Fair Value
	1	2	3		
U.S. Government & Agency securities	\$36,849,310	\$ —	\$ —	\$36,849,310	\$36,896,904
STAROhio				<u>2,568,051</u>	<u>2,568,051</u>
Total				<u>\$39,417,361</u>	<u>\$39,464,955</u>

The Authority's investment in STAROhio has not been categorized as to credit risk because it represents an investment pool that is not evidenced by securities that exist in physical or book entry form. Investments in STAROhio are valued at STAROhio's share price which is the price at which the investment could be redeemed on December 31, 2003.

The Authority's deposits and investments are included in the accompanying balance sheets under the captions "Cash and cash equivalents" and "Investments".

Southwest Ohio Regional Transit Authority

Notes to the Financial Statements
for the years ended December 31, 2003 and 2002 (continued)

5. Capital Assets

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

	Balance January 1, 2003	Additions	Deletions	Balance December 31, 2003
Capital Assets Not Being Depreciated:				
Land	<u>\$13,159,558</u>	<u>\$6,352</u>	<u>—</u>	<u>\$13,165,910</u>
Total Capital Assets Not Being Depreciated	<u>13,159,558</u>	<u>6,352</u>	<u>—</u>	<u>13,165,910</u>
Capital Assets Being Depreciated:				
Buildings	1,478,679	16,500	—	1,495,179
Improvements	7,845,941	5,295,438	—	13,141,379
Revenue Vehicles	95,563,453	—	\$341,040	95,222,413
Other Equipment	<u>23,311,298</u>	<u>1,111,383</u>	<u>141,130</u>	<u>24,281,551</u>
Total Capital Assets Being Depreciated	<u>128,199,371</u>	<u>6,423,321</u>	<u>482,170</u>	<u>134,140,522</u>
Less Accumulated Depreciation:				
Buildings	121,588	39,850	—	161,438
Improvements	2,888,890	710,815	—	3,599,705
Revenue Vehicles	44,433,843	6,718,817	341,040	50,811,620
Other Equipment	<u>13,075,329</u>	<u>2,080,415</u>	<u>119,529</u>	<u>15,036,215</u>
Total Accumulated Depreciation	<u>60,519,650</u>	<u>9,549,897</u>	<u>460,569</u>	<u>69,608,978</u>
Total Capital Assets Being Depreciated, Net	<u>67,679,721</u>	<u>(3,126,576)</u>	<u>21,601</u>	<u>64,531,544</u>
Total Capital Assets, Net	<u>\$80,839,279</u>	<u>\$(3,120,224)</u>	<u>\$21,601</u>	<u>\$77,697,454</u>

Southwest Ohio Regional Transit Authority

**Notes to the Financial Statements
for the years ended December 31, 2003 and 2002 (continued)**

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

	Balance January 1, 2002	Additions	Deletions	Balance December 31, 2002
Capital Assets Not Being Depreciated:				
Land	<u>\$13,272,192</u>	—	<u>\$112,634</u>	<u>\$13,159,558</u>
Total Capital Assets Not Being Depreciated	<u>13,272,192</u>	—	<u>112,634</u>	<u>13,159,558</u>
Capital Assets Being Depreciated:				
Buildings	1,379,242	\$99,437	—	1,478,679
Improvements	6,892,379	955,585	2,023	7,845,941
Revenue Vehicles	96,957,006	10,684,083	12,077,636	95,563,453
Other Equipment	<u>23,339,402</u>	<u>2,121,278</u>	<u>2,149,382</u>	<u>23,311,298</u>
Total Capital Assets Being Depreciated	<u>128,568,029</u>	<u>13,860,383</u>	<u>14,229,041</u>	<u>128,199,371</u>
Less Accumulated Depreciation:				
Buildings	85,184	36,404	—	121,588
Improvements	2,410,688	480,225	2,023	2,888,890
Revenue Vehicles	49,862,926	6,648,553	12,077,636	44,433,843
Other Equipment	<u>13,156,271</u>	<u>2,046,841</u>	<u>2,127,783</u>	<u>13,075,329</u>
Total Accumulated Depreciation	<u>65,515,069</u>	<u>9,212,023</u>	<u>14,207,442</u>	<u>60,519,650</u>
Total Capital Assets Being Depreciated, Net	<u>63,052,960</u>	<u>4,648,360</u>	<u>21,599</u>	<u>67,679,721</u>
Total Capital Assets, Net	<u>\$76,325,152</u>	<u>\$4,648,360</u>	<u>\$134,233</u>	<u>\$80,839,279</u>

Prior to 1986, under terms of the operating agreement with the City, SORTA agreed to operate transportation equipment and certain operating facilities which had been purchased by the City primarily under FTA and ODOT capital grants.

During 1986, the City transferred the title to existing transit system physical assets, except for real estate, construction projects and certain assets which had been conveyed to a bank under a sale and leaseback arrangement.

If the assets not conveyed by the City in 1986 (real estate, construction projects, and certain other assets having an estimated aggregate cost of approximately \$28.3 million at December 31, 2003) had been owned by SORTA, the provision for depreciation for the years ended December 31, 2003 and 2002 would have increased approximately \$650,000 in each year.

In case of termination of the City/SORTA operating agreement, all assets operated by SORTA for the City are to be returned to the City.

Southwest Ohio Regional Transit Authority

Notes to the Financial Statements
for the years ended December 31, 2003 and 2002 (continued)

6. Grants, Reimbursements, and Special Fare Assistance

Grants, reimbursements, and special fare assistance included in the Statements of Revenues and Expenses and Changes in Net Assets for the years ended December 31, 2003 and 2002 consist of the following:

	2003	2002
Non-operating revenues:		
Federal:		
FTA-Maintenance and Other Assistance	<u>\$14,017,803</u>	<u>\$15,463,606</u>
FTA-grant pass-through-Riverfront Transit Center	<u>\$3,208,085</u>	<u>\$713,250</u>
State:		
ODOT-Fuel Tax Reimbursement	\$836,905	\$805,170
ODOT-Elderly and Handicapped Grant	322,417	334,612
ODOT-Maintenance and Other Assistance	<u>148,374</u>	<u>176,756</u>
Total	<u>\$1,307,696</u>	<u>\$1,316,538</u>
Local:		
Cincinnati Board of Education Contract	\$4,548,257	\$4,602,380
Hamilton County	444,295	340,155
Warren County	54,662	52,464
Butler County	—	178,473
Deerfield Township	36,518	30,261
Clermont County	216,808	189,632
City of Fairfield	23,623	—
City of West Chester	20,100	—
City of Mason	36,518	30,260
City of Lebanon	4,610	14,630
Other	246,368	153,131
Total	<u>\$5,631,759</u>	<u>\$5,591,386</u>
Capital grant revenue:		
Federal	\$2,271,321	\$991,872
State	3,003,262	873,554
Local	<u>1,108,145</u>	<u>12,365,560</u>
Total	<u>\$6,382,728</u>	<u>\$14,230,986</u>

7. Lease Commitments

SORTA leases its administrative offices under lease agreements which are accounted for as operating leases. Rent expense under these leases, which includes certain short-term leases, was approximately \$261,000 in 2003 and \$263,000 in 2002.

At December 31, 2003, the minimum future payments under leases with terms extending beyond one year are as follows:

Southwest Ohio Regional Transit Authority

Notes to the Financial Statements

for the years ended December 31, 2003 and 2002 (continued)

<u>Year</u>	<u>Amount</u>
2004	\$ 260,135
2005	267,986
2006	266,650
2007	277,177
2008	288,173
2009	146,907
Total	<u>\$1,507,028</u>

SORTA also leases 102 revenue vehicles under two master lease-purchase agreements with local financial institutions. Based on the terms of the agreements, they have been classified as capital leases. The capitalized cost and accumulated amortization recorded for these vehicles amounted to \$18,587,672 and \$3,654,459, respectively, at December 31, 2003. Unspent proceeds of the capital leases totalling \$48,688 are included in restricted cash and investments in the accompanying balance sheet as of December 31, 2003.

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

<u>Year</u>	<u>Amount</u>
2004	\$892,064
2005	890,925
2006	9,527,285
2007	475,000
2008	475,000
2009-2011	<u>11,187,500</u>
Total minimum lease payments	23,447,774
Less amount representing interest	<u>4,811,414</u>
Present value of net minimum lease payments	18,636,360
Less principal amount due in 2004	<u>—</u>
Amount due after 2004	<u>\$18,636,360</u>

During the years ended December 31, 2003 and 2002, the Authority recognized \$913,498 and \$919,082, respectively, of interest expense under its capital leases. During February 2004, the Authority refinanced the \$10 million capital lease obligation at substantially the same terms and to take advantage of a lower effective interest rate. The refinancing of the lease is expected to yield a savings over the life of the agreement of approximately \$400,000.

Southwest Ohio Regional Transit Authority

**Notes to the Financial Statements
for the years ended December 31, 2003 and 2002 (continued)**

8. Retirement Benefits

A. Public Employees Retirement System of Ohio

Plan Description. Effective July 1, 1991, all employees of the Authority are required to be members of the Public Employees Retirement System of Ohio ("PERS"), a cost-sharing, multiple-employer defined benefit pension plan. Authority to establish and amend benefits is provided by State statute per Chapter 145 of the Ohio Revised Code. PERS issues a stand-alone financial report that includes financial statements and required supplementary information. The financial report may be obtained by making a written request to the Public Employees Retirement System of Ohio, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-6705 or 1-800-222-PERS (7377).

PERS administers three separate pension plans as described below:

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

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

Funding Policy. The Ohio Revised Code provides statutory authority for employee and employer contributions. Employees other than law enforcement personnel are required to contribute 8.5% of their covered payroll to PERS. The 2003 and 2002 employer contribution rate for local government employer units was 13.55% of covered payroll including 5.0% that is used to fund postretirement health care benefits. The Authority's total contributions to PERS for pension benefits (excluding the amount relating to postretirement benefits) for the years ended December 31, 2003, 2002 and 2001 were \$3,339,000, \$3,281,000, and \$3,520,000, respectively, equal to 100% of the required contribution for each year.

B. Private Pension Plans

Plan Description. Certain retirees (31 at January 1, 2004) continue to participate in the private pension plans which originated under the privately owned transit system (Cincinnati

Southwest Ohio Regional Transit Authority

Notes to the Financial Statements

for the years ended December 31, 2003 and 2002 (continued)

Transit, Inc.) acquired by the City in 1973. SORTA administers these single-employer, defined benefit pension plans and is reimbursed by the City for the costs of the plans (Note 3). The pension costs of the private plans are expected to decline in future years. The private pension plans do not issue stand-alone financial reports.

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

Annual Pension Cost and Net Pension Obligation. SORTA's annual pension cost and net pension obligation pertaining to the private pension plans as of and for the years ended December 31, 2003, 2002 and 2001 were determined using the unit credit actuarial cost method as follows:

	2003	2002	2001
Annual required contribution	—	—	—
Interest on net pension obligation	—	—	—
Actuarial adjustment to net pension obligation	<u>\$(8,546)</u>	<u>—</u>	<u>\$4,881</u>
Annual pension cost	(8,546)	—	4,881
Contribution/benefit payments made	<u>(42,499)</u>	<u>\$(56,595)</u>	<u>(64,620)</u>
Decrease in net pension obligation	(51,045)	(56,595)	(59,739)
Net pension obligation beginning of year	<u>236,148</u>	<u>292,743</u>	<u>352,482</u>
Net pension obligation end of year	<u>\$185,103</u>	<u>\$236,148</u>	<u>\$292,743</u>

The net pension obligation was actuarially determined using a mortality assumption obtained from the Unisex Pension Table for 1984 and the 2003 and 2002 amounts are recognized as non-current liabilities on the accompanying balance sheets. Because future benefit increases are not assured and are not expected to be material, this factor was not considered in the determination of the net pension obligation and annual pension cost.

C. Other Postemployment Benefits

Benefits Provided Through PERS. The authority provides health care benefits as a post-employment benefit (as defined by GASB Statement No. 12) through its contributions to PERS. In addition to the pension benefit described in Note 8A, PERS provides post-retirement health care benefits to qualifying members of both the TP and CO Plans; however, health care benefits are not statutorily guaranteed. Members of the MD Plan do not qualify for ancillary benefits, including post-employment health care coverage. In order to qualify for post-retirement health care coverage, age and service retirees must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is also available. The health care coverage provided by PERS is considered an Other Post-employment Benefit ("OPEB") as described in GASB Statement No. 12.

Southwest Ohio Regional Transit Authority

Notes to the Financial Statements

for the years ended December 31, 2003 and 2002 (continued)

A portion of each employer's contribution to PERS is set aside for the funding of post-retirement health care. The Ohio Revised Code provides statutory authority for employer contributions. For the Authority, 5.0% of covered payroll was the portion of the 13.55% total contribution rate for 2003 that was used to fund health care for the year. The Ohio Revised Code provides the statutory authority requiring public employers to fund postretirement health care through their contributions to PERS.

The assumptions and calculations noted below were based on PERS' latest actuarial review performed as of December 31, 2002. An entry-age normal actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of the unfunded actuarial accrued liability. All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach, assets are adjusted annually to reflect 25% of unrealized market appreciation or depreciation on investment assets. The assumed rate of return on investments for 2002 was 8.0%. An annual increase of 4.0%, compounded annually, is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4.0% base increase, were assumed to range from 0.5% to 6.3%. Health care costs were assumed to increase 4.0% annually.

OPEB provided through PERS are advance-funded on an actuarially determined basis. The total number of active contributing participants in the TP and CO Plans was 364,881 at December 31, 2003. The Authority's contributions to PERS for other post-employment benefits for the years ended December 31, 2003 and 2002 were \$1,935,000 and \$1,919,000, respectively, equal to 100% of the required contributions for each year. The actuarial value of PERS' net assets available for OPEB at December 31, 2002 was \$10.0 billion. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$18.7 billion and \$8.7 billion, respectively.

In December 2001, PERS adopted the Health Care "Choices" Plan in its continuing effort to respond to the rise in the cost of health care. The Choices Plan is offered to all persons newly hired in a PERS covered position after January 1, 2003, with no prior service credit accumulated toward health care coverage. Choices, as the name suggests, will incorporate a cafeteria approach, offering a more broad range of health care options. The plan uses a graded scale from ten to thirty years of service to calculate a monthly health care benefit. This is in contrast to the ten-year "cliff" eligibility standard for the present plan. Each benefit recipient will be free to select the option that best meets his or her needs. Recipients will fund health care costs in excess of their monthly health care benefit. The Plan will also offer a spending account feature, enabling the benefit recipient to apply his or her allowance toward specific medical expenses, much like a Medical Spending Account.

In response to the adverse investment returns experienced by PERS from 2000 through 2002, and the continued staggering rate of health care inflation, PERS Board is considering extending "Choices" type cost cutting measures to all active members and benefit recipients. The PERS Board has not determined the exact changes that will be made to the health care plan. However, changes to the Plan are expected to be approved by the summer of 2004.

Southwest Ohio Regional Transit Authority

Notes to the Financial Statements

for the years ended December 31, 2003 and 2002 (continued)

Other Benefits Provided. In addition to the other postemployment benefits provided by PERS, SORTA also provides postemployment health care benefits to former employees of Cincinnati Transit, Inc., who do not qualify for PERS health care benefits, and a \$1,500 life insurance benefit to each retired hourly employee. The life insurance benefits are provided through group insurance arrangements which are funded by SORTA through payment of monthly insurance premiums. The health care benefits were previously provided by group insurance arrangements which were funded by SORTA through payment of monthly insurance premiums. Effective March 1, 1997, SORTA became self-insured for such health care benefits. As of December 31, 2003, 4 individuals were receiving health care benefits and 378 individuals were eligible to receive life insurance benefits.

SORTA has recorded the following accrued liabilities in accrued payroll taxes and other benefits on its balance sheet for these postemployment benefits at December 31:

	<u>2003</u>	<u>2002</u>
Health care benefits	\$ 7,805	\$ 37,183
Life insurance benefits	\$297,150	\$272,384

These liabilities represent the present value of the estimated future health care benefits and life insurance premiums that are expected to be paid for retirees who were eligible for benefits as of each of the dates indicated. The liability for life insurance benefits includes a provision for estimated amounts which will be paid for existing employees.

These liabilities were determined based on the following assumptions:

	2003	2002
Medical inflation assumptions	**	**
Future annual increases in life insurance premiums	2.00%	2.00%
Remaining life expectancy*	Individually Determined	
Medical		
Life	14.6 yrs.	14.6 yrs.
Interest factor	6.00%	6.00%

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

** 7% in 2004, decreasing to 5% in 2008 and thereafter.

The total expense recognized by the Authority for postemployment benefits not provided under PERS was approximately \$45,000 and \$54,000 for the years ended December 31, 2003 and 2002, respectively.

Southwest Ohio Regional Transit Authority

Notes to the Financial Statements

for the years ended December 31, 2003 and 2002 (continued)

9. Risk Management

SORTA is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or acts of God. Blanket insurance coverage has been obtained to cover damage or destruction to the Authority's property and SORTA is self-insured for public liability, personal injury, and third-party property damage claims. In addition, the City of Cincinnati has appropriated \$3,000,000 of funds held in the City Income Tax-Transit Fund (see Note 3). These funds may be used to fund individual claims against SORTA to the extent that each claim is in excess of \$100,000 per incident. Claims expense and a liability are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated.

Employee health care benefits are provided under a group insurance arrangement and, on January 1, 1995, the Authority became self-insured for workers' compensation benefits. Prior to 1995, SORTA was insured through the State of Ohio for workers' compensation benefits. The State of Ohio Bureau of Workers' Compensation continues to be liable for all claims prior to January 1, 1995. As shown below, the estimated amount due for workers' compensation claims is included in the accrual for estimated claims payable. SORTA carries liability insurance to cover any workers' compensation claim in excess of \$250,000 through December 31, 2001, and \$350,000 thereafter. The workers' compensation liability includes an amount for claims that may have been incurred but not reported. The claims liability has been calculated on an actuarial basis considering the effects of inflation, recent claim settlement trends including frequency and amount of pay-outs, and other economic factors. The present value of the workers' compensation liability is calculated using an interest rate of 3.34%.

The changes in the liabilities for self-insured risks for the years ended December 31, 2003 and 2002 are as follows:

	<u>Workers'</u> <u>Compensation</u>	<u>Public Liability</u> <u>and Property Damage</u>	<u>Total</u>
Balance, January 1, 2002	\$3,572,000	\$1,922,570	\$5,494,570
Claims, net of changes			
in estimates	252,780	565,733	818,513
Payments	(494,255)	(825,378)	(1,319,633)
Balance, December 31, 2002	3,330,525	1,662,925	4,993,450
Claims, net of changes			
in estimates	855,154	1,389,568	2,244,722
Payments	(626,377)	(1,329,335)	(1,955,712)
Balance, December 31, 2003	<u>\$3,559,302</u>	<u>\$1,723,158</u>	<u>\$5,282,460</u>

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

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

Southwest Ohio Regional Transit Authority**Notes to the Financial Statements
for the years ended December 31, 2003 and 2002 (continued)****10. Contingencies and Commitments****A. Litigation and Claims**

It is the Authority's policy, within certain limits (see Note 9), to act as self-insurer for certain insurable risks consisting primarily of public liability, property damage, and workers' compensation. At December 31, 2003, SORTA had been named in various public liability and property damage claims and suits, some of which seek significant damages. The ultimate outcome of those matters cannot be determined; however, it is the opinion of management that any resulting liability to the Authority in excess of the amount provided for in the accompanying balance sheets, and which is not covered by insurance, will not have a material adverse effect on the Authority's financial position.

B. Federal and State Grants

Under the terms of the Authority's various grants, periodic audits are required where certain costs could be questioned as not being eligible expenditures under the terms of the grants. At December 31, 2003, there were no questioned costs that had not been resolved with appropriate federal and state agencies. Questioned costs could still be identified during audits to be conducted in the future. In the opinion of SORTA's management, no material grant expenditures will be disallowed.

11. New Accounting Pronouncements

Effective January 1, 2003, the Authority implemented the provisions of GASB Statement No. 34, "Basic Financial Statements--and Management's Discussion and Analysis--for State and Local Governments," Statement No. 37, "Basic Financial Statements--and Management's Discussion and Analysis--for State and Local Governments: Omnibus," and Statement No. 38, "Certain Financial Statement Disclosures." These statements revise accounting and reporting standards for general purpose external financial reporting by governmental units. These statements change the Authority's presentation of net assets and require the inclusion of management's discussion and analysis. The implementation of these statements had no impact on the Authority's net assets.

During May 2002, the GASB issued Statement No. 39, "Determining Whether Certain Organizations are Component Units (an amendment of GASB Statement No. 14)." This statement amends Statement No. 14 to provide additional guidance to determine whether certain organizations for which the primary government is not financially accountable should be reported as a component unit based on the nature and significance of their relationship with the primary government. Generally, this Statement requires reporting, as a component unit, an organization that raises and holds economic resources for the direct benefit of a governmental unit. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2003. The Authority has not determined the impact, if any, that this Statement will have on its financial statements.

Southwest Ohio Regional Transit Authority

**Notes to the Financial Statements
for the years ended December 31, 2003 and 2002 (concluded)**

During March 2003, the GASB issued Statement No. 40, "Deposits and Investment Risk Disclosures (an amendment of GASB Statement No. 3)." This Statement addresses disclosures related to common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. As an element of interest rate risk, this Statement requires certain disclosures of investments that have fair values that are highly sensitive to changes in interest rates. Deposit and investment policies related to the risks identified in this Statement also should be disclosed. The provisions of this Statement are effective for financial statements of periods beginning after June 15, 2004. The Authority has not determined the impact, if any, that this Statement will have on its financial statements.

During November 2003, the GASB issued Statement No. 42, "Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries." This Statement establishes accounting and financial reporting standards for impairment of capital assets. Under provisions of this Statement, a capital asset is considered impaired when its service has declined significantly and unexpectedly. This Statement also clarifies and establishes accounting requirements for insurance recoveries. The provisions of this Statement are effective for fiscal periods beginning after December 15, 2004. The Authority has not determined the impact, if any, that this Statement will have on its financial statements.

Southwest Ohio Regional Transit Authority

**Supplemental Schedule of Revenues, Expenses and Changes in Net Assets—
Budget and Actual (GAAP Basis)
for the year ended December 31, 2003**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Operating revenues	\$15,625,880	\$15,636,886	\$11,006
Operating expenses other than depreciation and amortization:			
Labor	35,699,941	36,271,527	(571,586)
Fringe benefits	17,534,179	15,970,741	1,563,438
Materials and supplies consumed	7,322,136	8,222,477	(900,341)
Services	2,817,886	2,704,432	113,454
Utilities	1,333,820	1,340,968	(7,148)
Casualty and liability	478,105	1,342,778	(864,673)
Taxes	851,203	895,527	(44,324)
Purchased transportation services	6,766,299	5,840,101	926,198
Leases and rentals	481,213	454,645	26,568
Miscellaneous	1,425,336	1,311,154	114,182
Sub-total	74,710,118	74,354,350	355,768
Grant pass-through–Riverfront Transit Center	3,943,394	3,943,394	0
Total	78,653,512	78,297,744	355,768
Depreciation and amortization	9,300,000	9,549,897	(249,897)
Total operating expenses	87,953,512	87,847,641	105,871
Operating loss	(72,327,632)	(72,210,755)	116,877
Non-operating revenues:			
Local operating grants and special fare assistance	41,022,244	42,439,624	1,417,380
Local grant pass-through–Riverfront Transit Center	735,309	735,309	0
Federal maintenance grants and reimbursements	14,378,578	14,017,803	(360,775)
Federal grant pass-through–Riverfront Transit Center	3,208,085	3,208,085	0
State maintenance grants, reimbursements and special fare assistance	1,456,165	1,307,696	(148,469)
Investment income-net	1,110,000	698,606	(411,394)
Increase (decrease) in fair value of investments	0	(259,140)	(259,140)
Non-transportation revenue	229,804	512,875	283,071
Total	62,140,185	62,660,858	520,673
Net loss before capital grant activity	(10,187,447)	(9,549,897)	637,550
Capital grant revenue	10,783,293	6,382,728	(4,400,565)
Increase (decrease) in net assets during the year	595,846	(3,167,169)	(3,763,015)
Net assets, beginning of year	81,344,115	81,344,115	0
Net assets, end of year	\$81,939,961	\$78,176,946	\$(3,763,015)

Southwest Ohio Regional Transit Authority

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

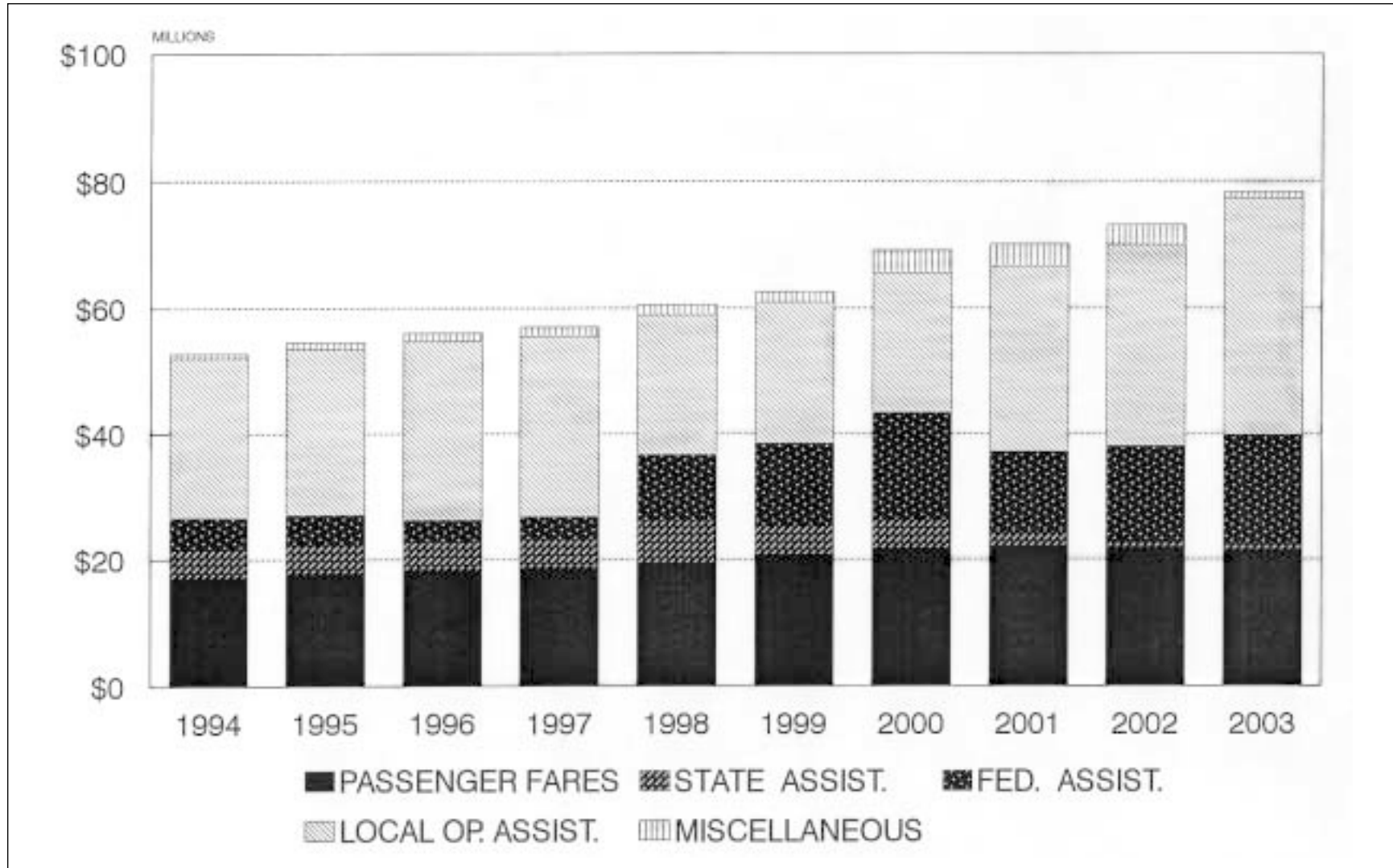
	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
OPERATING REVENUES										
Passenger fares for transit service (1)	\$16,478	\$17,056	\$17,579	\$17,921	\$18,585	\$19,679	\$20,661	\$21,204	\$20,937	\$20,712
Special transit fares	322	394	307	323	328	528	381	328	412	487
Auxiliary transportation revenue	337	428	501	495	607	572	762	574	615	392
Total operating revenues	17,137	17,878	18,387	18,739	19,520	20,779	21,804	22,106	21,964	21,591
NON-OPERATING REVENUES										
Federal grants and reimbursements (1)	5,084	4,815	3,523	3,722	10,624	13,282	17,183	12,780	14,298	14,018
Federal grant pass-through-Riverfront Transit Center	0	0	0	0	0	0	0	0	713	3,208
State grants and reimbursements (1)	4,443	4,434	4,310	4,306	6,541	4,394	4,332	2,249	982	985
Investment income	592	825	863	1,055	1,372	1,635	2,981	3,130	2,548	439
Non-transportation revenues	107	245	416	453	296	288	491	414	541	513
Sub-total	10,226	10,319	9,112	9,536	18,833	19,599	24,987	18,573	19,082	19,163
Local operating assistance	25,377	26,354	28,483	28,668	22,185	22,456	22,265	29,410	32,052	37,544
Total non-operating revenues	35,603	36,673	37,595	38,204	41,018	42,055	47,252	47,983	51,134	56,707
TOTAL REVENUES	\$52,740	\$54,551	\$55,982	\$56,943	\$60,538	\$62,834	\$69,056	\$70,089	\$73,098	\$78,298

Amounts are presented in accordance with accounting principles generally accepted in the United States of America.

Source: Derived from SORTA's independently audited annual financial statements, except for passenger revenue, and State grants and reimbursements.

Note 1: For purposes of the table above, Passenger Fares include farebox revenues, along with subsidies received from FTA, ODOT, Cincinnati Public Schools, certain local government units to support farebox discounts offered at certain times during the year. Subsidies are classified as Non-Operating Revenues in the Authority's Basic Financial Statements.

Southwest Ohio Regional Transit Authority
Revenues by Source—Last Ten Years



Source: Derived from SORTA's independently audited annual financial statements.

Southwest Ohio Regional Transit Authority

**Revenues and Operating Assistance—Comparison to Industry Trend Data
Last Ten Years**

TRANSPORTATION INDUSTRY (1):

YEAR	OPERATING AND OTHER REVENUE			OPERATING ASSISTANCE			TOTAL REVENUES
	PASSENGER	OTHER (2)	TOTAL	STATE & LOCAL (3)	FEDERAL	TOTAL	
1994 (4)	37.6%	12.6%	50.2%	44.7%	5.1%	49.8%	100.0%
1995 (4)	37.3%	15.4%	52.7%	42.8%	4.5%	47.3%	100.0%
1996 (4)	38.7%	15.3%	54.0%	42.9%	3.1%	46.0%	100.0%
1997 (4)	38.7%	16.9%	55.6%	41.1%	3.3%	44.4%	100.0%
1998 (4)	37.8%	17.5%	55.3%	41.1%	3.6%	44.7%	100.0%
1999 (4)	37.3%	16.4%	53.7%	42.4%	3.9%	46.3%	100.0%
2000 (4)	36.1%	17.4%	53.5%	42.4%	4.1%	46.5%	100.0%
2001	35.2%	14.1%	49.3%	46.2%	4.5%	50.7%	100.0%
2002	32.5%	17.3%	49.8%	45.3%	4.9%	50.2%	100.0%
2003	*	*	*	*	*	*	*

SOUTHWEST OHIO REGIONAL TRANSIT AUTHORITY:

YEAR	OPERATING AND OTHER REVENUE			OPERATING ASSISTANCE			TOTAL REVENUES
	PASSENGER	OTHER (2)	TOTAL	STATE & LOCAL (3)	FEDERAL	TOTAL	
1994	31.9%	2.0%	33.9%	56.5%	9.6%	66.1%	100.0%
1995	32.0%	2.7%	34.7%	56.5%	8.8%	65.3%	100.0%
1996	31.9%	3.1%	35.0%	58.6%	6.4%	65.0%	100.0%
1997	32.0%	3.5%	35.5%	57.9%	6.6%	64.5%	100.0%
1998	31.2%	3.8%	35.0%	47.4%	17.6%	65.0%	100.0%
1999	32.2%	4.0%	36.2%	42.7%	21.1%	63.8%	100.0%
2000	30.5%	6.1%	36.6%	38.5%	24.9%	63.4%	100.0%
2001	30.7%	5.9%	36.6%	45.2%	18.2%	63.4%	100.0%
2002	29.2%	5.1%	34.3%	45.2%	20.5%	65.7%	100.0%
2003	27.1%	1.7%	28.8%	49.2%	22.0%	71.2%	100.0%

* Information not available

(1) Source: The American Public Transit Association, "APTA 2003 Transit Fact Book".

(2) Includes auxiliary transportation revenues, interest income, and other non-transportation revenues.

(3) Includes local income tax revenues, state operating grants, state fuel tax reimbursements.

(4) "Local" includes taxes levied directly by the transit agency and other subsidies from local governments such as bridge and tunnel tolls and non-transit parking lot funds. Beginning 1994, such funds reclassified from "local" to "other".

Southwest Ohio Regional Transit Authority

City Income Tax–Transit Fund (In Thousands)

YEAR	BEGINNING BALANCE	.3% INCOME TAX COLLECT	OTHER RECEIPTS	DISTRIBUTIONS TO SORTA (3)	OTHER DISTRIBUTIONS	ENDING BALANCE (1)(2)
1994	\$9,684	\$27,392	\$410	\$23,646	\$591	\$13,249
1995	16,479 (4)	29,021	692	28,800	721	16,671
1996	16,671	30,106	642	30,949	641	15,829
1997	15,829	31,819	413	35,969	788	11,304
1998	11,331 (5)	33,980	403	29,473	759	15,482
1999	15,482	35,407	413	34,879	842	15,581
2000	15,581	35,594	460	37,400	1,220	13,015
2001	13,015	35,904	318	37,695	1,618	9,924
2002	9,924	36,026	387	34,090	769	11,478
2003	11,478	36,991	268	35,525	811	12,401
		\$332,240	\$4,406	\$328,426	\$8,760	

Source: City of Cincinnati, "Combining Statement of Revenue, Expenditures and Changes in Fund Balance".

(1) Balances include a \$2,000,000 self-insurance reserve, 1993 to 2001 and \$3,000,000 in 2002.

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

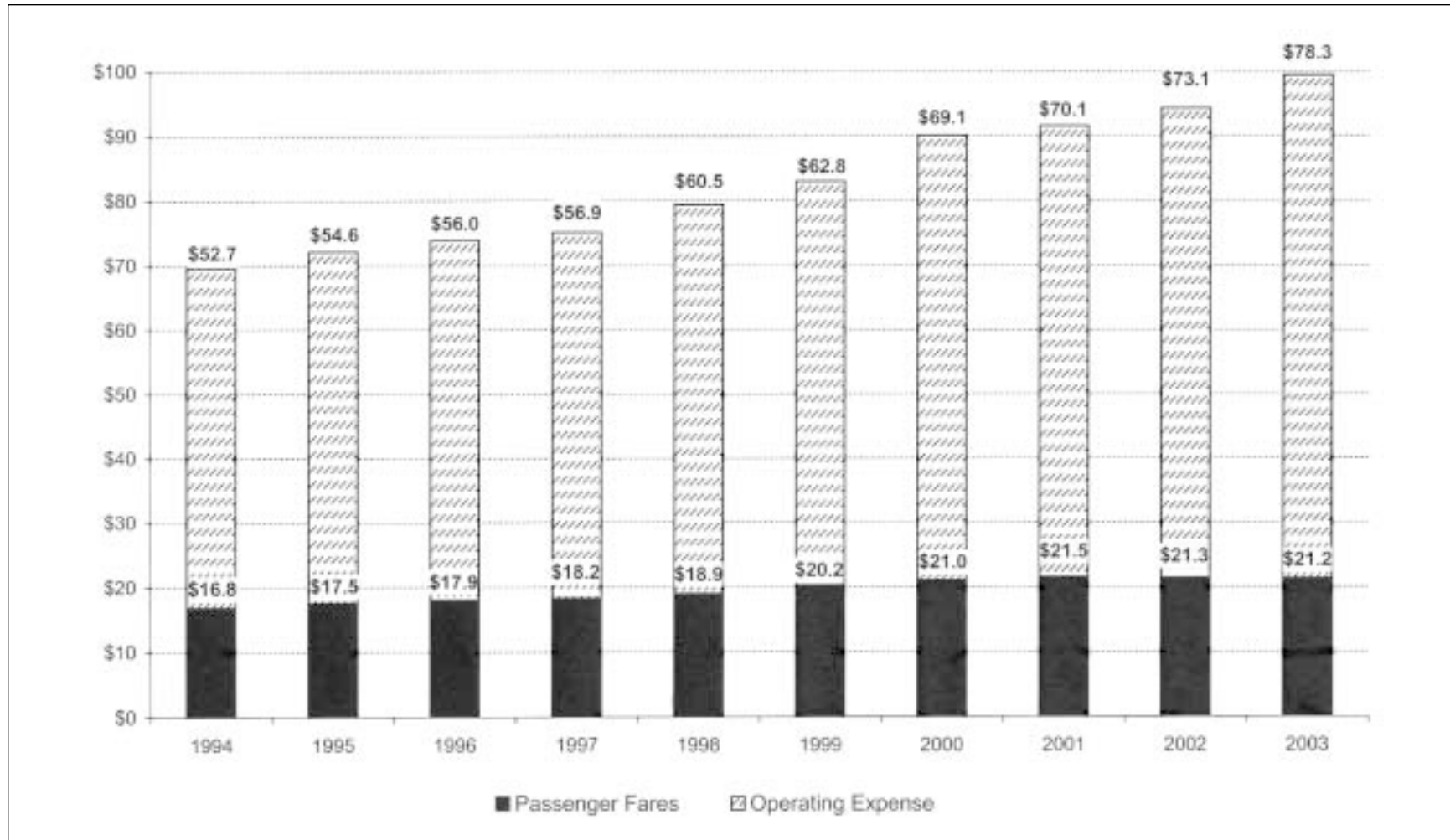
(3) Includes operating and capital assistance.

(4) In 1995, the City of Cincinnati made a change in accounting principle to conform to GASB No. 22, "Accounting for Taxpayer-Assessed Tax Revenues in Governmental Funds." The cumulative effect of this change increased the beginning 1995 balance by \$3,230,000.

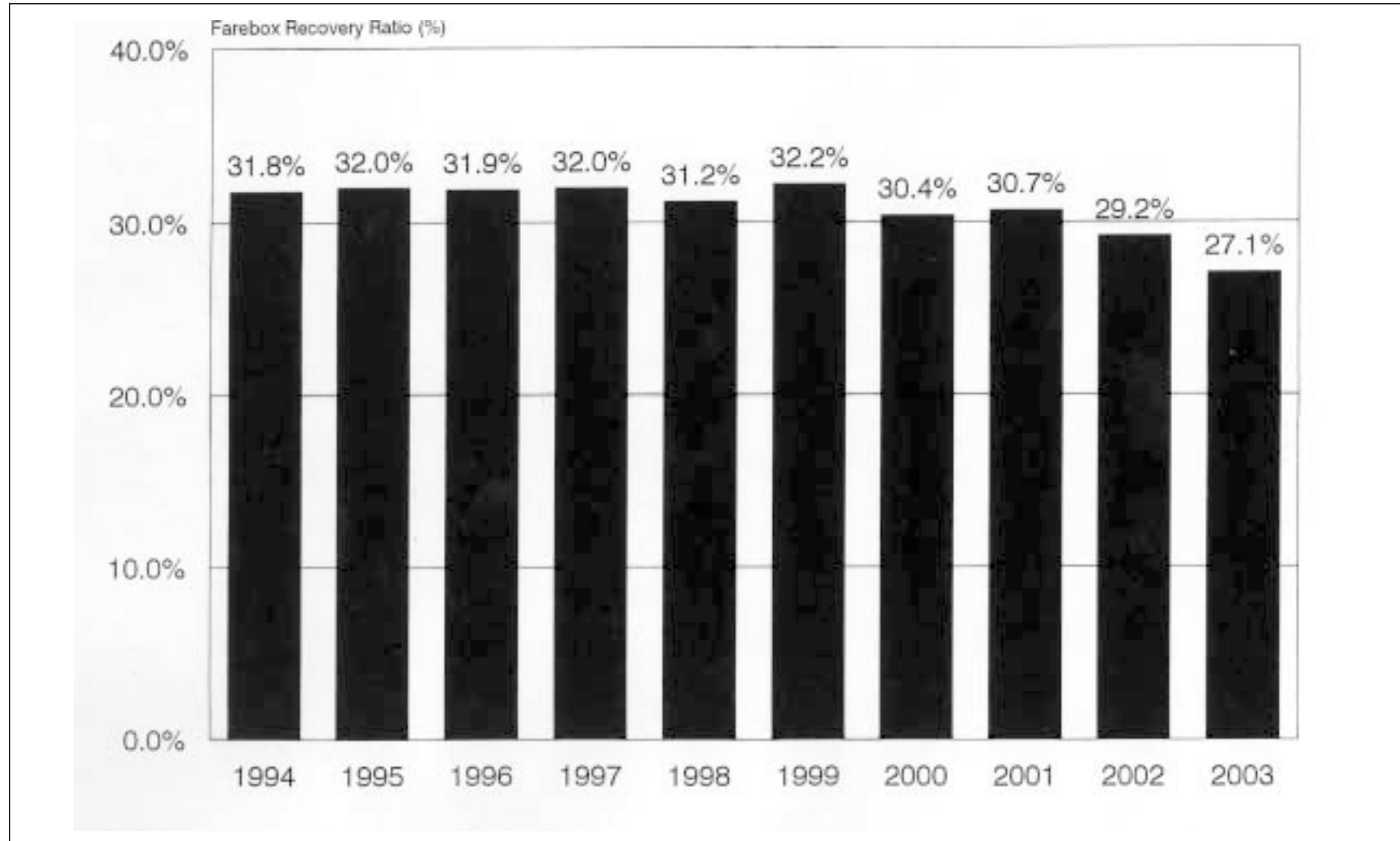
(5) In 1998, the City of Cincinnati made a change in accounting principle to conform to GASB No. 31 "Accounting and Financial Reporting for Certain Investments and for External Investment Pools." The cumulative effect of this change increased the beginning 1998 balance by \$27,000.

Southwest Ohio Regional Transit Authority

Passenger Fares vs. Operating Expenses—Last Ten Years



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

Southwest Ohio Regional Transit Authority**Passenger Fares Recovery Ratio—Last Ten Years**

Source: SORTA's independently audited annual financial statements.

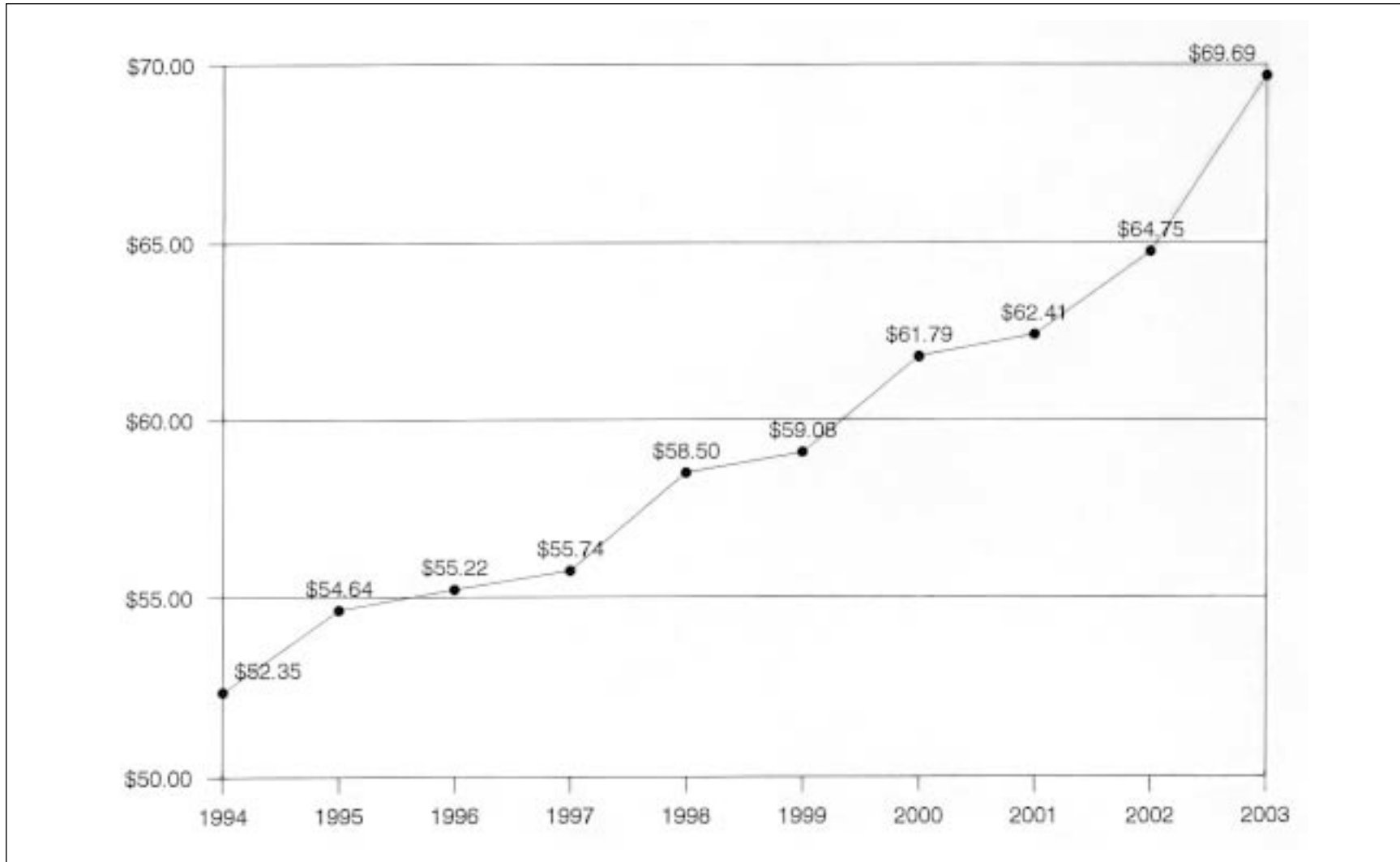
Recovery ratio is calculated as passenger fares divided by operating expenses excluding depreciation and amortization.

Southwest Ohio Regional Transit Authority

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

	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
OPERATING EXPENSES OTHER THAN DEPRECIATION AND AMORTIZATION:										
Labor	\$26,531	\$27,586	\$28,420	\$29,190	\$30,552	\$31,992	\$33,927	\$35,050	\$35,487	\$36,272
Fringe benefits	12,134	12,430	12,445	12,592	12,711	12,704	12,574	13,339	15,767	15,971
Materials and supplies consumed	6,184	6,407	6,478	6,396	7,313	7,439	10,480	7,953	7,309	8,222
Services	2,019	2,361	2,316	2,379	2,553	2,612	3,387	3,044	3,244	2,704
Utilities	997	857	979	982	919	929	1,080	1,074	1,216	1,341
Casualty and liability	267	399	487	252	317	410	260	1,724	547	1,343
Taxes	770	770	796	779	776	825	859	849	864	896
Purchased transportation services	2,594	2,776	3,027	3,262	3,733	4,323	4,398	5,167	6,116	5,840
Leases and rentals	379	402	478	459	483	518	477	479	488	455
Miscellaneous	865	563	556	652	1,181	1,082	1,614	1,410	1,347	1,311
Total	52,740	54,551	55,982	56,943	60,538	62,834	69,056	70,089	72,385	74,355
Grant pass-through-Riverfront Transit Center	0	0	0	0	0	0	0	0	713	3,943
DEPRECIATION AND AMORTIZATION	4,275	4,428	5,635	6,434	7,203	8,595	8,750	9,011	9,212	9,550
TOTAL EXPENSES	\$57,015	\$58,979	\$61,617	\$63,377	\$67,741	\$71,429	\$77,806	\$79,100	\$82,310	\$87,848

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

Southwest Ohio Regional Transit Authority**Operating Expenses per Vehicle Hour—Last Ten Years**

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

Southwest Ohio Regional Transit Authority

Operating Expenses—Comparison to Industry Trend Data Last Ten Years

TRANSPORTATION INDUSTRY (1):

<u>YEAR</u>	<u>LABOR AND FRINGES</u>	<u>MATERIALS AND SUPPLIES</u>	<u>SERVICES</u>	<u>UTILITIES</u>	<u>CASUALTY AND LIABILITY</u>	<u>PURCHASED TRANSPOR- TATION</u>	<u>OTHER</u>	<u>TOTAL OPERATING EXPENSES (2)</u>
1994	70.7%	8.9%	4.7%	3.6%	3.4%	10.9%	-2.2%	100.0%
1995	72.3%	9.1%	5.0%	3.5%	2.9%	9.2%	-2.0%	100.0%
1996	71.6%	9.3%	5.1%	3.6%	2.8%	9.9%	-2.3%	100.0%
1997	72.2%	9.4%	5.6%	3.7%	2.7%	9.1%	-2.7%	100.0%
1998	71.7%	9.4%	6.0%	3.5%	2.4%	10.1%	-3.1%	100.0%
1999	70.9%	9.2%	5.9%	3.3%	2.2%	11.5%	-3.0%	100.0%
2000	69.8%	10.0%	5.7%	3.2%	2.2%	12.2%	-3.1%	100.0%
2001	69.4%	10.1%	5.9%	3.3%	2.1%	12.7%	-3.5%	100.0%
2002	70.3%	9.2%	6.2%	3.1%	2.5%	12.0%	-3.3%	100.0%
2003	*	*	*	*	*	*	*	*

SOUTHWEST OHIO REGIONAL TRANSIT AUTHORITY (3):

<u>YEAR</u>	<u>LABOR AND FRINGES</u>	<u>MATERIALS AND SUPPLIES</u>	<u>SERVICES</u>	<u>UTILITIES</u>	<u>CASUALTY AND LIABILITY</u>	<u>PURCHASED TRANSPOR- TATION</u>	<u>OTHER</u>	<u>TOTAL OPERATING EXPENSES (2)</u>
1994	73.4%	11.7%	3.8%	1.9%	0.5%	4.9%	3.8%	100.0%
1995	73.4%	11.7%	4.3%	1.6%	0.7%	5.1%	3.2%	100.0%
1996	73.0%	11.6%	4.1%	1.7%	0.9%	5.4%	3.3%	100.0%
1997	73.4%	11.2%	4.2%	1.7%	0.5%	5.7%	3.3%	100.0%
1998	71.5%	12.1%	4.2%	1.5%	0.5%	6.2%	4.0%	100.0%
1999	71.1%	11.8%	4.2%	1.5%	0.6%	6.9%	3.9%	100.0%
2000	67.3%	15.2%	4.9%	1.5%	0.4%	6.4%	4.3%	100.0%
2001	69.0%	11.4%	4.3%	1.5%	2.5%	7.4%	3.9%	100.0%
2002	70.1%	10.0%	5.4%	1.7%	0.7%	8.4%	3.7%	100.0%
2003	66.7%	10.5%	8.5%	1.7%	1.7%	7.5%	3.4%	100.0%

* Information not available

(1) Source: The American Public Transit Association, "APTA 2003 Transit Fact Book".

(2) Total operating expenses exclude depreciation and amortization.

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

Southwest Ohio Regional Transit Authority

Operating Statistics—Last Ten Years

	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
SYSTEM RIDERSHIP (1)										
Motor bus.....	24,989,892	23,764,650	26,239,055	25,996,644	28,566,152	26,172,056	26,400,888	24,813,422	24,108,188	23,872,078
Demand responsive.....	222,534	215,506	216,960	230,357	242,888	226,598 (4)	236,752	253,124	267,664	271,448
AVERAGE WEEKDAY										
SYSTEM RIDERSHIP (1)										
Motor bus.....	85,034	77,730	86,500	90,017	93,279	86,376	85,747	82,416	83,531	82,656
Demand responsive.....	765	738	740	793	832	728	816	870	918	938
VEHICLE MILES										
OPERATED (1)										
Motor bus.....	12,129,283	12,231,173	12,516,103	12,492,183	12,769,451	13,543,419	13,706,584	13,572,038	13,484,565	13,560,173
Demand responsive.....	1,975,755	1,917,722	1,920,317	2,038,774	2,267,177	2,413,173	2,893,723	2,844,335	2,946,010	2,743,402
AVERAGE WEEKDAY										
VEHICLE MILES										
OPERATED (1)										
Motor bus.....	41,050	41,360	42,470	42,459	43,499	46,335	46,775	46,201	46,096	46,354
Demand responsive.....	6,791	6,643	6,551	7,020	7,763	8,321	9,975	9,771	10,108	9,476
REVENUE MILES (1)										
Motor bus.....	10,405,281	10,519,097	10,788,011	10,895,126	10,978,364	11,612,657	11,705,868	11,663,582	11,483,950	11,469,178
Demand responsive.....	1,695,507	1,672,442	1,677,714	1,806,841	1,920,731	2,015,836	2,421,249	2,382,661	2,552,926	2,404,108
PASSENGER MILES (1)										
Motor bus.....	111,324,305	121,753,846	118,637,594	134,204,888	150,363,410	138,470,307	152,886,096	148,412,646	134,240,845	129,392,725
Demand responsive.....	2,465,677	2,530,040	2,484,192	2,581,351	3,106,359	2,436,564	2,397,049	2,662,800	2,438,344	2,820,444

(Continued)

Southwest Ohio Regional Transit Authority

Operating Statistics—Last Ten Years (Continued)

	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
VEHICLE HOURS OPERATED (1)										
Motor bus.....	890,683	889,337	902,343	902,193	906,628	940,030	954,812	954,499	952,513	957,369
Demand responsive.....	116,686	109,322	111,393	119,433	128,169	141,785	162,691	168,479	176,488	166,202
VEHICLE REVENUE HOURS (1)										
Motor bus.....	758,185	816,646	827,640	829,616	825,332	861,945	873,696	874,376	871,122	875,770
Demand responsive.....	98,242	96,455	99,404	103,563	113,699	119,390	134,722	138,253	145,949	130,477
DIESEL FUEL CONSUMPTION (IN GALLONS) (1).....										
	3,361,759	3,382,606	3,372,176	3,250,342	3,214,609	3,368,953	3,456,053	3,497,718	3,485,856	3,459,098
FLEET REQUIREMENTS (DURING PEAK HOURS) (1)										
Motor bus.....	325	325	331	331	338	358	362	360	358	359
Demand responsive.....	30	30	30	34	40	40	46	46	53	53
TOTAL REVENUE VEHICLES DURING PERIOD (1)										
Motor bus.....	378	379	389	389	426	426	438	481	432	432
Demand responsive.....	33	36	36	41	42	49	52	94	53	53
NUMBER OF FULL TIME EMPLOYEES (2).....										
	806 (3)	807	810 (3)	798 (3)	836 (3)	844 (3)	818 (3)	831 (3)	824 (3)	787

Sources:

- (1) SORTA's annual "National Transit Database", filed with the Federal Transit Administration.
- (2) SORTA's annual Management Plan.
- (3) Human Resources Department "Personnel Distribution-Department Breakdown" report.
- (4) SORTA's "General Manager's Report".

Southwest Ohio Regional Transit Authority

Fare Rate Structure as of December 31, 2003

CASH OR TOKEN FARES

Weekday peak hours (6 to 9 am and 3 to 6 pm)	\$0.80
Weekday non peak hours	0.65
Weekday zone fare (zone 2) (3)	0.30
Weekday zone fare (zone 3) (3)	0.60
Downtowner midday shuttle (Monday - Friday)	0.25
Parking Meeter shuttle (Monday - Friday)	0.25
Weekend flat rate (no zone fares apply)	0.50
Weekday Transfers	0.10
Access weekday (1)	1.00
Access weekend (1)	0.75
Eastgate Express Service (Monday - Friday)	1.75
Express Services (Monday - Friday)	2.00

MONTHLY PASSES

MetroCard A Pass (zone one, weekdays only) (3)	32.00
MetroCard B Pass (two zones, weekdays only) (3)	44.00
MetroCard C Pass (three zones, weekdays only) (3)	70.00
Metro/Tank Pass (zone one, weekdays only) (3)	60.00
Fare Deal (2) (three zones, seven days a week) (3)	19.00
Weekend Pass	8.00

DISCOUNT FARES

Fare Deal (2) flat rate (no zone fares apply)	0.40
Children under 45" flat rate (no zone fares apply)	0.40

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

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

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

Source: SORTA's "The New Metro Fares" brochure, published November 1, 1993 and "Metro's Services for Older Adults and Riders with Disabilities" brochure, published January 1, 1996.

Southwest Ohio Regional Transit Authority

Demographic Statistics

<u>YEAR(1)</u>	<u>POPULATION</u>	<u>MEDIAN AGE</u>	<u>MEDIAN INCOME</u>
1960	864,121	30.3	\$5,483
1970	924,018	*	\$10,486
1980	873,224	30.0	\$10,673
1990	867,881	32.7	\$15,354
2000	845,303	35.5	\$24,053

<u>YEAR</u>	<u>K-12 SCHOOL ENROLLMENT(2)</u>	<u>UNEMPLOYMENT RATE(3)</u>
1994	168,848	4.8%
1995	170,896	4.1%
1996	173,951	4.1%
1997	172,778	3.6%
1998	173,669	3.5%
1999	171,552	3.6%
2000	172,112	3.6%
2001	165,922	3.6%
2002	163,108	5.1%
2003	161,025	5.1%

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

** Information not available*

Source:

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

(2) MDR'S School Directory - Ohio.

(3) Ohio Bureau of Employment Services.

Southwest Ohio Regional Transit Authority

Miscellaneous Statistics

Date of creation of SORTA by Hamilton County Board of Commissioners	October 2, 1968
Date agreement signed to take over operation of Cincinnati Transit, Inc.	February 8, 1973
Date SORTA took over operations	August 15, 1973
Form of government	Board of Trustees
Number of Trustees	9
County in which SORTA operates	Hamilton County, Ohio with small parts of Butler County, Ohio, Clermont County, Ohio and Warren County, Ohio
Type of tax support	City of Cincinnati income tax 0.3%
Size of service area (square miles)	271
Miles of route	645
Number of routes	53
Wheelchair lift-equipped standard buses	313
Average system speed (miles per hour)	
Motor bus	14.1
Demand responsive	16.5
Customer information calls answered	470,344



**Auditor of State
Betty Montgomery**

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

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

SOUTHWEST OHIO REGIONAL TRANSIT AUTHORITY

HAMILTON COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
SEPTEMBER 7, 2004**