**SOUTHWEST OHIO REGIONAL TRANSIT AUTHORITY**

Single Audit Report for the Year Ended December 31, 2004

**Auditor of State**
**Betty Montgomery**

Board of Trustees
Southwest Ohio Regional Transit Authority
1014 Vine Street, Suite 2000
Cincinnati, Ohio 45202-1116

We have reviewed the *Independent Auditors' Report* of the Southwest Ohio Regional Transit Authority, Hamilton County, prepared by Deloitte & Touche LLP, for the audit period January 1, 2004 through December 31, 2004. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

July 11, 2005

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# 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, 2004 and 2003 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the respective financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our 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, 2004 and 2003, 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.

Management's Discussion and Analysis on pages 3 - 9 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the Authority's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and we do not express an opinion on it.

Our audit was conducted for the purpose of forming an opinion on the Authority's basic financial statements. The accompanying supplemental schedule of expenditures of federal awards for the year ended December 31, 2004 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 basic financial statements. This supplemental schedule is the responsibility of the Authority's management. Such information has been subjected to the auditing procedures applied in our audit of the 2004 basic financial statements and, in our opinion, is fairly stated, in all material respects, when considered in relation to the 2004 basic financial statements taken as a whole.**

**In accordance with** *Government Auditing Standards*, **we have also issued our report dated May 19, 2005, on our consideration of internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with** *Government Auditing Standards* **and should be considered in assessing the results of our 2004 audit.**

Deloitte & Touche LLP

**May 19, 2005**

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

## Financial Highlights

- The Authority's total net assets increased over the course of the year's operations, due to an increase in capital asset purchases.
- The Authority's operating expenses, excluding depreciation and before the grant pass through, in 2004, were $2.0 million lower than 2003 expenses. This 2.7% decrease is due mainly to the implementation of route rationalization resulting from a Comprehensive Operational Analysis Study, along with decreased claims and miscellaneous expenses.
- Operating revenues for the Authority were $15.7 million for the fiscal year of 2004. This was a slight increase of .27% over the prior year, and was primarily due to increased passenger revenue due to increased zone and transfer charges.
- Transit Fund revenue required from the City of Cincinnati decreased $1.9 million, this was due to the decreased operating expenses and a decrease of $.7 million passed-through to the City in 2003 for the Riverfront Transit Center.
- Investment income, including changes in fair value of investments, increased by $148 thousand or 33.7% in 2004 due to the increase in interest rates and portfolio performance.

## 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.

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 balance sheets 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 Balance Sheets
### December 31, 2004, 2003, and 2002 (In Thousands)

| | 2004 | 2003 | 2002 |
|---|---|---|---|
| Current assets | $51,766 | $54,147 | $58,165 |
| Non-current assets | 4,115 | 4,007 | 4,827 |
| Capital assets-net | 78,068 | 77,697 | 80,839 |
| Total assets | $133,949 | $135,851 | $143,831 |
| Current liabilities | $29,491 | $30,986 | $35,613 |
| Non-current liabilities | 25,971 | 26,688 | 26,874 |
| Total liabilities | 55,462 | 57,674 | 62,487 |
| Net assets: | | | |
| Invested in capital assets, net of related debt | 59,431 | 59,061 | 60,827 |
| Restricted | 879 | 514 | 164 |
| Unrestricted | 18,177 | 18,602 | 20,353 |
| Total net assets | 78,487 | 78,177 | 81,344 |
| Total liabilities and net assets | $133,949 | $135,851 | $143,831 |

Net assets increased $310,000 to $78.5 million in 2004, up from $78.2 million in 2003 which was a decrease from $81.3 million in 2002. The .40% increase in net assets from 2003 to 2004 was due to capital asset purchases in excess of depreciation. The 3.9% decrease in net assets from 2002 to 2003 was principally due to depreciation expense in excess of capital additions.

## Management's Discussion and Analysis (continued)

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, 2004, 2003, and 2002 (In Thousands)

| | 2004 | 2003 | 2002 |
|---|---|---|---|
| Operating revenues | $15,678 | $15,637 | $14,873 |
| Operating expenses excluding depreciation and grant pass through | (72,322) | (74,354) | (72,385) |
| Depreciation expense | (10,090) | (9,550) | (9,212) |
| Operating loss before grant pass through | (66,734) | (68,267) | (66,724) |
| Grant pass through–Riverfront Transit Center | — | (3,943) | (713) |
| Grant pass through–Union Township Park & Ride | (770) | — | — |
| Operating loss | (67,504) | (72,210) | (67,437) |
| Net non-operating revenues (expenses): | | | |
| Transit Fund assistance | 35,660 | 36,808 | 32,052 |
| Federal maintenance grants and reimbursements | 12,995 | 14,018 | 15,464 |
| State ADA, special fare assistance and fuel tax reimbursement | 1,351 | 1,307 | 1,316 |
| Investment income | 754 | 699 | 1,576 |
| Net (decrease) increase in fair value of investments | (167) | (259) | 972 |
| Non-transportation revenue | 585 | 513 | 541 |
| Other | 5,466 | 5,632 | 5,591 |
| Non-operating revenues and expenses, net before grant pass through | 56,644 | 58,718 | 57,512 |
| Transit Fund grant pass through–Riverfront Transit Center | — | 735 | — |
| Federal grant pass through–Riverfront Transit Center & Union Township Park & Ride | 624 | 3,208 | 713 |
| State grant pass through–Union Township Park & Ride | 146 | — | — |
| | 57,414 | 62,661 | 58,225 |

(continued)

| | 2004 | 2003 | 2002 |
|---|---|---|---|
| Capital Contributions | $10,400 | $6,383 | $14,231 |
| Change in net assets | 310 | (3,167) | 5,019 |
| Net assets, beginning of year | 78,177 | 81,344 | 76,325 |
| Net assets, end of year | $78,487 | $78,177 | $81,344 |

The Authority's operating revenues increased $41,000 to $15.7 million in 2004 from $15.6 million in 2003. In 2003 operating revenues increased $.8 million from $14.9 million in 2002. The .27% increase from 2003 to 2004 was due to an increase in zone and transfer fare charges. The 5.1% increase from 2002 to 2003 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 in 2004 decreased by $5.2 million as compared to the prior year. $3.2 million of that decrease was due to decreased federal, state and local pass-through funding for the Riverfront Transit Center and Union Township for a Park & Ride. The remaining $2 million decrease was a result of reduced operating costs due to route rationalization which was a result of a Comprehensive Operational Analysis Study, along with decreased claims liability and miscellaneous expenses.

Operating expenses, excluding depreciation and amortization in 2003, 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 2004 decrease in other non-operating revenues of $5.2 million is related to the decrease in pass through funds for capital projects of $3.2 million. The remaining $2 million is due to reduced Transit Fund income of $1.1 million and $1 million reduction in federal maintenance grants and reimbursements offset by small increases in investment income net of fair value adjustment of $.1 million.

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 offset 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

### Condensed Statement of Cash Flows
### for years ended December 31, 2004 and 2003 (In Thousands)

| Cash flows from operating activities: | 2004 | 2003 | 2002 |
|---|---|---|---|
| Receipts from fares and charters | $15,585 | $15,159 | $14,509 |
| Payments for labor, employee benefits, claims, insurance and to suppliers | (72,179) | (77,341) | (74,679) |
| **Net cash used in operating activities** | (56,594) | (62,182) | (60,170) |
| **Cash flows from noncapital financing activities:** | | | |
| Transfer from City of Cincinnati Income Tax-Transit Fund | 36,758 | 35,471 | 28,439 |
| Federal, State and Other local assistence and reimbursements | 18,964 | 24,017 | 23,875 |
| **Net Cash Provided by noncapital financing activities** | 55,722 | 59,488 | 52,314 |
| **Cash flows from capital and related financing activities:** | | | |
| Capital grants received: | | | |
| City of Cincinnati, federal, state and other local | 8,683 | 3,794 | 8,051 |
| Additions to capital assets | (10,483) | (5,855) | (14,137) |
| Interest paid on capital lease obligations | (865) | (2,301) | 9,279 |
| **Net used in capital and related financing activities** | (2,665) | (4,362) | 3,193 |
| **Cash flows from investing activities:** | | | |
| Net cash receipts from investment securities | 1,931 | (2,657) | 6,443 |
| **Net cash provided (used in) investing activities** | 1,931 | (2,657) | 6,443 |
| **Net decrease in cash and cash equivalents** | (1,606) | (9,713) | 1,780 |
| **Cash & cash equivalents at beginning of year** | 5,299 | 15,012 | 13,232 |
| **Cash & cash equivalents at end of year** | $3,693 | $5,299 | $15,012 |

**Net cash used for operating activities decreased by $5.6 million in 2004 as a result of decreased operating expenses along with increased passenger fare revenues. Net cash provided by non-capital financing activities decreased $3.8 million, due to the elimination of the pass through to the City for the Riverfront Transit Center of $3.9 million offset by the pass through of $.77 million in funds for the Union Township Park & Ride, along with a decrease in state maintenance grants, reimbursements of $.6 million and special fare assistance and other local operating assistance received of $.2 million. Net cash used in capital and related financing activities decreased $1.7 million as a result of reduced payments on capital lease obligations of $1.4 million, an increase in capital assets of $4.6 million offset by increases in capital grants received from the City of $.5 million and federal, state and other local of $4.4 million.**

**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 $78.1 million, net of accumulated depreciation as of December 31, 2004, an increase of $.4 million (.48%). 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:**

- **Purchase of 23 Gillig buses totalling $6.5 million**
- **Rehabilitation & expansion of the facility that houses our Access paratransit operation totaling $.77 million**
- **Rehabilitation of Government Square, the major transit hub in downtown Cincinnati, totalling $.7 million**

**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 $18.6 million. This debt consists of an $8.6 million lease on 24 Gillig busses and 40 paratransit buses which matures in 2006 and a $10 million 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 Director of Accounting and Budget, Southwest Ohio Regional Transit Authority, 1014 Vine Street, Suite 2000, Cincinnati, Ohio 45202.**

**Southwest Ohio Regional Transit Authority**

# Balance Sheets
## as of December 31, 2004 and 2003

| ASSETS | 2004 | 2003 |
|---|---|---|
| **Current assets:** | | |
| Cash and cash equivalents (Note 4) | $144,875 | $2,257,149 |
| Investments (Note 4) | 41,940,095 | 42,443,628 |
| Receivables: | | |
| Federal assistance | 6,970,808 | 5,497,978 |
| State assistance | 292,389 | 146,759 |
| Other | 1,101,310 | 2,543,305 |
| Inventory of materials and supplies | 1,170,783 | 1,064,451 |
| Prepaid expenses and other current assets | 145,528 | 193,229 |
| **Total current assets** | 51,765,788 | 54,146,499 |
| **Non-current assets:** | | |
| Cash and cash equivalents-restricted (Notes 4 and 7) | 3,548,794 | 3,042,041 |
| Receivables for capital assistance | 566,577 | 965,319 |
| Capital assets (Notes 5 and 7): | | |
| Land and buildings | 14,667,926 | 14,661,089 |
| Improvements | 15,009,693 | 13,141,379 |
| Revenue vehicles | 98,401,445 | 95,222,413 |
| Other equipment | 26,281,419 | 24,281,551 |
| Total capital assets | 154,360,483 | 147,306,432 |
| Less allowance for depreciation and amortization | 76,292,665 | 69,608,978 |
| Capital assets-net | 78,067,818 | 77,697,454 |
| **Total non-current assets** | 82,183,189 | 81,704,814 |
| **Total assets** | $133,948,977 | $135,851,313 |

(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, 2004 and 2003 (continued)

| LIABILITIES AND NET ASSETS | 2004 | 2003 |
|---|---|---|
| **Current liabilities:** | | |
| Accounts payable | $1,571,726 | $1,436,931 |
| Accrued payroll | 1,307,517 | 1,100,960 |
| Accrued payroll taxes and other benefits (Note 8) | 4,099,343 | 4,139,186 |
| Current portion of estimated claims payable (Note 9) | 603,500 | 875,000 |
| Other current liabilities | 1,652,276 | 1,996,303 |
| Advance from City of Cincinnati | | |
| Income Tax-Transit Fund (Note 3): | | |
| For current operations | 2,375,564 | 1,277,195 |
| For capital purposes | 17,881,408 | 20,160,148 |
| Total current liabilities | 29,491,334 | 30,985,723 |
| **Non-current liabilities:** | | |
| Capital expenditures payable | 929,582 | 931,212 |
| Deferred capital grants | 2,669,707 | 2,528,509 |
| Estimated claims payable, net of current portion (Note 9) | 3,587,856 | 4,407,460 |
| Capital lease obligation (Note 7) | 18,636,360 | 18,636,360 |
| Accrued pension cost (Note 8) | 147,097 | 185,103 |
| Total non-current liabilities | 25,970,602 | 26,688,644 |
| Total liabilities | 55,461,936 | 57,674,367 |
| **Net assets:** | | |
| Invested in capital assets, net of related debt | 59,431,458 | 59,061,094 |
| Restricted | 879,087 | 513,532 |
| Unrestricted | 18,176,496 | 18,602,320 |
| Total net assets | 78,487,041 | 78,176,946 |
| **Total liabilities and net assets** | $133,948,977 | $135,851,313 |

(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, 2004 and 2003

| | 2004 | 2003 |
|---|---|---|
| **Operating revenues** | | |
| Passenger fares for transit service | $14,852,093 | $14,757,975 |
| Special transit fares | 413,746 | 486,613 |
| Auxiliary transportation revenue | 412,500 | 392,298 |
| Total | 15,678,339 | 15,636,886 |
| **Operating expenses other than depreciation:** | | |
| Labor | 35,758,546 | 36,271,527 |
| Fringe benefits | 16,266,494 | 15,970,741 |
| Materials and supplies consumed | 8,954,545 | 8,222,477 |
| Services | 2,660,060 | 2,704,432 |
| Utilities | 1,302,292 | 1,340,968 |
| Casualty and liability | (335,205) | 1,342,778 |
| Taxes | 935,707 | 895,527 |
| Purchased transportation services | 5,921,439 | 5,840,101 |
| Leases and rentals | 466,879 | 454,645 |
| Miscellaneous | 391,401 | 1,311,154 |
| Sub-total | 72,322,158 | 74,354,350 |
| Grant pass-through–Union Twp. Park & Ride | 770,000 | — |
| Grant pass-through–Riverfront Transit Center | — | 3,943,394 |
| Total | 73,092,158 | 78,297,744 |
| Depreciation and Amortization (Note 5) | 10,089,634 | 9,549,897 |
| Total operating expenses | 83,181,792 | 87,847,641 |
| **Operating loss** | (67,503,453) | (72,210,755) |
| **Non-operating revenues (expenses):** | | |
| Federal maintenance grants and reimbursements (Note 6) | 12,995,380 | 14,017,803 |
| Federal grant pass-through–Union Twp. Park & Ride (Note 6) | 624,000 | — |
| Federal grant pass-through–Riverfront Transit Center (Note 6) | — | 3,208,085 |
| State maintenance grants, reimbursements and special fare assistance (Note 6) | 1,350,933 | 1,307,696 |
| State grant pass-through–Union Twp. Park & Ride (Note 6) | 146,000 | — |
| Local operating grants and special fare assistance (Note 6) | 5,465,770 | 5,631,759 |
| Investment income-net (Note 7) | 753,956 | 698,606 |
| Decrease in fair value of investments | (166,529) | (259,140) |
| Non-transportation revenue | 584,513 | 512,875 |
| Total | 21,754,023 | 25,117,684 |

(continued)

**Southwest Ohio Regional Transit Authority**

## Statements of Revenues, Expenses and Changes in Net Assets for the years ended December 31, 2004 and 2003 (continued)

| | 2004 | 2003 |
|---|---|---|
| **Loss before operating assistance provided by City of Cincinnati Income Tax-Transit Fund and capital grant activity** | $(45,749,430) | $(47,093,071) |
| **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)** | 35,659,796 | 36,807,865 |
| **Net loss before capital grant activity** | (10,089,634) | (9,549,897) |
| **Capital grant revenue (Notes 2C and 6)** | 10,399,729 | 6,382,728 |
| **Increase (decrease) in net assets during the year** | 310,095 | (3,167,169) |
| **Net assets, beginning of year** | 78,176,946 | 81,344,115 |
| **Net assets, end of year** | $78,487,041 | $78,176,946 |

(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, 2004 and 2003

| | 2004 | 2003 |
|---|---|---|
| **Cash flows from operating activities:** | | |
| Receipts from fares and charters | $15,585,361 | $15,158,762 |
| Payments to suppliers | (19,071,296) | (23,464,124) |
| Payments for labor and employee benefits | (51,705,335) | (51,920,999) |
| Payments for claims and insurance | (1,402,050) | (1,955,712) |
| Net cash used in operating activities | (56,593,320) | (62,182,073) |
| **Cash flows from noncapital financing activities:** | | |
| Transfer from City of Cincinnati Income Tax-Transit Fund | 36,758,165 | 35,471,350 |
| Federal maintenance grants and reimbursements | 12,146,550 | 16,401,036 |
| State maintenance grants, reimbursements and special fare assistance | 1,351,303 | 1,984,370 |
| Other local operating assistance received | 5,465,770 | 5,631,759 |
| Net cash provided by noncapital financing activities | 55,721,788 | 59,488,515 |
| **Cash flows from capital and related financing activities:** | | |
| Capital grants received: | | |
| City of Cincinnati Income Tax-Transit Fund | 499,386 | 53,900 |
| Federal, state and other local | 8,183,140 | 3,740,242 |
| Additions to capital assets | (10,483,227) | (5,855,396) |
| Interest paid on capital lease obligation | (864,356) | (924,797) |
| Payments of capital lease obligation | — | (1,376,358) |
| Net cash used in capital and related financing activities | (2,665,057) | (4,362,409) |
| **Cash flows from investing activities:** | | |
| Net cash (payments for) receipts from investment securities | 337,006 | (4,269,285) |
| Interest received | 1,594,062 | 1,612,104 |
| Net cash provided by (used in) investing activities | 1,931,068 | (2,657,181) |
| Net decrease in cash and cash equivalents | (1,605,521) | (9,713,148) |

(continued)

**Southwest Ohio Regional Transit Authority**

# Statements of Cash Flows
## for the years ended December 31, 2004 and 2003(continued)

| | 2004 | 2003 |
|---|---|---|
| **Cash and cash equivalents at beginning of year** | $5,299,190 | $15,012,338 |
| **Cash and cash equivalents at end of year** | $3,693,669 | $5,299,190 |
| **Reconciliation of operating loss to net cash used in operating activities:** | | |
| Operating loss | $(67,503,453) | $(72,210,755) |
| Adjustments to reconcile operating loss to net cash used in operating activities: | | |
| Depreciation and amortization | 10,089,634 | 9,549,897 |
| Non-transportation revenue | 584,513 | 512,875 |
| Changes in assets and liabilities: | | |
| Other receivables | 1,441,995 | (19,053) |
| Inventory of materials and supplies | (106,332) | 44,914 |
| Prepaid expenses and other current assets | 47,701 | (24,116) |
| Accounts payable | 134,795 | 81,745 |
| Accrued expenses | 166,714 | 92,492 |
| Other liabilities | (357,783) | (499,082) |
| Estimated claims payable | (1,091,104) | 289,010 |
| **Net cash used in operating activities** | $(56,593,320) | $(62,182,073) |
| **NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES** | | |
| **Decrease in fair value of investments** | $(166,529) | $(259,140) |

(concluded)

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

# Notes to the Financial Statements for the years ended December 31, 2004 and 2003

## 1. Organization and Reporting Entity

### A. Organization

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

### B. Reporting Entity

The Authority has adopted the provisions of Statement No. 14 of the Governmental Accounting Standards Board ("GASB"), "The Financial Reporting Entity", as amended by GASB Statement No. 39, "Determining Whether Certain Organizations are Component Units (an amendment of GASB Statement No. 14)." Accordingly, the accompanying financial statements include only the accounts and transactions of the Authority. Under the criteria specified in Statements No. 14 and 39, the Authority has no component units nor is it considered a component unit of the City of Cincinnati or Hamilton County, Ohio. The Authority is, however, considered to be a related organization to Hamilton County by virtue of the fact that SORTA's Board of Trustees is appointed by the Hamilton County Board of Commissioners.

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

## 2. Summary of Significant Accounting Policies

### A. Basis of Accounting

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

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

## B. Net Asset Classifications

GASB Statement No. 34, "Basic Financial Statements–And Managements' Discussion and Analysis–for State and Local Governments: Omnibus," requires the classification of net assets into the following three components:

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

## C. Nonexchange Transactions

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

# Notes to the Financial Statements
# for the years ended December 31, 2004 and 2003 (continued)

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

## G. Inventory of Materials and Supplies

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

## H. Restricted Assets

Restricted assets consist of funds received under various capital grants from the Federal Transit Administration ("FTA"), the Ohio Department of Transportation ("ODOT"), and the local matching share received from the City Income Tax-Transit Fund. 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 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 2004 and 2003. All budget amounts lapse at year end.

### M. Estimates

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

## 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.

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.

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, 2004, the Authority maintained restricted cash and cash equivalents of $3,548,794, and unrestricted cash and investments of $42,084,970. The total cash and investments of $45,633,764 consisted of $8,777,620 in deposits and $36,856,144 in investments.

## A. Deposits

At December 31, 2004, the carrying amount of the Authority's deposits was $8,777,620 and the bank balance was $11,472,095, all of which was covered by federal depository insurance, surety bonds provided by a commercial insurance company, or collateralized with securities held by the Federal Reserve in SORTA's name.

## 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, 2004. 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 1 | Category 2 | Category 3 | Carrying Amount | Fair Value |
|---|---|---|---|---|---|
| U.S. Government & Agency securities | $29,971,716 | $6,880,813 | $ — | $36,852,529 | $36,870,551 |
| STAROhio | | | | 3,615 | 3,615 |
| Total | | | | $36,856,144 | $36,874,166 |

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, 2004.

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

# Notes to the Financial Statements
# for the years ended December 31, 2004 and 2003 (continued)

## 5. Capital Assets

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

| | Balance January 1, 2004 | Additions | Deletions | Balance December 31, 2004 |
|---|---|---|---|---|
| **Capital assets not being depreciated:** | | | | |
| Land | $13,165,910 | $6,837 | — | $13,172,747 |
| Total capital assets not being depreciated | 13,165,910 | 6,837 | — | 13,172,747 |
| **Capital assets being depreciated:** | | | | |
| Buildings | 1,495,179 | — | — | 1,495,179 |
| Improvements | 13,141,379 | 1,868,314 | — | 15,009,693 |
| Revenue vehicles | 95,222,413 | 6,511,502 | $3,332,470 | 98,401,445 |
| Other equipment | 24,281,551 | 2,094,944 | 95,076 | 26,281,419 |
| Total capital assets being depreciated | 134,140,522 | 10,474,760 | 3,427,546 | 141,187,736 |
| **Less accumulated depreciation:** | | | | |
| Buildings | 161,438 | 36,681 | — | 198,119 |
| Improvements | 3,599,705 | 730,108 | — | 4,329,813 |
| Revenue vehicles | 50,811,620 | 7,001,720 | 3,332,470 | 54,480,870 |
| Other equipment | 15,036,215 | 2,321,125 | 73,477 | 17,283,863 |
| Total accumulated depreciation | 69,608,978 | 10,089,634 | 3,405,947 | 76,292,665 |
| Total capital assets being depreciated, net | 64,531,544 | 385,126 | 21,599 | 64,895,071 |
| Total capital assets, net | $77,697,454 | $391,963 | $21,599 | $78,067,818 |

# Notes to the Financial Statements for the years ended December 31, 2004 and 2003 (continued)

**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 | $13,159,558 | $6,352 | — | $13,165,910 |
| Total capital assets not being depreciated | 13,159,558 | 6,352 | — | 13,165,910 |
| 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 | 23,311,298 | 1,111,383 | 141,130 | 24,281,551 |
| Total capital assets being depreciated | 128,199,371 | 6,423,321 | 482,170 | 134,140,522 |
| 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 | 13,075,329 | 2,080,415 | 119,529 | 15,036,215 |
| Total accumulated depreciation | 60,519,650 | 9,549,897 | 460,569 | 69,608,978 |
| Total capital assets being depreciated, net | 67,679,721 | (3,126,576) | 21,601 | 64,531,544 |
| Total capital assets, net | $80,839,279 | $(3,120,224) | $21,601 | $77,697,454 |

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

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

If the assets not conveyed by the City in 1986 (real estate, construction projects, and certain other assets having an estimated aggregate historical cost of approximately $28.3 million at December 31, 2004) had been owned by SORTA, the provision for depreciation for the years ended December 31, 2004 and 2003 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.

# Notes to the Financial Statements
# for the years ended December 31, 2004 and 2003 (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, 2004 and 2003 consist of the following:

| | 2004 | 2003 |
|---|---|---|
| **Non-operating revenues:** | | |
| Federal: | | |
| FTA-Maintenance and other assistance | $12,995,380 | $14,017,803 |
| FTA-grant pass-through–Union Twp. Park & Ride | $624,000 | — |
| FTA-grant pass-through–Riverfront Transit Center | — | $3,208,085 |
| State: | | |
| ODOT-Fuel tax reimbursement | $886,860 | $836,905 |
| ODOT-Elderly and handicapped grant | 312,329 | 322,417 |
| ODOT-Maintenance and other assistance | 151,744 | 148,374 |
| Total | $1,350,933 | $1,307,696 |
| State grant pass-through–Union Twp. Park & Ride | $146,000 | — |
| Local: | | |
| Cincinnati Board of Education Contract | $4,580,869 | $4,548,257 |
| Hamilton County | 533,200 | 444,295 |
| Warren County | 35,823 | 54,662 |
| Deerfield Township | 24,511 | 36,518 |
| Clermont County | — | 216,808 |
| City of Fairfield | — | 23,623 |
| City of West Chester | — | 20,100 |
| City of Mason | 24,511 | 36,518 |
| City of Lebanon | — | 4,610 |
| Other | 266,856 | 246,368 |
| Total | $5,465,770 | $5,631,759 |
| **Capital grant revenue:** | | |
| Federal | $6,245,795 | $2,271,321 |
| State | 1,861,285 | 3,003,262 |
| Local | 2,292,649 | 1,108,145 |
| Total | $10,399,729 | $6,382,728 |

## 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 $260,000 in 2004 and $261,000 in 2003.

At December 31, 2004, the minimum future payments under leases with terms extending beyond one year are as follows:

| Year | Amount |
|---|---|
| 2005 | $267,986 |
| 2006 | 266,650 |
| 2007 | 277,177 |
| 2008 | 288,173 |
| 2009 | 146,907 |
| Total | $1,246,893 |

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 $5,468,923, respectively, at December 31, 2004. 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, 2004.

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:

| Year | Amount |
|---|---|
| 2005 | $890,925 |
| 2006 | 9,527,285 |
| 2007 | 475,000 |
| 2008 | 475,000 |
| 2009 | 475,000 |
| Thereafter | 10,712,500 |
| Total minimum lease payments | 22,555,710 |
| Less amount representing interest | 3,919,350 |
| Present value of net minimum lease payments | 18,636,360 |
| Less principal amount due in 2005 | — |
| Amount due after 2005 | $18,636,360 |

During the years ended December 31, 2004 and 2003, the Authority recognized $840,107 and $913,498, 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.

## 8. Retirement Benefits

### A. Public Employees Retirement System of Ohio

**Plan Description.** Effective July 1, 1991, all employees of the Authority are required to be members of the Ohio Public Employees Retirement System ("OPERS"), a cost-sharing, multiple-employer defined benefit pension plan. Authority to establish and amend benefits is provided by State statute per Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that includes financial statements and required supplementary 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).

OPERS administers three separate pension plans as described below:

- The Traditional Pension Plan ("TP")–a cost-sharing multiple-employer defined benefit pension plan.

- The Member-Directed Plan ("MD")–a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the MD Plan, members accumulate retirement assets equal to the value of member and (vested) employer contributions plus any investment earnings thereon.

- The Combined Plan ("CO")–a cost-sharing multiple-employer defined benefit pension plan. Under the CO Plan, employer contributions are invested by OPERS to provide a formula retirement benefit similar in nature to the TP Plan benefit. Member contributions, the investment of which are self-directed by the members, accumulate retirement assets in a manner similar to the MD plan.

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

**Funding Policy.** The Ohio Revised Code provides statutory authority for employee and employer contributions. Employees other than law enforcement personnel are required to contribute 8.5% of their covered payroll to OPERS. The 2004 and 2003 employer contribution rate for local government employer units was 13.55% of covered payroll including 4.0% in 2004 and 5.0% in 2003 that is used to fund postretirement health care benefits. The Authority's total contributions to OPERS for pension benefits (excluding the amount relating to postretirement benefits) for the years ended December 31, 2004, 2003 and 2002 were $3,683,000, $3,339,000, and $3,281,000, respectively, equal to 100% of the required contribution for each year.

### B. Private Pension Plans

**Plan Description.** Certain retirees (26 at January 1, 2005) continue to participate in the private pension plans which originated under the privately owned transit system (Cincinnati

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

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

**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, 2004, 2003 and 2002 were determined using the unit credit actuarial cost method as follows:

| | 2004 | 2003 | 2002 |
|---|---|---|---|
| Annual required contribution | — | — | — |
| Interest on net pension obligation | — | — | — |
| Actuarial adjustment to net pension obligation | — | $(8,546) | — |
| Annual pension cost | — | (8,546) | — |
| Contribution/benefit payments made | $(38,006) | $(42,499) | $(56,595) |
| Decrease in net pension obligation | (38,006) | (51,045) | (56,595) |
| Net pension obligation beginning of year | 185,103 | 236,148 | 292,743 |
| Net pension obligation end of year | $147,097 | $185,103 | $236,148 |

The net pension obligation was actuarially determined using a mortality assumption obtained from the Unisex Pension Table for 1984 and the 2004 and 2003 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 OPERS. In addition to the pension benefit described in Note 8A, OPERS 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 OPERS is considered an Other Post-employment Benefit ("OPEB") as described in GASB Statement No. 12.

A portion of each employer's contribution to OPERS is set aside for the funding of post-retirement health care. The Ohio Revised Code provides statutory authority for employer contributions. For the Authority, 4.0% and 5% of covered payroll was the portion of the 13.55% total contribution rate for 2004 and 2003, respectively, that was used to fund health care for each year. The Ohio Revised Code provides the statutory authority requiring public employers to fund postretirement health care through their contributions to OPERS.

The assumptions and calculations noted below were based on OPERS' latest actuarial review performed as of December 31, 2003. 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 2003 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 at the projected wage inflation rate plus an additional factor ranging from 1% to 6% for the next eight years. In subsequent years (nine and beyond) health care costs were assumed to increase at 4% (the projected wage inflation rate).

OPEB provided through OPERS are advance-funded on an actuarially determined basis. The total number of active contributing participants in the TP and CO Plans was 369,885 at December 31, 2004. The Authority's contributions to OPERS for other post-employment benefits for the years ended December 31, 2004 and 2003 were $1,543,000 and $1,953,000, respectively, equal to 100% of the required contributions for each year. The actuarial value of OPERS' net assets available for OPEB at December 31, 2003 was $10.5 billion. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were $26.9 billion and $16.4 billion, respectively.

On September 9, 2004 the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. The HCPP restructures OPERS' health care coverage to improve the financial solvency of the fund in response to skyrocketing health care costs.

Under the HCPP, retirees eligible for health care coverage will receive a graded monthly allocation based on their years of service at retirement. The Plan incorporates a cafeteria approach, offering a broad range of health care options that allow benefit recipients to use their monthly allocation to purchase health care coverage customized to meet their individual needs. If the monthly allocation exceeds the cost of the options selected, the excess is deposited into a Retiree Medical Account that can be used to fund future health care expenses.

# Notes to the Financial Statements for the years ended December 31, 2004 and 2003 (continued)

**Other Benefits Provided.** In addition to the other postemployment benefits provided by OPERS, SORTA also provides postemployment health care benefits to former employees of Cincinnati Transit, Inc., who do not qualify for OPERS health care benefits, and a $1,500 life insurance benefit to each retired hourly employee. The life insurance benefits are provided through group insurance arrangements which are funded by SORTA through payment of monthly insurance premiums. The health care benefits were previously provided by group insurance arrangements which were funded by SORTA through payment of monthly insurance premiums. Effective March 1, 1997, SORTA became self-insured for such health care benefits. As of December 31, 2004, 3 individuals were receiving health care benefits and 381 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:

| | 2004 | 2003 |
|---|---|---|
| Health care benefits | $7,244 | $7,805 |
| Life insurance benefits | $270,629 | $297,150 |

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:

| | 2004 | 2003 |
|---|---|---|
| Medical inflation assumptions | ** | ** |
| Future annual increases in life insurance premiums | 2.00% | 2.00% |
| Remaining life expectancy* | | |
| Medical | Individually Determined | |
| Life | 14.6 yrs. | 14.6 yrs. |
| Interest factor | 6.00% | 6.00% |

* Based on U.S. National Center for Health Statistics, Vital Statistics of the U.S. 1994 (most recent available).
** 7% in 2005, decreasing to 5% in 2009 and thereafter.

The total expense recognized by the Authority for postemployment benefits not provided under OPERS was approximately ($6,000) and $45,000 for the years ended December 31, 2004 and 2003, respectively.

## 9. Risk Management

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

Employee health care benefits are provided under a group insurance arrangement and, on January 1, 1995, the Authority became self-insured for workers' compensation benefits. 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 3.54%.

The changes in the liabilities for self-insured risks for the years ended December 31, 2004 and 2003 are as follows:

| | Workers' Compensation | Public Liability and Property Damage | Total |
|---|---|---|---|
| Balance, January 1, 2003 | $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 | 3,559,302 | 1,723,158 | 5,282,460 |
| Claims, net of changes in estimates | 652,652 | (370,003) | 282,649 |
| Payments | (499,661) | (874,092) | (1,373,753) |
| Balance, December 31, 2004 | $3,712,293 | $479,063 | $4,191,356 |

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

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

## 10. Contingencies and Commitments

### A. Litigation and Claims

It is the Authority's policy, within certain limits (see Note 9), to act as self-insurer for certain insurable risks consisting primarily of public liability, property damage, and workers' compensation. At December 31, 2004, 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, 2004, there were no questioned costs that had not been resolved with appropriate federal and state agencies. Questioned costs could still be identified during audits to be conducted in the future. In the opinion of SORTA's management, no material grant expenditures will be disallowed.

## 11. New Accounting Pronouncements

During 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 SORTA for the year ended December 31, 2004. The Authority has determined that there is no affect on the Authority's financial statements.

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 SORTA in 2005. 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 SORTA in 2005. The Authority has not determined the impact, if any, that this Statement will have on its financial statements.

During August 2004, the GASB issued Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions," which addresses how state and local governments should account for and report their costs and obligations related to postemployment healthcare and other nonpension benefits. Collectively, these benefits are commonly referred to as other postemployment benefits, or OPEB. Statement 45 also establishes disclosure requirements for information about the plans in which an employer participates, the funding policy followed, the actuarial valuation process and assumptions, and, for certain employers, the extent to which the plan has been funded over time. Statement 45 will not be effective for SORTA until the year ended December 31, 2008, and as such, the Authority has not determined the impact that this statement will have on its financial statements.

During December 2004, the GASB issued Statement No. 46, "Net Assets Restricted by Legislation, an amendment of GASB Statement No. 34." This statement clarifies that a legally enforceable enabling legislation restriction is one that a party external to a government–such as citizens, public interest groups, or the judiciary–can compel a government to honor. The Statement states that the legal enforceability of an enabling legislation restriction should be reevaluated if any of the resources raised by the enabling legislation are used for a purpose not specified by the enabling legislation or if a government has other cause for reconsideration. Although the determination that a particular restriction is not legally enforceable may cause a government to review the enforceability of other restrictions, it should not necessarily lead a government to the same conclusion for all enabling legislation restrictions. This Statement also specifies the accounting and financial reporting requirements if new enabling legislation replaces existing enabling legislation or if legal enforceability is reevaluated. Finally, this Statement requires governments to disclose the portion of total net assets that is restricted by enabling legislation. The requirements of this Statement are effective for SORTA for 2006, and as such, the Authority has not determined the impact, if any, that this statement will have on its financial statements.

## 12. Subsequent Events

Effective February 6, 2005, SORTA instituted a fare increase which will increase passenger revenue an approximated $2.6 million annually.

In January 2005, SORTA agreed to a Fact Finding Award which resulted in a three year contract with the Amalgamated Transit Union (ATU) effective February 1, 2005 through January 31, 2008. The agreement will cost SORTA an estimated $1,063,000 in 2005, $3,124,000 in 2006 and $4,900,000 in 2007. This agreement allows for wage increases in each of the three years, increased health and dental insurance costs and higher life insurance, tool and uniform allowances.

**Southwest Ohio Regional Transit Authority**

# Supplemental Schedule of Expenditures of Federal Awards
# for the year ended December 31, 2004

| 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 | $ 37,830 |
| | | OH-90-X203 | 647,285 |
| | | OH-90-X233 | 60,270 |
| | | OH-90-X265 | 105,605 |
| | | OH-90-X276 | 291,531 |
| | | OH-90-X319 | 24,302 |
| | | OH-90-X343 | 110,935 |
| | | OH-90-X392 | 4,030,648 |
| | | OH-90-X438 | 1,192,695 |
| | | OH-90-X455 | 12,528,748 |
| **Total CFDA #20.507** | | | 19,029,849 |
| Direct Program: | | | |
| Federal Transit Administration-Capital Improvements Grant | 20.500 | OH-03-0192 | 9,170 |
| | | OH-03-0230 | 612,892 |
| **Total CFDA #20.500** | | | 622,062 |
| **Total-U.S. Department of Transportation-Federal Transit Cluster** | | | 19,651,911 |
| Direct Program: | | | |
| Federal Transit Administration-Reserve Commute Job Access | 20.516 | OH-37-4010 | 211 |
| Direct Program: | | | |
| Department of Homeland Security-Domestic Preparedness Training Program | 97.005 | OH-40-X002 | 8,134 |
| **Total Expenditures of Federal Awards-All U.S. Department of Transportation** | | | $19,660,256 |

*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, 2004

## 1. Basis of Presentation

The accompanying Supplemental Schedule of Expenditures of Federal Awards (the "Schedule") reflects the expenditures of the Southwest Ohio Regional Transit Authority (the "Authority") under programs financed by the U.S. government for the year ended December 31, 2004. 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.

## 2. Subrecipients

Of the federal expenditures presented in the Schedule, the Authority provided federal awards to subrecipients as follows:

| Program Title | Subrecipient | Federal CFDA No. | 2004 Grant Expenditures |
|---|---|---|---|
| Federal Transit Administration– Capital and Operating Assistance Formula and Grants | Union Twp., Clermont County, Ohio | 20.507 | $624,000 |

Deloitte.

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# INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS 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, 2004, and have issued our report thereon dated May 19, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

## 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. However, we noted other matters involving the internal control over financial reporting that we have reported to the management of the Authority in a separate letter dated May 19, 2005.

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

May 19, 2005

Member of
**Deloitte Touche Tohmatsu**

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# 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, 2004. 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, 2004.

## 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

**May 19, 2005**

**Southwest Ohio Regional Transit Authority**

# Schedule of Findings and Questioned Costs for the Year Ended December 31, 2004

## Summary of Auditors' Results

- **Type of Report Issued on the Financial Statements as of and for the Year Ended December 31, 2004–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, 2004:**
  - **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– $589,808**
- **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, 2004

**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, 2004

| BOARD OF TRUSTEES | |
|---|---|
| Chairman | Benjamin Gettler |
| Trustees | Robert W. Buechner<br>Robert L. Harris<br>Stephan M. Louis<br>Thomas A. Luken<br>Daniel S. Peters<br>Melody Sawyer Richardson<br>Lamont Taylor<br>Timothy R. Williams |

| ADMINISTRATION | |
|---|---|
| CEO & General Manager | Michael H. Setzer |
| Assistant General Manager – Administration<br>& Interim Secretary-Treasurer | 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, 2004

| | |
|---|---|
| Benjamin Gettler | Michael H. Setzer |
| Chairman | CEO & General Manager |
| Board of Trustees | 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, 2004

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SORTA
Southwest Ohio Regional Transit Authority
1014 Vine Street, Suite 2000
Cincinnati, Ohio 45202-1116
513/632-9226



May 19, 2005

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, 2004, is hereby respectfully submitted. This CAFR was prepared by the Department of Accounting and Budget and represents SORTA's commitment to provide accurate, concise and high-quality financial information to its Board of Trustees, interested parties and residents in its service area.

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

The 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, 2003. 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 2003) as well as the previous twelve years. We believe our current report continues to conform to the Certificate of Achievement program requirements, and we are submitting it to GFOA.

This CAFR is divided into the following three sections:

- **Introductory Section** contains this letter of transmittal, a list of the members of the Board of Trustees and Administration, and a Table of Organization.

- **Financial Section** includes the Independent Auditors' Report, Management's Discussion and Analysis, the financial statements (with related footnotes) for the years ended December 31, 2004 and 2003, and the supplemental schedule of revenues, expenses, and changes in net assets–budget and actual for the year ended December 31, 2004. During 2003 we adopted Governmental Accounting Standards Board (GASB) Statement 34, Basic Financial Statements and Management's Discussion and Analysis, and the related GASB Statements No. 37 and 38.

- **Statistical Section** provides financial, economic, and demographic information which is useful for indicating trends for comparative fiscal periods.

Metro is a non-profit public service of Southwest Ohio Regional Transit Authority

# REPORTING ENTITY

## General

SORTA's reporting entity has been defined in accordance with Governmental Accounting Standards Board (GASB) Statement No. 14 "The Financial Reporting Entity", as amended by GASB Statement No. 39, "Determining Whether Certain Organizations are Component Units (an amendment of GASB Statement No. 14)." Accordingly, the financial statements contained within this comprehensive annual financial report include only the accounts and transactions of SORTA. A complete discussion of SORTA's reporting entity is included in Note 1 to the financial statements.

SORTA was created under Chapter 306 of the Ohio Revised Code by a resolution of the Hamilton County Board of Commissioners adopted on October 2, 1968. SORTA's service area is comprised of 211 square miles in Hamilton County, 21 square miles in Clermont County, 16 square miles in Warren County and 5 square miles in Butler County. This service area encompasses 9 townships, 13 villages and 19 cities, including the City of Cincinnati.

## Commencement of Operations and Funding

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

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

## Facilities

SORTA's six facilities are located at:

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

- **Silverton Assessment and Training Center,** 7000 Montgomery Road. This facility is for assessment and training for people with disabilities.

- **Paratransit Operating Facility,** 1801 Transpark Drive. This is the site from which our specialized transportation service for customers who are unable to use fixed route service operates. This is a purchased transportation service.

## Services

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

- 51 Metro fixed bus routes, most of which are multi-branch, provide 135 local or express services: 48 local services operating seven days a week; 56 local services operating six days a week (Monday through Saturday); 87 local services operating five days a week (Monday through Friday); and 48 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 911,000 hours of Metro fixed-route bus service in 2005, which will yield approximately 12.9 million vehicle miles of operation, including nonrevenue miles. In 2004, Metro provided 938,000 hours of fixed route service, yielding 13.3 million vehicle miles of operation, including nonrevenue miles, and 23.1 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 2005 it will provide approximately 270,000 passenger trips and more than 2.7 million vehicle miles of Access service. In 2004, Access provided 267,000 passenger trips and 2.7 million vehicle miles.

## Management, Board of Trustees

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

## Administration

The administration of SORTA, subject to the policies and supervision of its Board of Trustees, is directed by a general manager/CEO. SORTA contracts with Professional Transit Management for the general manager/CEO. The senior staff is selected by the general manager/CEO. A Table of Organization which depicts the key functional responsibilities is shown on page 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 2004 was 5.6 percent, compared with a national average of 5.5 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 2005 on the basis of these gains.

## Population

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

| Year | Cincinnati | Hamilton County |
|---|---|---|
| 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:

**Average Unemployment Rates**

| Year | Hamilton County (1) | Ohio (1) | U.S. (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% |
| 2004 | 5.6% | 6.1% | 5.5% |

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 2004 include the following:

- Provided 23.1 million passenger trips on Metro fixed route service.
- Provided 267,271 passenger trips on Access paratransit service.
- 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 was completed in September, 2004.
- Metro selected the artist to create public art as part of the redesign of Government Square, Metro's main transit hub in downtown Cincinnati.
- Metro took delivery of 23 new Gillig Phantom 40-foot transit coaches.
- 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.

## Future Projects

Initiatives planned or undertaken in 2005 include:

- On February 6, Metro implemented a flat fare structure. This new seven day a week fare structure charges $1 fare within the City of Cincinnati, $1.50 outside the city but within Hamilton County, and $2 outside Hamilton County.
- Metro has secured Federal, State and local funding to rebuild Government Square, Metro's main transit hub in downtown Cincinnati. A new Government Square design was chosen in 2004. Construction is slated to begin summer 2005 and continue until Spring 2006.
- Metro's management team will design a business plan for 2005-2007. This plan is to get Metro back to basics of "high value" quality service, focusing on the Metro experience from a customer standpoint.

# 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.

## Financial Operating Results

Please refer to Management's Discussion and Analysis in the Financial Section for discussion on Financial Operating Results.

## Retirement Plans

All SORTA employees are covered under the Ohio Public Employees Retirement System (OPERS), a statewide public retirement (including disability retirement) system. Employees contribute to OPERS at a statutory rate of 8.5% of earnable salary or compensation, and SORTA contributes 13.55% of the same base for 2004. These contribution rates are actuarially determined and statutorily mandated.

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

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

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

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

### Other Post-employment Benefits

OPERS also provides post-retirement health care coverage to those employees who retire with ten or more years of qualifying Ohio service credit as well as health care coverage for disability recipients and primary survivor recipients. A portion of each employer's contribution to OPERS is set aside to fund these benefits (4% of wages in 2004).

SORTA also provides post-employment health care to former employees of Cincinnati Transit Inc. who do not qualify for OPERS health care benefits. SORTA became self-insured for these benefits March 1, 1997. Also, all bargaining unit retirees are provided with a $1,500 life insurance benefit which is funded through the purchase of group insurance. A liability of approximately $278,000 is recorded on SORTA's balance sheet at December 31, 2004, 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, 2004.

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, 2004 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 H. Setzer
CEO/General Manager

H. Theodore Bergh
Secretary/Treasurer
Assistant General Manager,
Administration

Southwest Ohio Regional Transit Authority

# Board of Trustees and Administration as of December 31, 2004

## Members of the Board of Trustees



## Administration

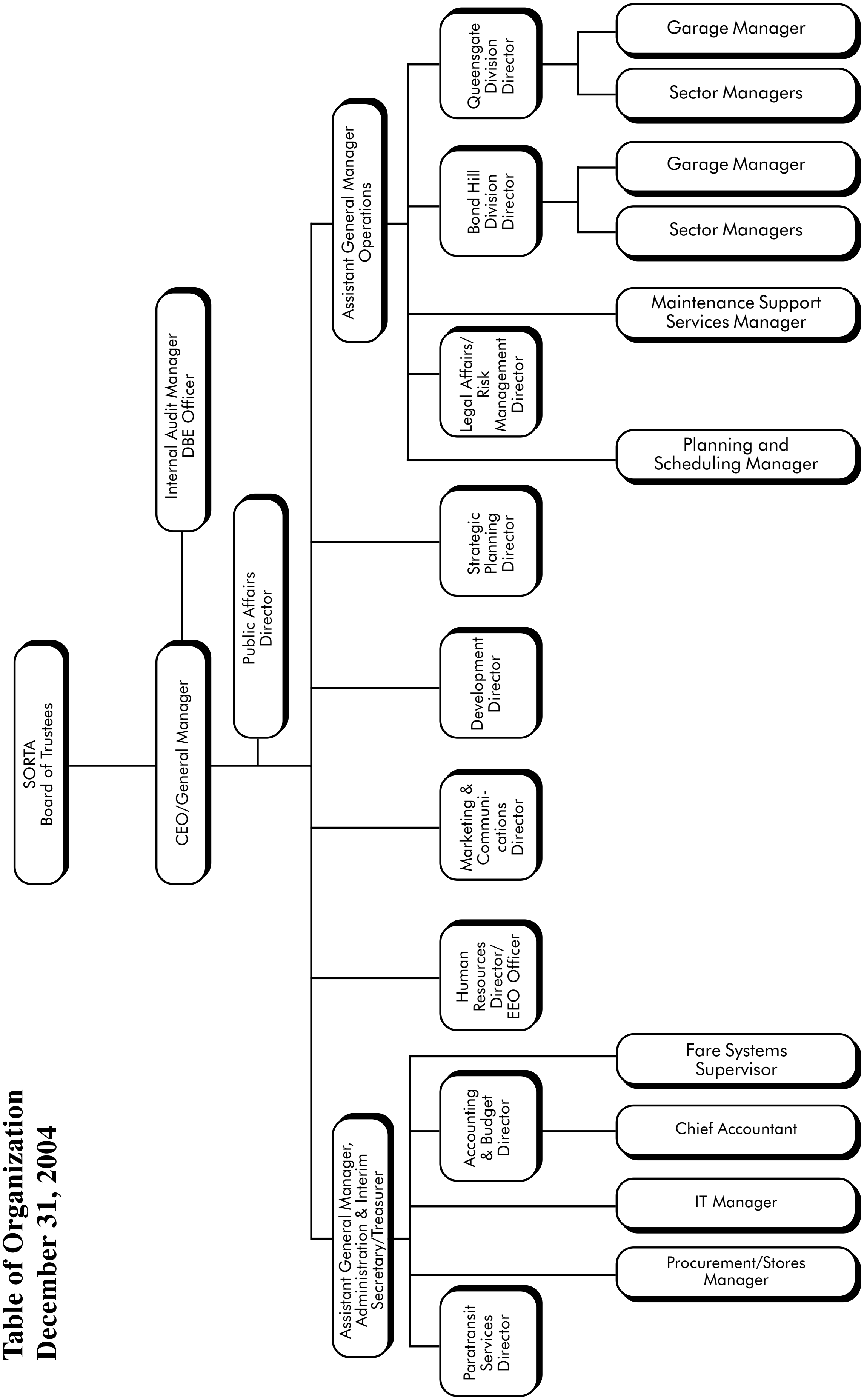


* Retired as of February 28, 2005. Replaced by H. Theodore Bergh.

Southwest Ohio Regional Transit Authority

**Table of Organization**

**December 31, 2004**



# 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, 2003

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.

GOVERNMENT FINANCE OFFICERS ASSOCIATION OF THE UNITED STATES AND CANADA CORPORATION SEAL CHICAGO

President

Executive Director

Deloitte.

**Deloitte & Touche LLP**
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Cleveland, OH 44114-1291
USA

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## 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, 2004 and 2003 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the respective financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our 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, 2004 and 2003, 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.

Management's Discussion and Analysis on pages 15 – 21 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the Authority's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presenta tion of the supplementary information. However, we did not audit the information and we do not express an opinion on it.

Our audit was conducted for the purpose of forming an opinion on the Authority's basic financial statements. The supplemental schedule of revenues, expenses, and changes in net assets—budget and actual (GAAP basis) for the year ended December 31, 2004 is presented for purpose of additional analysis and is not a required part of the Authority's basic financial statements. This supplemental schedule is the responsibility of the Authority's management. Such schedule has been subjected to the auditing procedures applied in our audit of the 2004 basic financial statements and, in our opinion, is fairly stated, in all material respects, when considered in relation to the 2004 basic financial statements taken as a whole. The statistical data on pages 46 – 59 have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Deloitte & Touche LLP

May 19, 2005

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

## Financial Highlights

- The Authority's total net assets increased over the course of the year's operations, due to an increase in capital asset purchases.
- The Authority's operating expenses, excluding depreciation and before the grant pass through, in 2004, were $2.0 million lower than 2003 expenses. This 2.7% decrease is due mainly to the implementation of route rationalization resulting from a Comprehensive Operational Analysis Study, along with decreased claims and miscellaneous expenses.
- Operating revenues for the Authority were $15.7 million for the fiscal year of 2004. This was a slight increase of .27% over the prior year, and was primarily due to increased passenger revenue due to increased zone and transfer charges.
- Transit Fund revenue required from the City of Cincinnati decreased $1.9 million, this was due to the decreased operating expenses and a decrease of $.7 million passed-through to the City in 2003 for the Riverfront Transit Center.
- Investment income, including changes in fair value of investments, increased by $148 thousand or 33.7% in 2004 due to the increase in interest rates and portfolio performance.

## 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.

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).

Southwest Ohio Regional Transit Authority

# Management's Discussion and Analysis (continued)

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

## Notes to the Financial Statements

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

## Financial Analysis of the Authority

One of the most important questions asked about the Authority's finances is "Is the Authority as a whole better off or worse off as a result of this year's activities?" The balance sheets 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 Balance Sheets**
**December 31, 2004, 2003, and 2002 (In Thousands)**

| | 2004 | 2003 | 2002 |
|---|---|---|---|
| Current assets | $51,766 | $54,147 | $58,165 |
| Non-current assets | 4,115 | 4,007 | 4,827 |
| Capital assets-net | 78,068 | 77,697 | 80,839 |
| **Total assets** | $133,949 | $135,851 | $143,831 |
| Current liabilities | $29,491 | $30,986 | $35,613 |
| Non-current liabilities | 25,971 | 26,688 | 26,874 |
| **Total liabilities** | 55,462 | 57,674 | 62,487 |
| Net assets: | | | |
| Invested in capital assets, net of related debt | 59,431 | 59,061 | 60,827 |
| Restricted | 879 | 514 | 164 |
| Unrestricted | 18,177 | 18,602 | 20,353 |
| **Total net assets** | 78,487 | 78,177 | 81,344 |
| **Total liabilities and net assets** | $133,949 | $135,851 | $143,831 |

Net assets increased $310,000 to $78.5 million in 2004, up from $78.2 million in 2003 which was a decrease from $81.3 million in 2002. The .40% increase in net assets from 2003 to 2004 was due to capital asset purchases in excess of depreciation. The 3.9% decrease in net assets from 2002 to 2003 was principally due to depreciation expense in excess of capital additions.

Southwest Ohio Regional Transit Authority

# Management's Discussion and Analysis (continued)

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, 2004, 2003, and 2002 (In Thousands)**

| | 2004 | 2003 | 2002 |
|---|---|---|---|
| Operating revenues | $15,678 | $15,637 | $14,873 |
| Operating expenses excluding depreciation and grant pass through | (72,322) | (74,354) | (72,385) |
| Depreciation expense | (10,090) | (9,550) | (9,212) |
| Operating loss before grant pass through | (66,734) | (68,267) | (66,724) |
| Grant pass through–Riverfront Transit Center | — | (3,943) | (713) |
| Grant pass through–Union Township Park & Ride | (770) | — | — |
| Operating loss | (67,504) | (72,210) | (67,437) |
| Net non-operating revenues (expenses): | | | |
| Transit Fund assistance | 35,660 | 36,808 | 32,052 |
| Federal maintenance grants and reimbursements | 12,995 | 14,018 | 15,464 |
| State ADA, special fare assistance and fuel tax reimbursement | 1,351 | 1,307 | 1,316 |
| Investment income | 754 | 699 | 1,576 |
| Net (decrease) increase in fair value of investments | (167) | (259) | 972 |
| Non-transportation revenue | 585 | 513 | 541 |
| Other | 5,466 | 5,632 | 5,591 |
| Non-operating revenues and expenses, net before grant pass through | 56,644 | 58,718 | 57,512 |
| Transit Fund grant pass through–Riverfront Transit Center | — | 735 | — |
| Federal grant pass through–Riverfront Transit Center & Union Township Park & Ride | 624 | 3,208 | 713 |
| State grant pass through–Union Township Park & Ride | 146 | — | — |
| | 57,414 | 62,661 | 58,225 |

(continued)

Southwest Ohio Regional Transit Authority

## Management's Discussion and Analysis (continued)

| | 2004 | 2003 | 2002 |
|---|---|---|---|
| Capital Contributions | $10,400 | $6,383 | $14,231 |
| Change in net assets | 310 | (3,167) | 5,019 |
| Net assets, beginning of year | 78,177 | 81,344 | 76,325 |
| Net assets, end of year | $78,487 | $78,177 | $81,344 |

The Authority's operating revenues increased $41,000 to $15.7 million in 2004 from $15.6 million in 2003. In 2003 operating revenues increased $.8 million from $14.9 million in 2002. The .27% increase from 2003 to 2004 was due to an increase in zone and transfer fare charges. The 5.1% increase from 2002 to 2003 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 in 2004 decreased by $5.2 million as compared to the prior year. $3.2 million of that decrease was due to decreased federal, state and local pass-through funding for the Riverfront Transit Center and Union Township for a Park & Ride. The remaining $2 million decrease was a result of reduced operating costs due to route rationalization which was a result of a Comprehensive Operational Analysis Study, along with decreased claims liability and miscellaneous expenses.

Operating expenses, excluding depreciation and amortization in 2003, 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 2004 decrease in other non-operating revenues of $5.2 million is related to the decrease in pass through funds for capital projects of $3.2 million. The remaining $2 million is due to reduced Transit Fund income of $1.1 million and $1 million reduction in federal maintenance grants and reimbursements offset by small increases in investment income net of fair value adjustment of $.1 million.

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 offset 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.

Southwest Ohio Regional Transit Authority

# Management's Discussion and Analysis (continued)

## Cash Flows

### Condensed Statement of Cash Flows for years ended December 31, 2004 and 2003 (In Thousands)

| **Cash flows from operating activities:** | **2004** | **2003** | **2002** |
|---|---|---|---|
| Receipts from fares and charters | $15,585 | $15,159 | $14,509 |
| Payments for labor, employee benefits, claims, insurance and to suppliers | (72,179) | (77,341) | (74,679) |
| **Net cash used in operating activities** | (56,594) | (62,182) | (60,170) |
| **Cash flows from noncapital financing activities:** | | | |
| Transfer from City of Cincinnati Income Tax-Transit Fund | 36,758 | 35,471 | 28,439 |
| Federal, State and Other local assistence and reimbursements | 18,964 | 24,017 | 23,875 |
| **Net Cash Provided by noncapital financing activities** | 55,722 | 59,488 | 52,314 |
| **Cash flows from capital and related financing activities:** | | | |
| Capital grants received: | | | |
| City of Cincinnati, federal, state and other local | 8,683 | 3,794 | 8,051 |
| Additions to capital assets | (10,483) | (5,855) | (14,137) |
| Interest paid on capital lease obligations | (865) | (2,301) | 9,279 |
| **Net used in capital and related financing activities** | (2,665) | (4,362) | 3,193 |
| **Cash flows from investing activities:** | | | |
| Net cash receipts from investment securities | 1,931 | (2,657) | 6,443 |
| **Net cash provided (used in) investing activities** | 1,931 | (2,657) | 6,443 |
| **Net decrease in cash and cash equivalents** | (1,606) | (9,713) | 1,780 |
| **Cash & cash equivalents at beginning of year** | 5,299 | 15,012 | 13,232 |
| **Cash & cash equivalents at end of year** | $3,693 | $5,299 | $15,012 |

Southwest Ohio Regional Transit Authority

# Management's Discussion and Analysis (continued)

Net cash used for operating activities decreased by $5.6 million in 2004 as a result of decreased operating expenses along with increased passenger fare revenues. Net cash provided by non-capital financing activities decreased $3.8 million, due to the elimination of the pass through to the City for the Riverfront Transit Center of $3.9 million offset by the pass through of $.77 million in funds for the Union Township Park & Ride, along with a decrease in state maintenance grants, reimbursements of $.6 million and special fare assistance and other local operating assistance received of $.2 million. Net cash used in capital and related financing activities decreased $1.7 million as a result of reduced payments on capital lease obligations of $1.4 million, an increase in capital assets of $4.6 million offset by increases in capital grants received from the City of $.5 million and federal, state and other local of $4.4 million.

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 $78.1 million, net of accumulated depreciation as of December 31, 2004, an increase of $.4 million (.48%). 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:

- Purchase of 23 Gillig buses totalling $6.5 million
- Rehabilitation & expansion of the facility that houses our Access paratransit operation totaling $.77 million
- Rehabilitation of Government Square, the major transit hub in downtown Cincinnati, totalling $.7 million

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 $18.6 million. This debt consists of an $8.6 million lease on 24 Gillig busses and 40 paratransit buses which matures in 2006 and a $10 million lease on 38 Gillig buses which matures in 2011. See Note 7 to the financial statements for more detailed information regarding capital leases.

Southwest Ohio Regional Transit Authority

# Management's Discussion and Analysis (concluded)

## 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 Director of Accounting and Budget, Southwest Ohio Regional Transit Authority, 1014 Vine Street, Suite 2000, Cincinnati, Ohio 45202.

Southwest Ohio Regional Transit Authority

# Balance Sheets as of December 31, 2004 and 2003

| ASSETS | 2004 | 2003 |
|---|---|---|
| **Current assets:** | | |
| Cash and cash equivalents (Note 4) | $144,875 | $2,257,149 |
| Investments (Note 4) | 41,940,095 | 42,443,628 |
| Receivables: | | |
| Federal assistance | 6,970,808 | 5,497,978 |
| State assistance | 292,389 | 146,759 |
| Other | 1,101,310 | 2,543,305 |
| Inventory of materials and supplies | 1,170,783 | 1,064,451 |
| Prepaid expenses and other current assets | 145,528 | 193,229 |
| **Total current assets** | 51,765,788 | 54,146,499 |
| **Non-current assets:** | | |
| Cash and cash equivalents-restricted (Notes 4 and 7) | 3,548,794 | 3,042,041 |
| Receivables for capital assistance | 566,577 | 965,319 |
| Capital assets (Notes 5 and 7): | | |
| Land and buildings | 14,667,926 | 14,661,089 |
| Improvements | 15,009,693 | 13,141,379 |
| Revenue vehicles | 98,401,445 | 95,222,413 |
| Other equipment | 26,281,419 | 24,281,551 |
| Total capital assets | 154,360,483 | 147,306,432 |
| Less allowance for depreciation and amortization | 76,292,665 | 69,608,978 |
| Capital assets-net | 78,067,818 | 77,697,454 |
| **Total non-current assets** | 82,183,189 | 81,704,814 |
| **Total assets** | $133,948,977 | $135,851,313 |

(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, 2004 and 2003 (continued)

| LIABILITIES AND NET ASSETS | 2004 | 2003 |
|---|---|---|
| **Current liabilities:** | | |
| Accounts payable | $1,571,726 | $1,436,931 |
| Accrued payroll | 1,307,517 | 1,100,960 |
| Accrued payroll taxes and other benefits (Note 8) | 4,099,343 | 4,139,186 |
| Current portion of estimated claims payable (Note 9) | 603,500 | 875,000 |
| Other current liabilities | 1,652,276 | 1,996,303 |
| Advance from City of Cincinnati | | |
| Income Tax-Transit Fund (Note 3): | | |
| For current operations | 2,375,564 | 1,277,195 |
| For capital purposes | 17,881,408 | 20,160,148 |
| **Total current liabilities** | 29,491,334 | 30,985,723 |
| **Non-current liabilities:** | | |
| Capital expenditures payable | 929,582 | 931,212 |
| Deferred capital grants | 2,669,707 | 2,528,509 |
| Estimated claims payable, net of current portion (Note 9) | 3,587,856 | 4,407,460 |
| Capital lease obligation (Note 7) | 18,636,360 | 18,636,360 |
| Accrued pension cost (Note 8) | 147,097 | 185,103 |
| **Total non-current liabilities** | 25,970,602 | 26,688,644 |
| **Total liabilities** | 55,461,936 | 57,674,367 |
| **Net assets:** | | |
| Invested in capital assets, net of related debt | 59,431,458 | 59,061,094 |
| Restricted | 879,087 | 513,532 |
| Unrestricted | 18,176,496 | 18,602,320 |
| **Total net assets** | 78,487,041 | 78,176,946 |
| **Total liabilities and net assets** | $133,948,977 | $135,851,313 |

(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, 2004 and 2003

| | 2004 | 2003 |
|---|---|---|
| **Operating revenues** | | |
| Passenger fares for transit service | $14,852,093 | $14,757,975 |
| Special transit fares | 413,746 | 486,613 |
| Auxiliary transportation revenue | 412,500 | 392,298 |
| **Total** | 15,678,339 | 15,636,886 |
| **Operating expenses other than depreciation:** | | |
| Labor | 35,758,546 | 36,271,527 |
| Fringe benefits | 16,266,494 | 15,970,741 |
| Materials and supplies consumed | 8,954,545 | 8,222,477 |
| Services | 2,660,060 | 2,704,432 |
| Utilities | 1,302,292 | 1,340,968 |
| Casualty and liability | (335,205) | 1,342,778 |
| Taxes | 935,707 | 895,527 |
| Purchased transportation services | 5,921,439 | 5,840,101 |
| Leases and rentals | 466,879 | 454,645 |
| Miscellaneous | 391,401 | 1,311,154 |
| Sub-total | 72,322,158 | 74,354,350 |
| Grant pass-through–Union Twp. Park & Ride | 770,000 | — |
| Grant pass-through–Riverfront Transit Center | — | 3,943,394 |
| **Total** | 73,092,158 | 78,297,744 |
| Depreciation and Amortization (Note 5) | 10,089,634 | 9,549,897 |
| Total operating expenses | 83,181,792 | 87,847,641 |
| **Operating loss** | (67,503,453) | (72,210,755) |
| **Non-operating revenues (expenses):** | | |
| Federal maintenance grants and reimbursements (Note 6) | 12,995,380 | 14,017,803 |
| Federal grant pass-through–Union Twp. Park & Ride (Note 6) | 624,000 | — |
| Federal grant pass-through–Riverfront Transit Center (Note 6) | — | 3,208,085 |
| State maintenance grants, reimbursements and special fare assistance (Note 6) | 1,350,933 | 1,307,696 |
| State grant pass-through–Union Twp. Park & Ride (Note 6) | 146,000 | — |
| Local operating grants and special fare assistance (Note 6) | 5,465,770 | 5,631,759 |
| Investment income-net (Note 7) | 753,956 | 698,606 |
| Decrease in fair value of investments | (166,529) | (259,140) |
| Non-transportation revenue | 584,513 | 512,875 |
| **Total** | 21,754,023 | 25,117,684 |

(continued)

Southwest Ohio Regional Transit Authority

## Statements of Revenues, Expenses and Changes in Net Assets for the years ended December 31, 2004 and 2003 (continued)

| | 2004 | 2003 |
|---|---|---|
| **Loss before operating assistance provided by City of Cincinnati Income Tax-Transit Fund and capital grant activity** | $(45,749,430) | $(47,093,071) |
| **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)** | 35,659,796 | 36,807,865 |
| **Net loss before capital grant activity** | (10,089,634) | (9,549,897) |
| **Capital grant revenue (Notes 2C and 6)** | 10,399,729 | 6,382,728 |
| **Increase (decrease) in net assets during the year** | 310,095 | (3,167,169) |
| **Net assets, beginning of year** | 78,176,946 | 81,344,115 |
| **Net assets, end of year** | $78,487,041 | $78,176,946 |

(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, 2004 and 2003

| | 2004 | 2003 |
|---|---|---|
| **Cash flows from operating activities:** | | |
| Receipts from fares and charters | $15,585,361 | $15,158,762 |
| Payments to suppliers | (19,071,296) | (23,464,124) |
| Payments for labor and employee benefits | (51,705,335) | (51,920,999) |
| Payments for claims and insurance | (1,402,050) | (1,955,712) |
| **Net cash used in operating activities** | (56,593,320) | (62,182,073) |
| **Cash flows from noncapital financing activities:** | | |
| Transfer from City of Cincinnati Income Tax-Transit Fund | 36,758,165 | 35,471,350 |
| Federal maintenance grants and reimbursements | 12,146,550 | 16,401,036 |
| State maintenance grants, reimbursements and special fare assistance | 1,351,303 | 1,984,370 |
| Other local operating assistance received | 5,465,770 | 5,631,759 |
| **Net cash provided by noncapital financing activities** | 55,721,788 | 59,488,515 |
| **Cash flows from capital and related financing activities:** | | |
| Capital grants received: | | |
| City of Cincinnati Income Tax-Transit Fund | 499,386 | 53,900 |
| Federal, state and other local | 8,183,140 | 3,740,242 |
| Additions to capital assets | (10,483,227) | (5,855,396) |
| Interest paid on capital lease obligation | (864,356) | (924,797) |
| Payments of capital lease obligation | — | (1,376,358) |
| **Net cash used in capital and related financing activities** | (2,665,057) | (4,362,409) |
| **Cash flows from investing activities:** | | |
| Net cash (payments for) receipts from investment securities | 337,006 | (4,269,285) |
| Interest received | 1,594,062 | 1,612,104 |
| **Net cash provided by (used in) investing activities** | 1,931,068 | (2,657,181) |
| **Net decrease in cash and cash equivalents** | (1,605,521) | (9,713,148) |

(continued)

Southwest Ohio Regional Transit Authority

## Statements of Cash Flows
## for the years ended December 31, 2004 and 2003 (continued)

| | 2004 | 2003 |
|---|---|---|
| **Cash and cash equivalents at beginning of year** | $5,299,190 | $15,012,338 |
| **Cash and cash equivalents at end of year** | $3,693,669 | $5,299,190 |
| **Reconciliation of operating loss to net cash used in operating activities:** | | |
| Operating loss | $(67,503,453) | $(72,210,755) |
| Adjustments to reconcile operating loss to net cash used in operating activities: | | |
| Depreciation and amortization | 10,089,634 | 9,549,897 |
| Non-transportation revenue | 584,513 | 512,875 |
| Changes in assets and liabilities: | | |
| Other receivables | 1,441,995 | (19,053) |
| Inventory of materials and supplies | (106,332) | 44,914 |
| Prepaid expenses and other current assets | 47,701 | (24,116) |
| Accounts payable | 134,795 | 81,745 |
| Accrued expenses | 166,714 | 92,492 |
| Other liabilities | (357,783) | (499,082) |
| Estimated claims payable | (1,091,104) | 289,010 |
| **Net cash used in operating activities** | $(56,593,320) | $(62,182,073) |
| **NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES** | | |
| **Decrease in fair value of investments** | $(166,529) | $(259,140) |

(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, 2004 and 2003

## 1. Organization and Reporting Entity

### A. Organization

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

### B. Reporting Entity

The Authority has adopted the provisions of Statement No. 14 of the Governmental Accounting Standards Board ("GASB"), "The Financial Reporting Entity", as amended by GASB Statement No. 39, "Determining Whether Certain Organizations are Component Units (an amendment of GASB Statement No. 14)." Accordingly, the accompanying financial statements include only the accounts and transactions of the Authority. Under the criteria specified in Statements No. 14 and 39, the Authority has no component units nor is it considered a component unit of the City of Cincinnati or Hamilton County, Ohio. The Authority is, however, considered to be a related organization to Hamilton County by virtue of the fact that SORTA's Board of Trustees is appointed by the Hamilton County Board of Commissioners.

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

## 2. Summary of Significant Accounting Policies

### A. Basis of Accounting

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

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

Southwest Ohio Regional Transit Authority

# Notes to the Financial Statements for the years ended December 31, 2004 and 2003 (continued)

## B. Net Asset Classifications

GASB Statement No. 34, “Basic Financial Statements–And Managements’ Discussion and Analysis–for State and Local Governments: Omnibus,” requires the classification of net assets into the following three components:

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

## C. Nonexchange Transactions

The Authority follows GASB Statement No. 33, “Accounting and Financial Reporting for Nonexchange Transactions”. In general, GASB Statement No. 33 establishes accounting and financial reporting standards about when to report the results of nonexchange transactions involving financial or capital resources. In a nonexchange transaction, an entity gives (or receives) value without directly receiving or giving equal value in return. The Authority’s principal nonexchange transactions involve the receipt of monies from the City Income Tax-Transit Fund (see Note 3) along with federal, state and local grants for operating assistance as well as the acquisition of property, facilities and equipment. Substantially all of the Authority’s nonexchange transactions represent reimbursement-type grants, which are recorded as revenue in the period the related expenditures are incurred. 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, 2004 and 2003 (continued)

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

## G. Inventory of Materials and Supplies

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

## H. Restricted Assets

Restricted assets consist of funds received under various capital grants from the Federal Transit Administration ("FTA"), the Ohio Department of Transportation ("ODOT"), and the local matching share received from the City Income Tax-Transit Fund. 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

Southwest Ohio Regional Transit Authority

# Notes to the Financial Statements
# for the years ended December 31, 2004 and 2003 (continued)

such claims if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated.

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

### K. Compensated Absences

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

### L. Budgetary Accounting and Control

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

The Authority maintains budgetary control by not permitting total operating expenses (excluding depreciation and amortization) and expenditures for individual capital projects to exceed revenue sources without approval by the Board of Trustees. No budget amendments were passed for 2004 and 2003. All budget amounts lapse at year end.

### M. Estimates

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

## 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, 2004 and 2003 (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, 2004 and 2003 (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, 2004, the Authority maintained restricted cash and cash equivalents of $3,548,794, and unrestricted cash and investments of $42,084,970. The total cash and investments of $45,633,764 consisted of $8,777,620 in deposits and $36,856,144 in investments.

## A. Deposits

At December 31, 2004, the carrying amount of the Authority's deposits was $8,777,620 and the bank balance was $11,472,095, all of which was covered by federal depository insurance, surety bonds provided by a commercial insurance company, or collateralized with securities held by the Federal Reserve in SORTA's name.

## 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, 2004. 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.

| | Category | | | Carrying | Fair |
|---|---|---|---|---|---|
| Description | 1 | 2 | 3 | Amount | Value |
| U.S. Government & Agency securities | $29,971,716 | $6,880,813 | $ — | $36,852,529 | $36,870,551 |
| STAROhio | | | | 3,615 | 3,615 |
| Total | | | | $36,856,144 | $36,874,166 |

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, 2004.

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, 2004 and 2003 (continued)

## 5. Capital Assets

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

| | Balance January 1, 2004 | Additions | Deletions | Balance December 31, 2004 |
|---|---|---|---|---|
| Capital assets not being depreciated: | | | | |
| Land | $13,165,910 | $6,837 | — | $13,172,747 |
| Total capital assets not being depreciated | 13,165,910 | 6,837 | — | 13,172,747 |
| Capital assets being depreciated: | | | | |
| Buildings | 1,495,179 | — | — | 1,495,179 |
| Improvements | 13,141,379 | 1,868,314 | — | 15,009,693 |
| Revenue vehicles | 95,222,413 | 6,511,502 | $3,332,470 | 98,401,445 |
| Other equipment | 24,281,551 | 2,094,944 | 95,076 | 26,281,419 |
| Total capital assets being depreciated | 134,140,522 | 10,474,760 | 3,427,546 | 141,187,736 |
| Less accumulated depreciation: | | | | |
| Buildings | 161,438 | 36,681 | — | 198,119 |
| Improvements | 3,599,705 | 730,108 | — | 4,329,813 |
| Revenue vehicles | 50,811,620 | 7,001,720 | 3,332,470 | 54,480,870 |
| Other equipment | 15,036,215 | 2,321,125 | 73,477 | 17,283,863 |
| Total accumulated depreciation | 69,608,978 | 10,089,634 | 3,405,947 | 76,292,665 |
| Total capital assets being depreciated, net | 64,531,544 | 385,126 | 21,599 | 64,895,071 |
| Total capital assets, net | $77,697,454 | $391,963 | $21,599 | $78,067,818 |

Southwest Ohio Regional Transit Authority

# Notes to the Financial Statements for the years ended December 31, 2004 and 2003 (continued)

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 | $13,159,558 | $6,352 | — | $13,165,910 |
| Total capital assets not being depreciated | 13,159,558 | 6,352 | — | 13,165,910 |
| 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 | 23,311,298 | 1,111,383 | 141,130 | 24,281,551 |
| Total capital assets being depreciated | 128,199,371 | 6,423,321 | 482,170 | 134,140,522 |
| 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 | 13,075,329 | 2,080,415 | 119,529 | 15,036,215 |
| Total accumulated depreciation | 60,519,650 | 9,549,897 | 460,569 | 69,608,978 |
| Total capital assets being depreciated, net | 67,679,721 | (3,126,576) | 21,601 | 64,531,544 |
| Total capital assets, net | $80,839,279 | $(3,120,224) | $21,601 | $77,697,454 |

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

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

If the assets not conveyed by the City in 1986 (real estate, construction projects, and certain other assets having an estimated aggregate historical cost of approximately $28.3 million at December 31, 2004) had been owned by SORTA, the provision for depreciation for the years ended December 31, 2004 and 2003 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, 2004 and 2003 (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, 2004 and 2003 consist of the following:

| | 2004 | 2003 |
|---|---|---|
| **Non-operating revenues:** | | |
| **Federal:** | | |
| FTA-Maintenance and other assistance | $12,995,380 | $14,017,803 |
| FTA-grant pass-through–Union Twp. Park & Ride | $624,000 | — |
| FTA-grant pass-through–Riverfront Transit Center | — | $3,208,085 |
| **State:** | | |
| ODOT-Fuel tax reimbursement | $886,860 | $836,905 |
| ODOT-Elderly and handicapped grant | 312,329 | 322,417 |
| ODOT-Maintenance and other assistance | 151,744 | 148,374 |
| Total | $1,350,933 | $1,307,696 |
| State grant pass-through–Union Twp. Park & Ride | $146,000 | — |
| **Local:** | | |
| Cincinnati Board of Education Contract | $4,580,869 | $4,548,257 |
| Hamilton County | 533,200 | 444,295 |
| Warren County | 35,823 | 54,662 |
| Deerfield Township | 24,511 | 36,518 |
| Clermont County | — | 216,808 |
| City of Fairfield | — | 23,623 |
| City of West Chester | — | 20,100 |
| City of Mason | 24,511 | 36,518 |
| City of Lebanon | — | 4,610 |
| Other | 266,856 | 246,368 |
| Total | $5,465,770 | $5,631,759 |
| **Capital grant revenue:** | | |
| Federal | $6,245,795 | $2,271,321 |
| State | 1,861,285 | 3,003,262 |
| Local | 2,292,649 | 1,108,145 |
| Total | $10,399,729 | $6,382,728 |

## 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 $260,000 in 2004 and $261,000 in 2003.

Southwest Ohio Regional Transit Authority

# Notes to the Financial Statements
# for the years ended December 31, 2004 and 2003 (continued)

At December 31, 2004, the minimum future payments under leases with terms extending beyond one year are as follows:

| Year | Amount |
|---|---|
| 2005 | $267,986 |
| 2006 | 266,650 |
| 2007 | 277,177 |
| 2008 | 288,173 |
| 2009 | 146,907 |
| Total | $1,246,893 |

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 $5,468,923, respectively, at December 31, 2004. 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, 2004.

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:

| Year | Amount |
|---|---|
| 2005 | $890,925 |
| 2006 | 9,527,285 |
| 2007 | 475,000 |
| 2008 | 475,000 |
| 2009 | 475,000 |
| Thereafter | 10,712,500 |
| Total minimum lease payments | 22,555,710 |
| Less amount representing interest | 3,919,350 |
| Present value of net minimum lease payments | 18,636,360 |
| Less principal amount due in 2005 | — |
| Amount due after 2005 | $18,636,360 |

During the years ended December 31, 2004 and 2003, the Authority recognized $840,107 and $913,498, 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, 2004 and 2003 (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 Ohio Public Employees Retirement System ("OPERS"), a cost-sharing, multiple-employer defined benefit pension plan. Authority to establish and amend benefits is provided by State statute per Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that includes financial statements and required supplementary 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).

OPERS administers three separate pension plans as described below:

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

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

**Funding Policy.** The Ohio Revised Code provides statutory authority for employee and employer contributions. Employees other than law enforcement personnel are required to contribute 8.5% of their covered payroll to OPERS. The 2004 and 2003 employer contribution rate for local government employer units was 13.55% of covered payroll including 4.0% in 2004 and 5.0% in 2003 that is used to fund postretirement health care benefits. The Authority's total contributions to OPERS for pension benefits (excluding the amount relating to postretirement benefits) for the years ended December 31, 2004, 2003 and 2002 were $3,683,000, $3,339,000, and $3,281,000, respectively, equal to 100% of the required contribution for each year.

### B. Private Pension Plans

**Plan Description.** Certain retirees (26 at January 1, 2005) 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, 2004 and 2003 (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, 2004, 2003 and 2002 were determined using the unit credit actuarial cost method as follows:

| | 2004 | 2003 | 2002 |
|---|---|---|---|
| Annual required contribution | — | — | — |
| Interest on net pension obligation | — | — | — |
| Actuarial adjustment to net pension obligation | — | $(8,546) | — |
| Annual pension cost | — | (8,546) | — |
| Contribution/benefit payments made | $(38,006) | $(42,499) | $(56,595) |
| Decrease in net pension obligation | (38,006) | (51,045) | (56,595) |
| Net pension obligation beginning of year | 185,103 | 236,148 | 292,743 |
| Net pension obligation end of year | $147,097 | $185,103 | $236,148 |

The net pension obligation was actuarially determined using a mortality assumption obtained from the Unisex Pension Table for 1984 and the 2004 and 2003 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 OPERS. In addition to the pension benefit described in Note 8A, OPERS 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 OPERS 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, 2004 and 2003 (continued)

A portion of each employer's contribution to OPERS is set aside for the funding of post-retirement health care. The Ohio Revised Code provides statutory authority for employer contributions. For the Authority, 4.0% and 5.0% of covered payroll was the portion of the 13.55% total contribution rate for 2004 and 2003, respectively, that was used to fund health care for each year. The Ohio Revised Code provides the statutory authority requiring public employers to fund postretirement health care through their contributions to OPERS.

The assumptions and calculations noted below were based on OPERS' latest actuarial review performed as of December 31, 2003. 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 2003 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 at the projected wage inflation rate plus an additional factor ranging from 1% to 6% for the next eight years. In subsequent years (nine and beyond) health care costs were assumed to increase at 4% (the projected wage inflation rate).

OPEB provided through OPERS are advance-funded on an actuarially determined basis. The total number of active contributing participants in the TP and CO Plans was 369,885 at December 31, 2004. The Authority's contributions to OPERS for other post-employment benefits for the years ended December 31, 2004 and 2003 were $1,543,000 and $1,953,000, respectively, equal to 100% of the required contributions for each year. The actuarial value of OPERS' net assets available for OPEB at December 31, 2003 was $10.5 billion. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were $26.9 billion and $16.4 billion, respectively.

On September 9, 2004 the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. The HCPP restructures OPERS' health care coverage to improve the financial solvency of the fund in response to skyrocketing health care costs.

Under the HCPP, retirees eligible for health care coverage will receive a graded monthly allocation based on their years of service at retirement. The Plan incorporates a cafeteria approach, offering a broad range of health care options that allow benefit recipients to use their monthly allocation to purchase health care coverage customized to meet their individual needs. If the monthly allocation exceeds the cost of the options selected, the excess is deposited into a Retiree Medical Account that can be used to fund future health care expenses.

Southwest Ohio Regional Transit Authority

# Notes to the Financial Statements for the years ended December 31, 2004 and 2003 (continued)

**Other Benefits Provided.** In addition to the other postemployment benefits provided by OPERS, SORTA also provides postemployment health care benefits to former employees of Cincinnati Transit, Inc., who do not qualify for OPERS health care benefits, and a $1,500 life insurance benefit to each retired hourly employee. The life insurance benefits are provided through group insurance arrangements which are funded by SORTA through payment of monthly insurance premiums. The health care benefits were previously provided by group insurance arrangements which were funded by SORTA through payment of monthly insurance premiums. Effective March 1, 1997, SORTA became self-insured for such health care benefits. As of December 31, 2004, 3 individuals were receiving health care benefits and 381 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:

| | 2004 | 2003 |
|---|---|---|
| Health care benefits | $7,244 | $7,805 |
| Life insurance benefits | $270,629 | $297,150 |

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:

| | 2004 | 2003 |
|---|---|---|
| Medical inflation assumptions | ** | ** |
| Future annual increases in life insurance premiums | 2.00% | 2.00% |
| Remaining life expectancy* | | |
| Medical | Individually Determined | |
| Life | 14.6 yrs. | 14.6 yrs. |
| Interest factor | 6.00% | 6.00% |

* Based on U.S. National Center for Health Statistics, Vital Statistics of the U.S. 1994 (most recent available).
** 7% in 2005, decreasing to 5% in 2009 and thereafter.

The total expense recognized by the Authority for postemployment benefits not provided under OPERS was approximately ($6,000) and $45,000 for the years ended December 31, 2004 and 2003, respectively.

Southwest Ohio Regional Transit Authority

# Notes to the Financial Statements for the years ended December 31, 2004 and 2003 (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 3.54%.

The changes in the liabilities for self-insured risks for the years ended December 31, 2004 and 2003 are as follows:

| | Workers' Compensation | Public Liability and Property Damage | Total |
|---|---|---|---|
| Balance, January 1, 2003 | $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 | 3,559,302 | 1,723,158 | 5,282,460 |
| Claims, net of changes in estimates | 652,652 | (370,003) | 282,649 |
| Payments | (499,661) | (874,092) | (1,373,753) |
| Balance, December 31, 2004 | $3,712,293 | $479,063 | $4,191,356 |

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, 2004 and 2003 (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, 2004, 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, 2004, there were no questioned costs that had not been resolved with appropriate federal and state agencies. Questioned costs could still be identified during audits to be conducted in the future. In the opinion of SORTA's management, no material grant expenditures will be disallowed.

## 11. New Accounting Pronouncements

During 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 SORTA for the year ended December 31, 2004. The Authority has determined that there is no affect on the Authority's financial statements.

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 SORTA in 2005. 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

Southwest Ohio Regional Transit Authority

# Notes to the Financial Statements for the years ended December 31, 2004 and 2003 (concluded)

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 SORTA in 2005. The Authority has not determined the impact, if any, that this Statement will have on its financial statements.

During August 2004, the GASB issued Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions," which addresses how state and local governments should account for and report their costs and obligations related to postemployment healthcare and other nonpension benefits. Collectively, these benefits are commonly referred to as other postemployment benefits, or OPEB. Statement 45 also establishes disclosure requirements for information about the plans in which an employer participates, the funding policy followed, the actuarial valuation process and assumptions, and, for certain employers, the extent to which the plan has been funded over time. Statement 45 will not be effective for SORTA until the year ended December 31, 2008, and as such, the Authority has not determined the impact that this statement will have on its financial statements.

During December 2004, the GASB issued Statement No. 46, "Net Assets Restricted by Legislation, an amendment of GASB Statement No. 34." This statement clarifies that a legally enforceable enabling legislation restriction is one that a party external to a government–such as citizens, public interest groups, or the judiciary–can compel a government to honor. The Statement states that the legal enforceability of an enabling legislation restriction should be reevaluated if any of the resources raised by the enabling legislation are used for a purpose not specified by the enabling legislation or if a government has other cause for reconsideration. Although the determination that a particular restriction is not legally enforceable may cause a government to review the enforceability of other restrictions, it should not necessarily lead a government to the same conclusion for all enabling legislation restrictions. This Statement also specifies the accounting and financial reporting requirements if new enabling legislation replaces existing enabling legislation or if legal enforceability is reevaluated. Finally, this Statement requires governments to disclose the portion of total net assets that is restricted by enabling legislation. The requirements of this Statement are effective for SORTA for 2006, and as such, the Authority has not determined the impact, if any, that this statement will have on its financial statements.

## 12. Subsequent Events

Effective February 6, 2005, SORTA instituted a fare increase which will increase passenger revenue an approximated $2.6 million annually.

In January 2005, SORTA agreed to a Fact Finding Award which resulted in a three year contract with the Amalgamated Transit Union (ATU) effective February 1, 2005 through January 31, 2008. The agreement will cost SORTA an estimated $1,063,000 in 2005, $3,124,000 in 2006 and $4,900,000 in 2007. This agreement allows for wage increases in each of the three years, increased health and dental insurance costs and higher life insurance, tool and uniform allowances.

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, 2004

| | Budget | Actual | Variance Positive (Negative) |
|---|---|---|---|
| **Operating revenues** | $15,900,880 | $15,678,339 | $(222,541) |
| **Operating expenses other than depreciation and amortization:** | | | |
| Labor | 36,292,822 | 35,758,546 | 534,276 |
| Fringe benefits | 17,199,444 | 16,266,494 | 932,950 |
| Materials and supplies consumed | 7,945,632 | 8,954,545 | (1,008,913) |
| Services | 2,604,089 | 2,660,060 | (55,971) |
| Utilities | 1,459,307 | 1,302,292 | 157,015 |
| Casualty and liability | 473,799 | (335,205) | 809,004 |
| Taxes | 951,193 | 935,707 | 15,486 |
| Purchased transportation services | 6,525,851 | 5,921,439 | 604,412 |
| Leases and rentals | 479,615 | 466,879 | 12,736 |
| Miscellaneous | 609,594 | 391,401 | 218,193 |
| Sub-total | 74,541,346 | 72,322,158 | 2,219,188 |
| Grant pass-through–Union Township Park & Ride | 770,000 | 770,000 | 0 |
| **Total** | 75,311,346 | 73,092,158 | 2,219,188 |
| **Depreciation and amortization** | 9,480,000 | 10,089,634 | (609,634) |
| **Total operating expenses** | 84,791,346 | 83,181,792 | 1,609,554 |
| **Operating loss** | (68,890,466) | (67,503,453) | 1,387,013 |
| **Non-operating revenues:** | | | |
| Local operating grants and special fare assistance | 43,838,318 | 41,125,566 | (2,712,752) |
| Federal maintenance grants and reimbursements | 12,298,341 | 12,995,380 | 697,039 |
| Federal grant pass-through–Union Township Park & Ride | 624,000 | 624,000 | 0 |
| State maintenance grants, reimbursements and special fare assistance | 1,537,559 | 1,350,933 | (186,626) |
| State grant pass-through–Union Township Park & Ride | 146,000 | 146,000 | 0 |
| Investment income-net | 708,604 | 753,956 | 45,352 |
| Increase (decrease) in fair value of investments | 0 | (166,529) | (166,529) |
| Non-transportation revenue | 363,144 | 584,513 | 221,369 |
| **Total** | 59,515,966 | 57,413,819 | (2,102,147) |
| **Net loss before capital grant activity** | (9,374,500) | (10,089,634) | (715,134) |
| **Capital grant revenue** | 10,881,502 | 10,399,729 | (481,773) |
| **Increase (decrease) in net assets during the year** | 1,507,002 | 310,095 | (1,196,907) |
| **Net assets, beginning of year** | 78,176,946 | 78,176,946 | 0 |
| **Net assets, end of year** | $79,683,948 | $78,487,041 | $(1,196,907) |

Southwest Ohio Regional Transit Authority

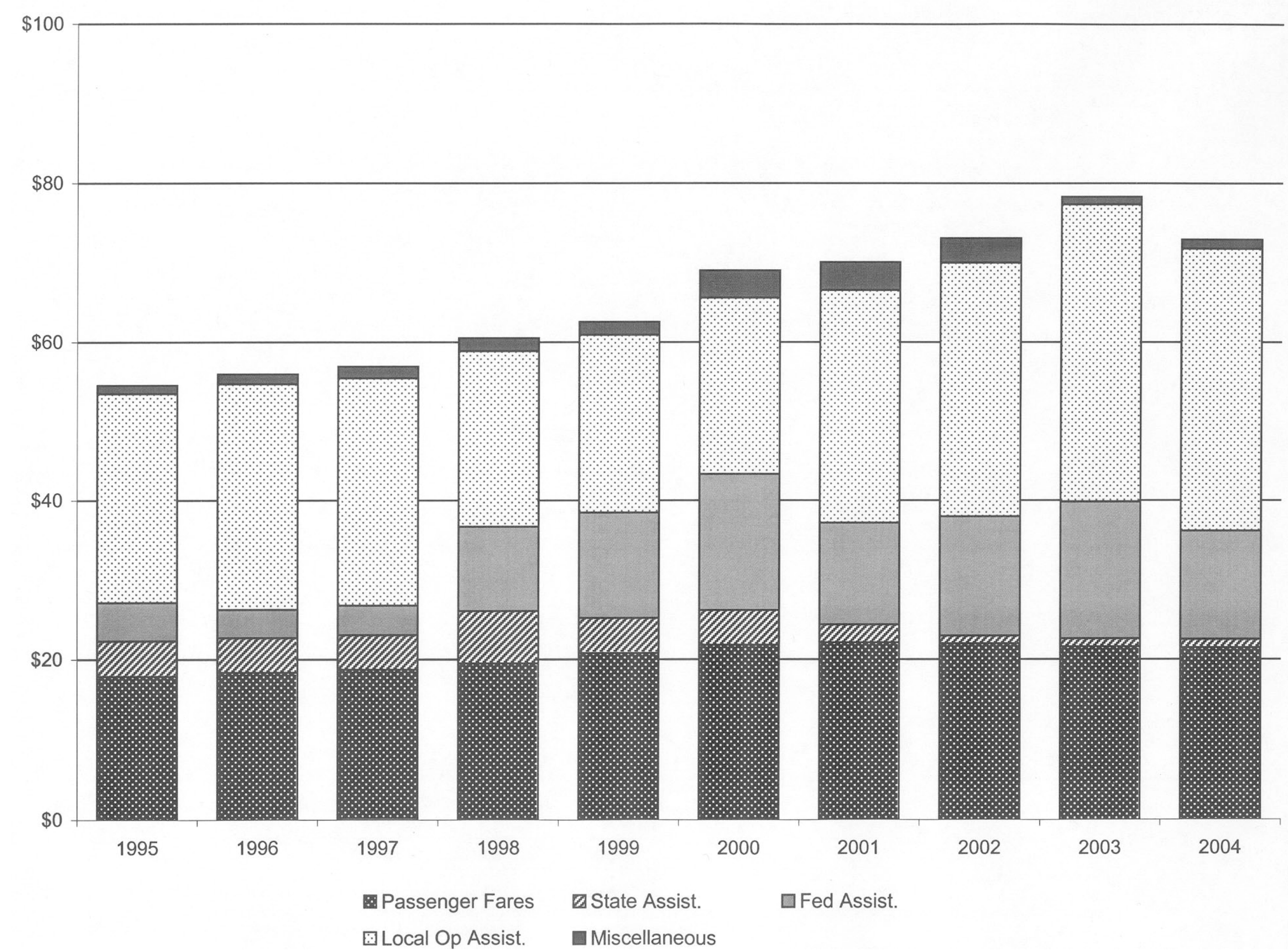
# Revenues by Source–Last Ten Years (in Thousands)

| | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 |
|---|---|---|---|---|---|---|---|---|---|---|
| OPERATING REVENUES | | | | | | | | | | |
| Passenger fares for transit service (1) | $17,056 | $17,579 | $17,921 | $18,585 | $19,679 | $20,661 | $21,204 | $20,937 | $20,712 | $20,630 |
| Special transit fares | 394 | 307 | 323 | 328 | 528 | 381 | 328 | 412 | 487 | 414 |
| Auxiliary transportation revenue | 428 | 501 | 495 | 607 | 572 | 762 | 574 | 615 | 392 | 412 |
| Total operating revenues | 17,878 | 18,387 | 18,739 | 19,520 | 20,779 | 21,804 | 22,106 | 21,964 | 21,591 | 21,456 |
| NON-OPERATING REVENUES | | | | | | | | | | |
| Federal grants and reimbursements (1) | 4,815 | 3,523 | 3,722 | 10,624 | 13,282 | 17,183 | 12,780 | 14,298 | 14,018 | 12,995 |
| Federal grant pass-through-Riverfront Transit Center | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 713 | 3,208 | 0 |
| Federal grant pass-through-Union Township Park & Ride | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 624 |
| State grants and reimbursements (1) | 4,434 | 4,310 | 4,306 | 6,541 | 4,394 | 4,332 | 2,249 | 982 | 985 | 1,039 |
| State grant pass-through-Union Township Park & Ride | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 146 |
| Investment income | 825 | 863 | 1,055 | 1,372 | 1,635 | 2,981 | 3,130 | 2,548 | 439 | 587 |
| Non-transportation revenues | 245 | 416 | 453 | 296 | 288 | 491 | 414 | 541 | 513 | 585 |
| Sub-total | 10,319 | 9,112 | 9,536 | 18,833 | 19,599 | 24,987 | 18,573 | 19,082 | 19,163 | 15,976 |
| Local operating assistance | 26,354 | 28,483 | 28,668 | 22,185 | 22,456 | 22,265 | 29,410 | 32,052 | 37,544 | 35,660 |
| Total non-operating revenues | 36,673 | 37,595 | 38,204 | 41,018 | 42,055 | 47,252 | 47,983 | 51,134 | 56,707 | 51,636 |
| TOTAL REVENUES | $54,551 | $55,982 | $56,943 | $60,538 | $62,834 | $69,056 | $70,089 | $73,098 | $78,298 | $73,092 |

*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):

| | OPERATING AND OTHER REVENUE | | | OPERATING ASSISTANCE | | | |
|---|---|---|---|---|---|---|---|
| YEAR | PASSENGER | OTHER (2) | TOTAL | STATE & LOCAL (3) | FEDERAL | TOTAL | TOTAL REVENUES |
| 1995 | 37.3% | 15.4% | 52.7% | 42.8% | 4.5% | 47.3% | 100.0% |
| 1996 | 38.7% | 15.3% | 54.0% | 42.9% | 3.1% | 46.0% | 100.0% |
| 1997 | 38.7% | 16.9% | 55.6% | 41.1% | 3.3% | 44.4% | 100.0% |
| 1998 | 37.8% | 17.5% | 55.3% | 41.1% | 3.6% | 44.7% | 100.0% |
| 1999 | 37.3% | 16.4% | 53.7% | 42.4% | 3.9% | 46.3% | 100.0% |
| 2000 | 36.1% | 17.4% | 53.5% | 42.4% | 4.1% | 46.5% | 100.0% |
| 2001 | 35.2% | 14.1% | 49.3% | 46.2% | 4.5% | 50.7% | 100.0% |
| 2002 | 32.5% | 17.3% | 49.8% | 45.3% | 4.9% | 50.2% | 100.0% |
| 2003 | 32.6% | 18.1% | 50.7% | 43.6% | 5.8% | 49.3% | 100.0% |
| 2004 | * | * | * | * | * | * | * |

SOUTHWEST OHIO REGIONAL TRANSIT AUTHORITY:

| | OPERATING AND OTHER REVENUE | | | OPERATING ASSISTANCE | | | |
|---|---|---|---|---|---|---|---|
| YEAR | PASSENGER | OTHER (2) | TOTAL | STATE & LOCAL (3) | FEDERAL | TOTAL | TOTAL REVENUES |
| 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% |
| 2004 | 28.8% | 2.2% | 31.0% | 50.4% | 18.6% | 69.0% | 100.0% |

** Information not available*
*(1) Source: The American Public Transit Association, "APTA 2005 Transit Fact Book".*
*(2) Includes auxiliary transportation revenues, interest income, and other non-transportation revenues.*
*(3) Includes local income tax revenues, state operating grants, state fuel tax reimbursements.*

Southwest Ohio Regional Transit Authority

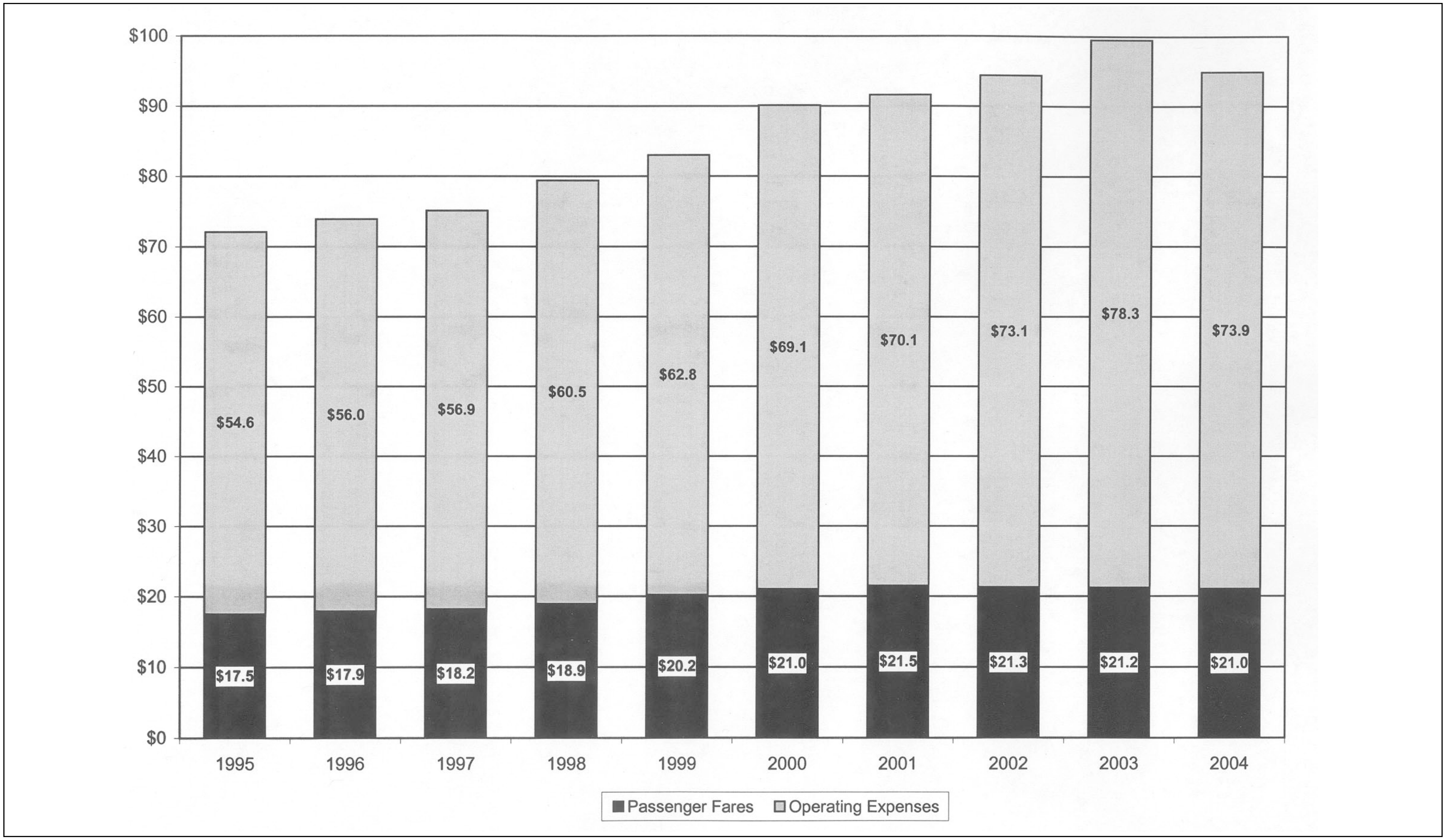
# City Income Tax–Transit Fund (In Thousands)

| YEAR | BEGINNING BALANCE | .3% INCOME TAX COLLECT | OTHER RECEIPTS | DISTRIBUTIONS TO SORTA (3) | OTHER DISTRIBUTIONS | ENDING BALANCE (1)(2) |
|---|---|---|---|---|---|---|
| 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 |
| 2004 | 12,401 | 38,248 | 122 | 37,588 | 663 | 12,520 |
| | | $343,096 | $4,118 | $342,368 | $8,832 | |

*Source: City of Cincinnati, "Combining Statement of Revenue, Expenditures and Changes in Fund Balance".*
*(1) Balances include a $2,000,000 self-insurance reserve, 1995 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

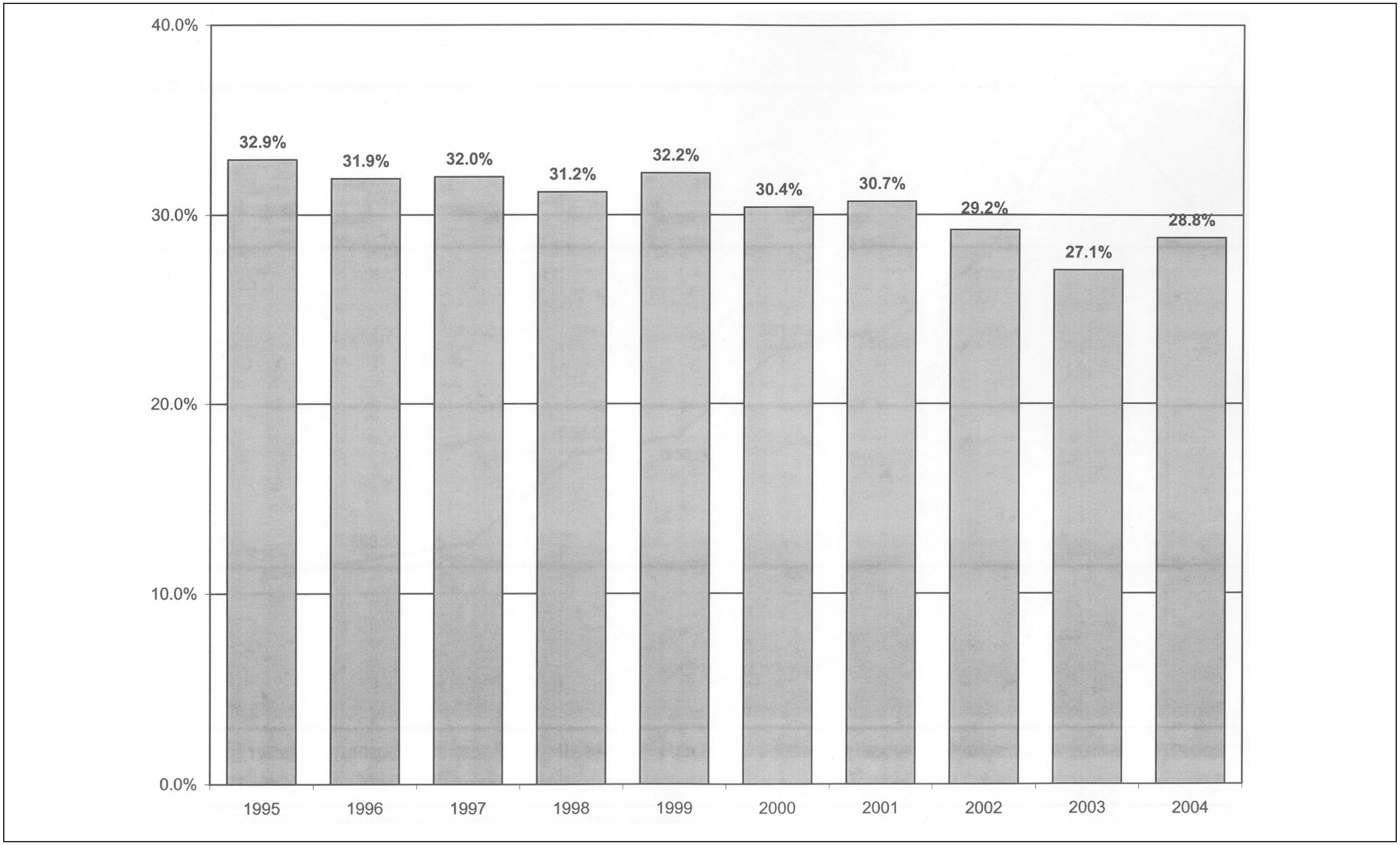
## Passenger Fares vs. Operating Expenses–Last Ten Years




*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.*

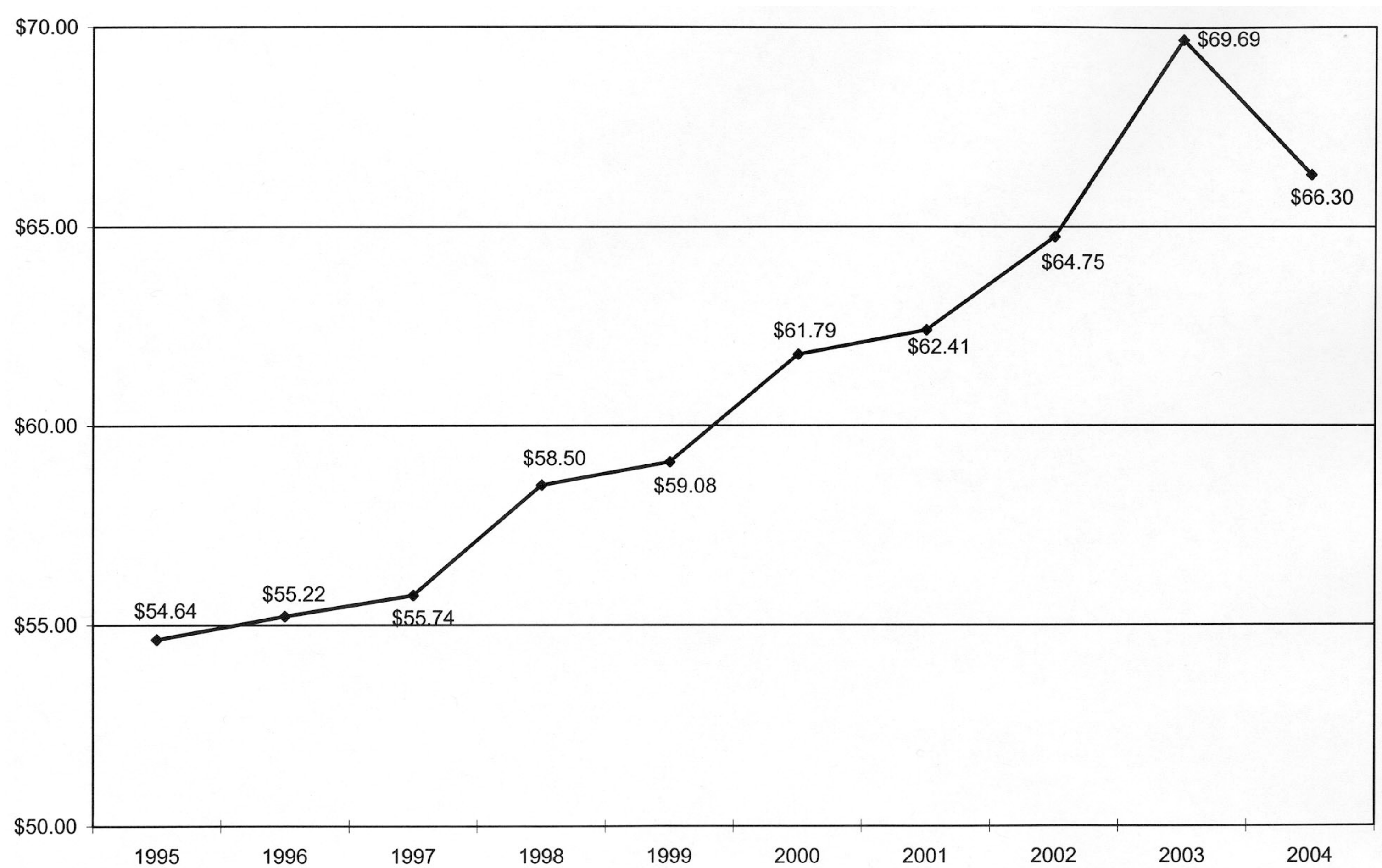
# Expenses by Object Class–Last Ten Years (In Thousands)

| | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 |
|---|---|---|---|---|---|---|---|---|---|---|
| OPERATING EXPENSES OTHER THAN DEPRECIATION AND AMORTIZATION: | | | | | | | | | | |
| Labor | $27,586 | $28,420 | $29,190 | $30,552 | $31,992 | $33,927 | $35,050 | $35,487 | $36,272 | $35,759 |
| Fringe benefits | 12,430 | 12,445 | 12,592 | 12,711 | 12,704 | 12,574 | 13,339 | 15,767 | 15,971 | 16,266 |
| Materials and supplies consumed | 6,407 | 6,478 | 6,396 | 7,313 | 7,439 | 10,480 | 7,953 | 7,309 | 8,222 | 8,955 |
| Services | 2,361 | 2,316 | 2,379 | 2,553 | 2,612 | 3,387 | 3,044 | 3,244 | 2,704 | 2,660 |
| Utilities | 857 | 979 | 982 | 919 | 929 | 1,080 | 1,074 | 1,216 | 1,341 | 1,302 |
| Casualty and liability | 399 | 487 | 252 | 317 | 410 | 260 | 1,724 | 547 | 1,343 | (335) |
| Taxes | 770 | 796 | 779 | 776 | 825 | 859 | 849 | 864 | 896 | 936 |
| Purchased transportation services | 2,776 | 3,027 | 3,262 | 3,733 | 4,323 | 4,398 | 5,167 | 6,116 | 5,840 | 5,921 |
| Leases and rentals | 402 | 478 | 459 | 483 | 518 | 477 | 479 | 488 | 455 | 467 |
| Miscellaneous | 563 | 556 | 652 | 1,181 | 1,082 | 1,614 | 1,410 | 1,347 | 1,311 | 391 |
| Total | 54,551 | 55,982 | 56,943 | 60,538 | 62,834 | 69,056 | 70,089 | 72,385 | 74,355 | 72,322 |
| Grant pass-through-Riverfront Transit Center | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 713 | 3,943 | 0 |
| Grant pass-through-Union Township Park & Ride | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 770 |
| DEPRECIATION AND AMORTIZATION | 4,428 | 5,635 | 6,434 | 7,203 | 8,595 | 8,750 | 9,011 | 9,212 | 9,550 | 10,090 |
| TOTAL EXPENSES | $58,979 | $61,617 | $63,377 | $67,741 | $71,429 | $77,806 | $79,100 | $82,310 | $87,848 | $83,182 |

*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):

| YEAR | LABOR AND FRINGES | MATERIALS AND SUPPLIES | SERVICES | UTILITIES | CASUALTY AND LIABILITY | PURCHASED TRANSPOR-TATION | OTHER | TOTAL OPERATING EXPENSES (2) |
|---|---|---|---|---|---|---|---|---|
| 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 | 69.0% | 9.0% | 6.0% | 3.0% | 2.6% | 13.4% | -3.1% | 100.0% |
| 2004 | * | * | * | * | * | * | * | * |

SOUTHWEST OHIO REGIONAL TRANSIT AUTHORITY (3):

| YEAR | LABOR AND FRINGES | MATERIALS AND SUPPLIES | SERVICES | UTILITIES | CASUALTY AND LIABILITY | PURCHASED TRANSPOR-TATION | OTHER | TOTAL OPERATING EXPENSES(2) |
|---|---|---|---|---|---|---|---|---|
| 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% |
| 2004 | 71.2% | 12.3% | 4.7% | 1.8% | (0.5% ) | 8.1% | 2.4% | 100.0% |

* *Information not available*

(1) *Source: The American Public Transit Association, "APTA 2005 Transit Fact Book".*

(2) *Total operating expenses exclude depreciation and amoritization.*

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

Southwest Ohio Regional Transit Authority

# Operating Statistics–Last Ten Years

| | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 |
|---|---|---|---|---|---|---|---|---|---|---|
| SYSTEM RIDERSHIP (1) | | | | | | | | | | |
| Motor bus | 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 | 23,052,379 |
| Demand responsive | 215,506 | 216,960 | 230,357 | 242,888 | 226,598 (4) | 236,752 | 253,124 | 267,664 | 271,448 | 267,271 |
| AVERAGE WEEKDAY SYSTEM RIDERSHIP (1) | | | | | | | | | | |
| Motor bus | 77,730 | 86,500 | 90,017 | 93,279 | 86,376 | 85,747 | 82,416 | 83,531 | 82,656 | 80,261 |
| Demand responsive | 738 | 740 | 793 | 832 | 728 | 816 | 870 | 918 | 938 | 915 |
| VEHICLE MILES OPERATED (1) | | | | | | | | | | |
| Motor bus | 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 | 13,326,524 |
| Demand responsive | 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 | 2,678,869 |
| AVERAGE WEEKDAY VEHICLE MILES OPERATED (1) | | | | | | | | | | |
| Motor bus | 41,360 | 42,470 | 42,459 | 43,499 | 46,335 | 46,775 | 46,201 | 46,096 | 46,354 | 45,099 |
| Demand responsive | 6,643 | 6,551 | 7,020 | 7,763 | 8,321 | 9,975 | 9,771 | 10,108 | 9,476 | 9,169 |
| REVENUE MILES (1) | | | | | | | | | | |
| Motor bus | 10,519,097 | 10,788,011 | 10,895,126 | 10,978,364 | 11,612,657 | 11,705,868 | 11,663,582 | 11,483,950 | 11,511,422 | 11,291,291 |
| Demand responsive | 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 | 2,324,105 |
| PASSENGER MILES (1) | | | | | | | | | | |
| Motor bus | 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 | 133,255,711 |
| Demand responsive | 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 | 2,471,802 |

(Continued)

Southwest Ohio Regional Transit Authority

## Operating Statistics–Last Ten Years (Continued)

| | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 |
|---|---|---|---|---|---|---|---|---|---|---|
| VEHICLE HOURS OPERATED (1) | | | | | | | | | | |
| Motor bus | 889,337 | 902,343 | 902,193 | 906,628 | 940,030 | 954,812 | 954,499 | 952,513 | 957,369 | 938,438 |
| Demand responsive | 109,322 | 111,393 | 119,433 | 128,169 | 141,785 | 162,691 | 168,479 | 176,488 | 166,202 | 164,052 |
| VEHICLE REVENUE HOURS (1) | | | | | | | | | | |
| Motor bus | 816,646 | 827,640 | 829,616 | 825,332 | 861,945 | 873,696 | 874,376 | 871,122 | 875,770 | 858,610 |
| Demand responsive | 96,455 | 99,404 | 103,563 | 113,699 | 119,390 | 134,722 | 138,253 | 145,949 | 130,477 | 124,912 |
| DIESEL FUEL CONSUMPTION (IN GALLONS) (1) | 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 | 3,385,152 |
| FLEET REQUIREMENTS (DURING PEAK HOURS) (1) | | | | | | | | | | |
| Motor bus | 325 | 331 | 331 | 338 | 358 | 362 | 360 | 358 | 359 | 344 |
| Demand responsive | 30 | 30 | 34 | 40 | 40 | 46 | 46 | 53 | 48 | 43 |
| TOTAL REVENUE VEHICLES DURING PERIOD (1) | | | | | | | | | | |
| Motor bus | 379 | 389 | 389 | 426 | 426 | 438 | 481 | 432 | 432 | 430 |
| Demand responsive | 36 | 36 | 41 | 42 | 49 | 52 | 94 | 53 | 53 | 53 |
| NUMBER OF FULL TIME EMPLOYEES (2) | 807 | 810 (3) | 798 (3) | 836 (3) | 844 (3) | 818 (3) | 831 (3) | 824 (3) | 787 | 793 |

*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, 2004

| | |
|---|---|
| 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 |
| Parking Meeter shuttle (Monday - Friday) | 0.25 |
| Weekend flat rate (no zone fares apply) | 0.50 |
| Weekday Transfers | 0.15 |
| 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, seven days a week) (3) | 32.00 |
| MetroCard B Pass (two zones, seven days a week) (3) | 52.00 |
| MetroCard C Pass (three zones, seven days a week) (3) | 72.00 |
| Metro/Tank Pass (zone one, seven days a week) (3) | 60.00 |
| Fare Deal (2) (three zones, seven days a week) (3) | 19.00 |
| 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 February 1, 2004 and "Metro's Services for Older Adults and Riders with Disabilities" brochure, published February 1, 2002.*

Southwest Ohio Regional Transit Authority

# Demographic Statistics

| YEAR(1) | POPULATION | MEDIAN AGE | MEDIAN INCOME |
|---|---|---|---|
| 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 |

| YEAR | K-12 SCHOOL ENROLLMENT(2) | UNEMPLOYMENT RATE(3) |
|---|---|---|
| 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% |
| 2004 | 157,301 | 5.6% |

*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) | 253 |
| Miles of route | 640 |
| Number of routes | 54 |
| Wheelchair lift-equipped standard buses | 336 |
| Average system speed (miles per hour) | |
| Motor bus | 14.2 |
| Demand responsive | 16.3 |
| Customer information calls answered | 471,962 |

Auditor of State
Betty Montgomery

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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**
**AUGUST 4, 2005**