

2005

FINANCIAL SECTION

BASIC FINANCIAL STATEMENTS AND NOTES

COMPREHENSIVE ANNUAL FINANCIAL REPORT



KPMG LLP
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Cleveland, OH 44114-1796

Independent Auditors' Report

The Board of Trustees
Greater Cleveland Regional Transit Authority
and
The Honorable Betty Montgomery, Auditor of State:

We have audited the accompanying basic financial statements of the Greater Cleveland Regional Transit Authority (Authority) as of and for the years ended December 31, 2005 and 2004 as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designed 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 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, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of December 31, 2005 and 2004, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 20, 2006 on our consideration of the Authority's internal control and on 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 audit.

Our audits were conducted for the purpose of forming an opinion on the Authority's basic financial statements taken as a whole. The accompanying introductory section and statistical section, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The introductory section and the statistical section 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.

KPMG LLP

Cleveland, Ohio
June 20, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

As management of the Greater Cleveland Regional Transit Authority ("GCRTA" or "Authority"), we offer readers of the Authority's basic financial statements this narrative overview and analysis of the financial activities of the Authority for the years ended December 31, 2005 and 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 basic financial statements taken as a whole.

Overview of Financial Highlights

- The Authority's net assets increased in each of the past two years with a \$8.0 million, or 1.5%, increase in 2005 compared to 2004 and a \$3.0 million, or 0.5%, increase in 2004 compared to 2003.
- Current assets increased by \$5.4 million or 7.1% in 2005 compared to 2004. Current assets increased by \$2.0 million or 2.7% in 2004 compared to 2003.
- Current liabilities increased by \$7.2 million, or 13.2%, for 2005 compared to 2004. Current liabilities also increased by \$8.6 million, or 18.8%, for 2004 compared to 2003.
- The Authority's non-current liabilities decreased by \$8.3 million or 4.9% in 2005 compared to 2004. Non-current liabilities increased by \$30.3 million or 21.9% in 2004 compared to 2003.

Basic Financial Statements and Presentation

The financial statements presented by the Authority are the comparative Balance Sheets; the comparative Statements of Revenues, Expenses and the Changes in Net Assets; and the comparative Statements of Cash Flows. These statements are presented using the economic resources measurement focus and the accrual basis of accounting. The Authority is structured as a single enterprise fund with revenues recognized when earned and measurable, not when received. Expenses are recognized when they are incurred, not when paid. Capital assets, except land, are capitalized and depreciated, over their estimated useful lives.

The Balance Sheets present information on all the Authority's assets and liabilities, with the difference between the two reported as net assets. Over time, increases and decreases in net assets may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating. Net assets increase when revenues exceed expenses. Increases in assets without 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 on how the Authority's net assets changed during the year. These statements summarize operating revenues and expenses, along with non-operating revenues and expenses. In addition, these statements list capital grant revenues received from federal, state, and local governments.

The Statements of Cash Flows allows financial statement users to assess the Authority's adequacy or ability to generate sufficient cash flows to meet its obligations in a timely manner. The statements are classified into four categories: 1) cash flows from operating activities, 2) cash flows from non-capital financing activities, 3) cash flows from capital and related financing activities, and 4) cash flows from investing activities.

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

The basic financial statements can be found beginning on page 35 of this report.

FINANCIAL ANALYSIS OF THE AUTHORITY

Condensed Summary of Assets, Liabilities, and Net Assets (amounts in millions)

| | December 31, | | |
|--|---------------------|--------------------|--------------------|
| | <u>2005</u> | <u>2004</u> | <u>2003</u> |
| Assets: | | | |
| Current asset | \$ 81.6 | \$ 76.2 | \$ 74.2 |
| Other noncurrent assets | 25.5 | 45.8 | 10.7 |
| Capital assets (net of accumulated depreciation) | <u>675.7</u> | <u>653.8</u> | <u>649.0</u> |
| Total assets | <u>\$ 782.8</u> | <u>775.8</u> | <u>733.9</u> |
| Liabilities: | | | |
| Current liabilities | \$ 61.6 | 54.4 | 45.8 |
| Noncurrent liabilities | <u>160.6</u> | <u>168.8</u> | <u>138.5</u> |
| Total liabilities | <u>222.2</u> | <u>223.2</u> | <u>184.3</u> |
| Net assets: | | | |
| Invested in capital assets, net of related debt | 538.2 | 532.4 | 531.7 |
| Restricted | 1.5 | 1.4 | |
| Unrestricted | <u>20.9</u> | <u>18.8</u> | <u>17.9</u> |
| Total net assets | <u>560.6</u> | <u>552.6</u> | <u>549.6</u> |
| Total liabilities and net assets | <u>\$ 782.8</u> | <u>\$ 775.8</u> | <u>\$ 733.9</u> |

The largest portion of the Authority's net assets reflect investment in capital assets consisting of buses, rail cars, right-of-ways, and operating facilities, less any related debt used to acquire those assets still outstanding. The Authority uses these capital assets to provide public transportation services for Cuyahoga County.

During 2005, major construction projects aggregating \$38.6 million were completed and transferred to the appropriate property and facilities account. Major projects include the Triskett Garage Rehabilitation \$28.6 million, CRT Bus Purchase \$2.7 million, Rehabilitation of the Lockwood, Carlyon & Elberon track bridge \$2.5 million, the rehabilitation of the Quincy Station \$1.5 million, Brookpark Tower to Airport Track and overhead \$1.1 million, and several smaller projects with a combined total of \$2.2 million.

Included in the December 31, 2005 construction in progress balance are costs associated with the Kingsbury Tunnels Project, LRV Overhaul Project, design and engineering costs associated with the Euclid Corridor Project, Kingsbury Tunnel Project, the Eagle Ave. Substation and Building Project, along with various other projects.

During 2004, major construction projects aggregating \$18.8 million were completed and transferred to the appropriate property and facilities account. Major projects include the East 37th street Viaduct \$5.1 million, the Joint Territory Project \$7.0 million, the West 65th St. Station Rehabilitation \$5.2 million, and the Rehabilitation of Transit track over the Ambler St. Bridge, and the Brookpark Shop rehabilitation, totaling \$1.5 million.

Included in the December 31, 2004 construction in progress balance are costs associated with the Triskett Garage Rehabilitation, Kingsbury Tunnels Project, LRV Overhaul Project, design and engineering costs associated with the Euclid Corridor Project, along with various other projects.

Readers desiring more detailed information on capital asset activity should read Note 4 - Capital Assets at page 46 included in the notes to the financial statements.

Condensed Summary of Revenues, Expenses and Changes in Net Assets
(amounts in millions)

Description

| | <u>2005</u> | <u>2004</u> | <u>2003</u> |
|--|-----------------|-----------------|-----------------|
| Operating revenues: | | | |
| Passenger fares | \$ 38.6 | \$ 37.6 | \$ 38.4 |
| Advertising and concessions | 1.6 | 1.5 | 1.5 |
| Total operating revenues | 40.2 | 39.1 | 39.9 |
| Operating expenses, excluding depreciation | | | |
| Labor and fringe benefits | (161.1) | (155.4) | (158.6) |
| Materials and supplies | (29.7) | (23.1) | (19.9) |
| Services | (10.6) | (9.7) | (15.7) |
| Utilities | (9.6) | (8.6) | (7.9) |
| Casualty and liability | (7.3) | (6.2) | (8.6) |
| Purchased transportation | (6.3) | (11.1) | (11.6) |
| Leases and rentals | (0.5) | (0.6) | (0.7) |
| Taxes | (2.0) | (1.5) | (1.8) |
| Miscellaneous | (4.4) | (3.9) | (4.1) |
| Total operating expenses before depreciation | (231.5) | (220.1) | (228.9) |
| Depreciation expense | (40.7) | (41.6) | (39.4) |
| Total operating expenses | (272.2) | (261.7) | (268.3) |
| Operating loss | (232.0) | (222.6) | (228.4) |
| Nonoperating revenues (expenses): | | | |
| Sales and use tax revenue | 167.2 | 168.7 | 159.1 |
| Federal grants and reimbursements | 20.8 | 20.4 | 21.1 |
| State/local grants and reimbursements | 4.6 | 3.4 | 2.2 |
| Investment income | 1.5 | 0.4 | 0.6 |
| Interest expense | (6.7) | (4.5) | (5.8) |
| Other income | 4.0 | 1.9 | 1.6 |
| Total nonoperating revenues | 191.4 | 190.3 | 178.8 |
| Net loss before capital grant revenue | (40.6) | (32.3) | (49.6) |
| Capital grant revenue | 48.6 | 35.3 | 54.5 |
| Increase in net assets during the year | 8.0 | 3.0 | 4.9 |
| Net assets, beginning of year | 552.6 | 549.6 | 544.7 |
| Net assets, end of year | \$ <u>560.6</u> | \$ <u>552.6</u> | \$ <u>549.6</u> |

FINANCIAL OPERATING RESULTS

Revenues

Ridership and Passenger Fares – Farebox receipts and special transit fares are included within this caption. Passenger fare revenue increased by \$1.0 million or 2.7% compared with 2004 attributable to an increase in total ridership from 55.1 million in 2004 to 65.4 million in 2005. Passenger fare revenue decreased by \$0.8 million or 2.0% for 2004 compared with 2003 attributable to a decrease in total ridership from 59.5 million in 2003 to 55.1 million in 2004. There were no general fare structure changes or increases in 2005 or 2004.

Sales and Use Tax – This dedicated 1% tax is levied in Cuyahoga County as part of the 8% overall tax on retail sales that changed from 7% effective July 2003. Sales and use tax revenue accounted for 70.2% and for 72.4% of the Authority's revenue for 2005 and 2004 respectively. Revenue received from sales and use tax for 2005 decreased \$1.5 million, or less than 1.0% compared to 2004. This can be attributable to the leveling off of the economy starting in 2004. Revenue received from sales and use tax for 2004 increased \$9.6 million, or 6.0% compared to 2003. The increases can be attributable to an upturn in the economy starting in 2003.

Federal Grants and Reimbursements – The Authority received approximately \$20.8 million for 2005 and \$20.4 million in 2004 in preventive maintenance reimbursement funds to cover the costs of certain inventory purchases and maintenance costs incurred.

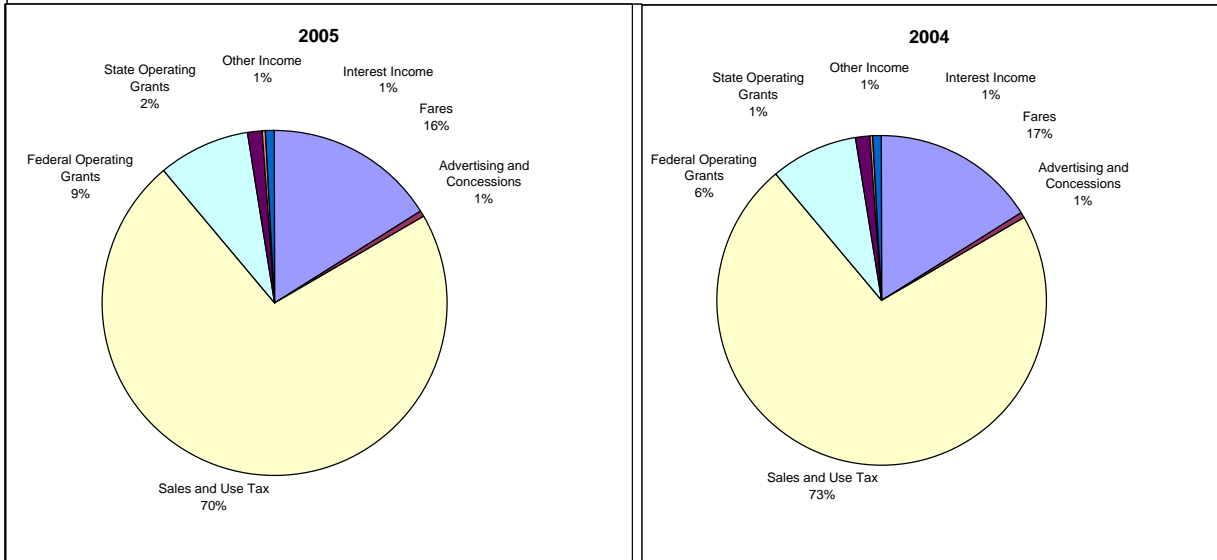
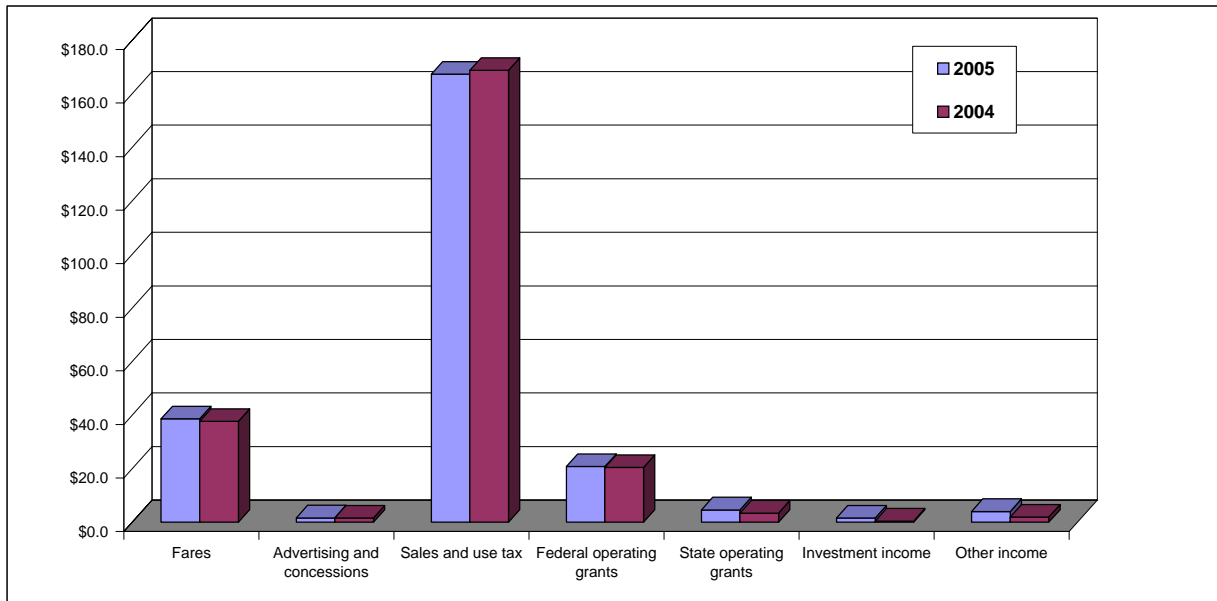
State/Local Grants and Reimbursements – The Ohio Department of Transportation (ODOT) allocates grants for operating assistance and elderly and handicapped programs. This category also includes reimbursement for state fuel taxes paid by the Authority. The increase in this category of \$1.2 million or 35% and \$1.2 million or 54% for 2005 and 2004 respectively compared to the prior years were a direct result of receiving more funding for our capital projects at the State level.

Investment Income – Investment income increased of \$1.1 million or 275% in 2005 compared to 2004 was a direct result of an increase in the average interest rate and a higher average investment balance. Investment income decrease in 2004 compared to 2003 of \$0.2 million or 33% was due to a decrease in the average investment interest rate and a smaller average investment balance.

REVENUE

Millions of Dollars

| | <u>2005</u> | <u>2004</u> | <u>Increase/(Decrease)</u> | |
|-----------------------------|----------------|----------------|----------------------------|----------------|
| | | | <u>Amount</u> | <u>Percent</u> |
| Fares | \$38.6 | \$37.6 | \$1.0 | 2.7 % |
| Advertising and concessions | 1.6 | 1.5 | 0.1 | 6.7 |
| Sales and use tax | 167.2 | 168.7 | (1.5) | (0.9) |
| Federal operating grants | 20.8 | 20.4 | 0.4 | 2.0 |
| State operating grants | 4.6 | 3.4 | 1.2 | 35.3 |
| Investment income | 1.5 | 0.4 | 1.1 | 275.0 |
| Other income | 4.0 | 1.9 | 2.1 | 110.5 |
| Total | <u>\$238.3</u> | <u>\$233.9</u> | <u>\$4.4</u> | 1.9 % |



Expenses

Labor and Fringe Benefits: These personnel related costs increased by \$5.7 million, or 3.7%, in 2005 compared to 2004 due to an increase in the overall wage rate and the cost of providing health care benefits. However, costs decreased by \$3.2 million, or 2.0%, in 2004 compared to 2003 due to a decrease in the number of employees during 2004.

Materials and Supplies: These costs have increased \$6.6 million or 28.6% in 2005 compared to 2004 due to the higher costs of diesel fuel and compressed natural gas. These costs increased \$3.2 million or 16% in 2004 compared to 2003 also due to higher costs of diesel fuel and compressed natural gas.

Services: These costs increased by \$0.9 million or 9.3% in 2005 over 2004 as a result of additional computer consulting services relating to the implementation of our perpetual inventory system. Costs in this category decreased by \$6.0 or 38.2% for 2004 compared to 2003 mainly due to the decision by management to write off initial consulting costs in 2003 relating to capital projects that were not implemented totaling \$6.0 million.

Utilities: Utility costs for 2005 increased by \$1.0 million compared to 2004 due to higher utility rates. Utility costs for 2004 increased by \$0.7 million compared to 2003 due to higher utility rates.

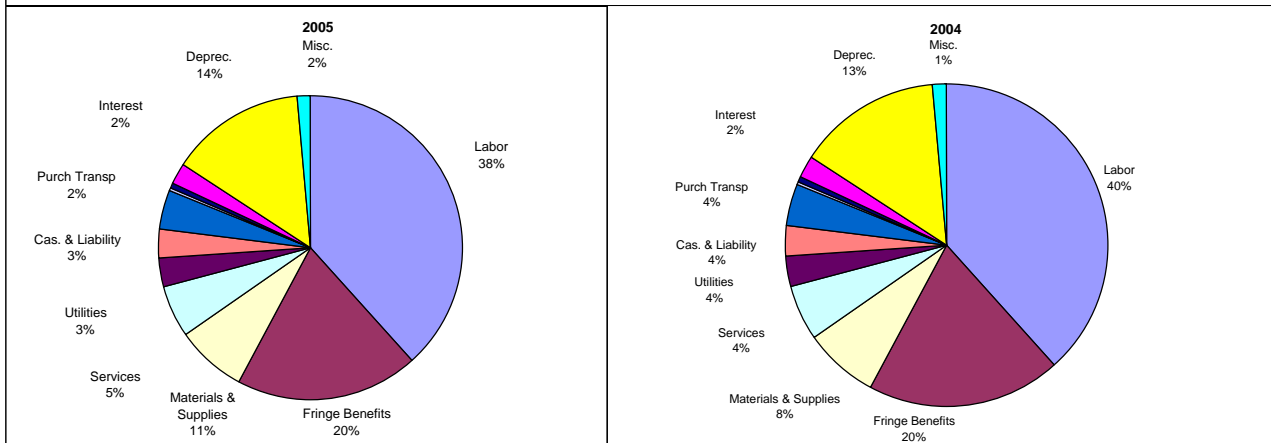
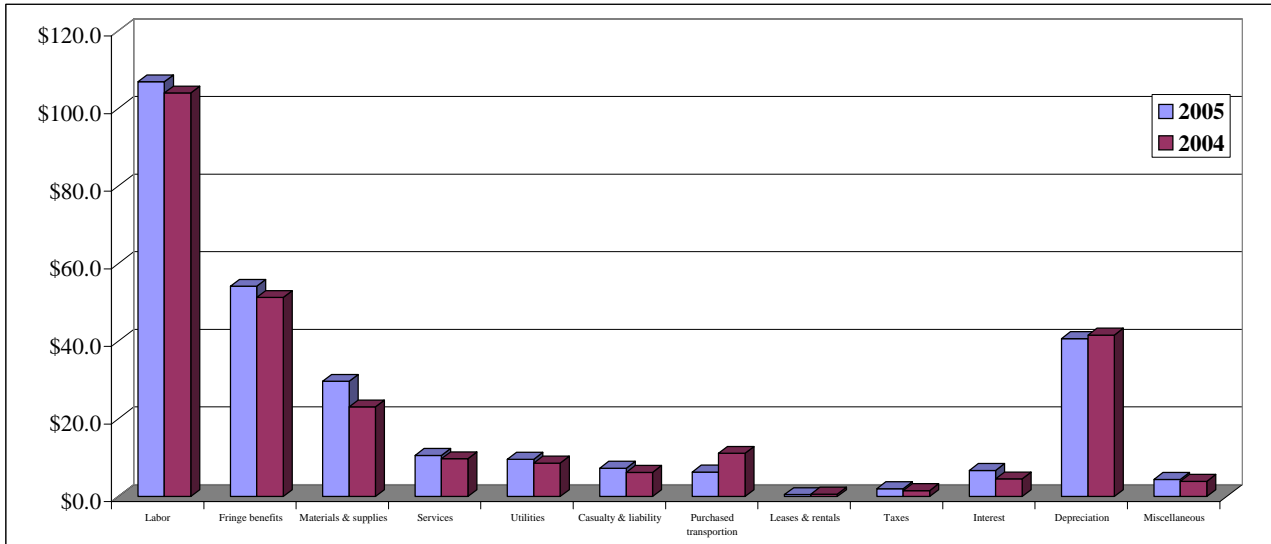
Casualty and Liability: The \$1.1 million increase in these costs is due to higher than expected claims for 2005 as compared to 2004. The \$2.4 million decrease in these costs is due to lower than expected claims for 2004 as compared to 2003. Casualty and liability claims are recorded based on actuarial studies performed in both 2005 and 2004.

Purchased Transportation: Costs in this category decreased by \$4.8 million or 43.2% mainly due to the merging of North Olmsted and Maple Heights transit system into GCRTA in March 2005. GCRTA had operating agreements these two transit systems prior to March 2005 to provide transit services within Cuyahoga County. Additionally, GCRTA implemented with several improvements relating to our Paratransit program during 2004 that improved our ability to schedule and transport more of our riders through our Paratransit program. This resulted in less reliance on outside vendors to transport our paratransit riders. For 2004, this resulted in a decrease of these costs of \$0.5 compared to 2003.

Expenses by Object Class

Millions of Dollars

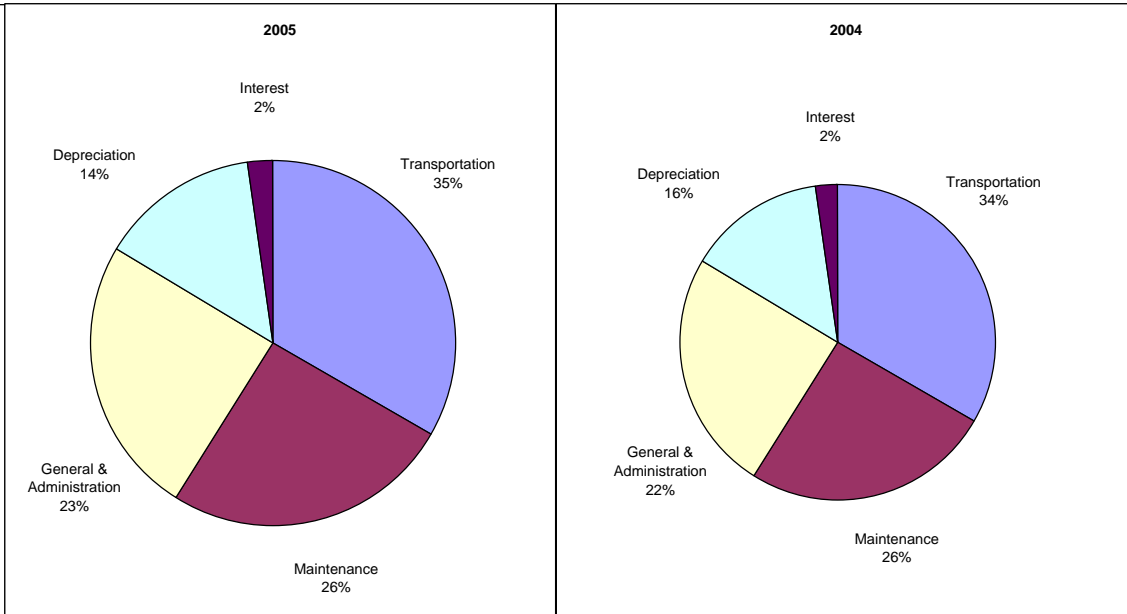
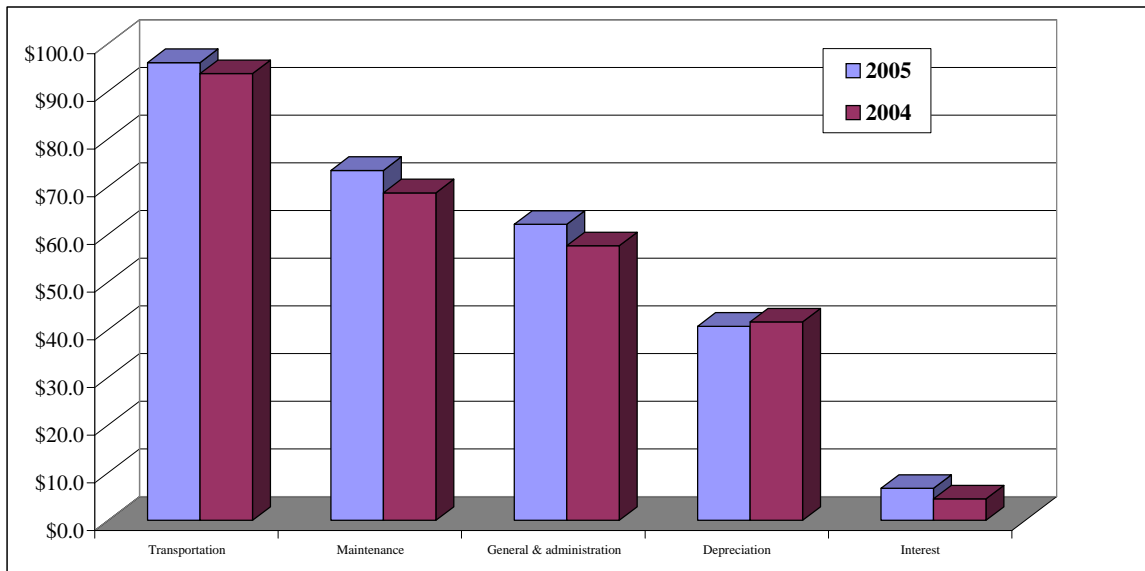
| | <u>2005</u> | <u>2004</u> | <u>Increase/(Decrease)</u> <u>Amount</u> | <u>Percent</u> |
|--------------------------|-----------------------|-----------------------|---|---------------------|
| Labor | \$106.9 | \$104.0 | \$2.9 | 2.8 % |
| Fringe benefits | 54.2 | 51.3 | 2.9 | 5.7 |
| Materials & supplies | 29.7 | 23.1 | 6.6 | 28.6 |
| Services | 10.6 | 9.7 | 0.9 | 9.3 |
| Utilities | 9.6 | 8.6 | 1.0 | 11.6 |
| Casualty & liability | 7.3 | 6.2 | 1.1 | 17.7 |
| Purchased transportation | 6.3 | 11.1 | (4.8) | (43.2) |
| Leases & rentals | 0.5 | 0.6 | (0.1) | (16.7) |
| Taxes | 2.0 | 1.5 | 0.5 | 33.3 |
| Interest | 6.7 | 4.5 | 2.2 | 48.9 |
| Depreciation | 40.7 | 41.6 | (0.9) | (2.2) |
| Miscellaneous | 4.4 | 3.9 | 0.5 | 12.8 |
| Total | <u>\$278.9</u> | <u>\$266.1</u> | <u>\$12.8</u> | <u>4.8 %</u> |



Expenses by Function

Millions of Dollars

| | <u>2005</u> | <u>2004</u> | <u>Increase/(Decrease)</u> | |
|--------------------------|-----------------------|-----------------------|----------------------------|---------------------|
| | | | <u>Amount</u> | <u>Percent</u> |
| Transportation | \$96.0 | \$93.7 | \$2.3 | 2.5 % |
| Maintenance | 73.4 | 68.7 | 4.7 | 6.8 |
| General & administration | 62.1 | 57.6 | 4.5 | 7.8 |
| Depreciation | 40.7 | 41.6 | (0.9) | (2.2) |
| Interest | 6.7 | 4.5 | 2.2 | 48.9 |
| Total | <u>\$278.9</u> | <u>\$266.1</u> | <u>\$12.8</u> | <u>4.8 %</u> |



Debt Administration

The Authority has sold unvoted general obligation (capital improvement) bonds to partially finance the purchase and construction of various capital assets. Payment of debt service on the outstanding unvoted general obligation bonds of the Authority is secured by a pledge of all revenues of the Authority, except those specifically limited to another use or prohibited from that use by the Ohio Constitution, state or federal law, or any revenue bond trust agreement that the Authority might execute. In practice, debt service has been paid from the receipts of the Authority's sales and use tax. Subject to the approval of the County Budget Commission, the debt service can also be paid, in the event it is not paid from other sources, from the proceeds of the levy by the Authority of ad valorem taxes within the ten-mill limitation provided by Ohio law. The Authority can also, with the approval of the voters within the territory of the Authority, issue general obligation bonds that, unless paid from other sources, are payable from the proceeds of the levy by the Authority of ad valorem taxes that are outside that ten-mill limitation.

On November 16, 2004 the Authority issued \$67,235,000 of general obligation capital improvement and refunding bonds. Of the \$67,235,000, \$38,000,000 was issued to finance current and future capital improvement projects and the remainder for the advance refunding of previous issues. The bonds bear interest at rates ranging from 2.0% to 5.0% per annum, and mature in various installments through December 1, 2024. Proceeds of \$32,178,171 were placed in an escrow trust fund for the purpose of generating resources for future debt services payments of the refunded debt.

In 2004, the Authority advance refunded the Series 1996, 1998 and 2001 bonds to reduce its total debt service payments over the next 13 years by approximately \$1,052,747 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$1,057,912.

The Authority had \$139.8 million outstanding capital improvement bonds as of December 31, 2005 of which \$78.6 million is non-callable and \$61.2 million callable. The Authority general obligation debt is rated 'A3' by Moody's Investors Service, Inc. and 'A' by Fitch IBCA, Inc.

For more information, see Note 5 at page 48 of this report.

Total outstanding bonds and loans as of December 31, 2005 include:

| Series | Issue Date | Maturity Date | Original Principal | December 31, 2005 Balance | Average Interest Rate |
|--|------------|---------------|--------------------|---------------------------|-----------------------|
| <u>General Obligation Improvement Bonds</u> | | | | | |
| 1996 | 10/03/96 | 12/01/2011 | \$70,000,000 | \$ 3,435,000 | 5.24% |
| 1998 | 03/01/98 | 12/01/2018 | 32,955,000 | 9,285,000 | 4.61% |
| 2001 | 12/11/01 | 12/01/2021 | 29,890,000 | 15,950,000 | 4.73% |
| 2004 | 11/16/04 | 12/01/2024 | 67,235,000 | 65,990,000 | 2.96% |
| <u>General Improvement Refunding Bonds</u> | | | | | |
| 1998R (11/15/98 annually thru 2016) | | | | 28,055,000 | 4.17% |
| Series 2002R (12/2002 annually thru 2011) | | | | <u>17,075,000</u> | 3.75% |
| Total General Obligation Bonds | | | | 139,790,000 | |
| Other- State Infrastructure Bank Loans (annually thru 2014) | | | | <u>5,051,815</u> | 4.25% |
| Total Debt | | | | \$144,841,815 | |
| Deferred Refunding Premium | | | | (3,475,804) | |
| | | | | <u>4,030,841</u> | |
| Long-term Debt | | | | <u>\$145,396,852</u> | |

At December 31, 2005, the maximum annual debt service charges permitted under Ohio law for new debt issuance was \$15.9 million.

The Authority had \$147 million outstanding capital improvement bonds as of December 31, 2004 of which \$17.3 million is non-callable and \$129.7 million callable. The Authority general obligation debt is rated 'A3' by Moody's Investors Service, Inc. and 'A' by Fitch IBCA, Inc.

Total outstanding bonds and loans as of December 31, 2004 include:

| Series | Issue Date | Maturity Date | Original Principal | December 31, 2004 Balance | Average Interest Rate |
|--|------------|---------------|--------------------|---------------------------------|-----------------------|
| <u>General Obligation Improvement Bonds</u> | | | | | |
| 1996 | 10/03/96 | 12/01/2011 | \$70,000,000 | \$ 6,710,000 | 5.24% |
| 1998 | 03/01/98 | 12/01/2018 | 32,955,000 | 10,630,000 | 4.61% |
| 2001 | 12/11/01 | 12/01/2021 | 29,890,000 | 17,025,000 | 4.73% |
| 2004 | 11/16/04 | 12/01/2024 | 67,235,000 | 67,235,000 | 2.96% |
| <u>General Improvement Refunding Bonds</u> | | | | | |
| 1998R (11/15/98 annually thru 2016) | | | | 28,210,000 | 4.17% |
| Series 2002R (12/2002 annually thru 2011) | | | | <u>17,215,000</u> | 3.75% |
| Total General Obligation Bonds | | | | 147,025,000 | |
| Other- State Infrastructure Bank Loans (annually thru 2014) | | | | <u>5,504,011</u> | 4.25% |
| Total Debt | | | | \$152,529,011 | |
| Deferred Refunding Premium | | | | (4,727,532) <u>4,333,293</u> | |
| Long-term Debt | | | | <u>\$152,134,772</u> | |

At December 31, 2004, the maximum annual debt service charges permitted under Ohio law for new debt issuance was \$16.1 million.

Request for Information

This financial report is designed to provide a general overview of the Authority's finances for those with an interest in its finances. Questions concerning any of the information in this report or requests for additional financial information should be addressed to the Deputy General Manager of Finance & Administration, Greater Cleveland Regional Transit Authority, 1240 W. 6th Street, Cleveland, Ohio 44113.

GREATER CLEVELAND REGIONAL TRANSIT AUTHORITY

Balance Sheets

December 31, 2005 and 2004

| Assets | 2005 | 2004 |
|---|-----------------------|-----------------------|
| Current assets: | | |
| Cash and cash equivalents | \$ 17,942,551 | \$ 19,368,752 |
| Short term investments | 3,957,381 | — |
| Receivables: | | |
| Sales and use tax | 42,686,262 | 44,556,375 |
| Accrued interest and other | 657,608 | 1,832,911 |
| State capital assistance | 3,008,865 | 1,574,720 |
| Federal capital assistance | 6,485,436 | 1,767,944 |
| Material and supplies inventory | 6,861,976 | 7,127,532 |
| Total current assets | <u>81,600,079</u> | <u>76,228,234</u> |
| Noncurrent assets: | | |
| Investments | 15,345,605 | 12,965,946 |
| Restricted for capital assets: | | |
| Cash and cash equivalents | 907,324 | 13,360,945 |
| Investments | 7,011,659 | 17,318,135 |
| Restricted for debt service: | | |
| Cash and cash equivalents | 1,492,377 | 1,413,663 |
| Other assets | 718,173 | 755,973 |
| Capital assets: | | |
| Land | 27,453,678 | 21,352,023 |
| Infrastructure | 54,315,824 | 52,701,797 |
| Right of ways | 251,539,935 | 248,327,165 |
| Building, furniture and fixtures | 421,230,219 | 387,748,984 |
| Transportation and other equipment | 373,103,437 | 367,304,861 |
| Construction in progress | 63,169,265 | 67,547,836 |
| Total capital assets | 1,190,812,358 | 1,144,982,666 |
| Less accumulated depreciation | <u>(515,096,598)</u> | <u>(491,176,126)</u> |
| Capital assets – net | <u>675,715,760</u> | <u>653,806,540</u> |
| Total noncurrent assets and capital assets | <u>701,190,898</u> | <u>699,621,202</u> |
| Total assets | <u>\$ 782,790,977</u> | <u>\$ 775,849,436</u> |
| Liabilities and Net Assets | | |
| Current liabilities: | | |
| Accounts payable | \$ 9,338,419 | \$ 10,099,835 |
| Contracts and other payables | 14,876,810 | 9,230,738 |
| Contract retainers | 2,078,564 | 1,800,203 |
| Accrued compensation | 21,414,304 | 19,976,956 |
| Interest payable – bonds | 511,936 | 549,198 |
| Current portion of long-term debt | 8,401,619 | 7,687,196 |
| Current portion – self-insurance liabilities | 5,012,122 | 5,115,877 |
| Total current liabilities | <u>61,633,774</u> | <u>54,460,003</u> |
| Noncurrent liabilities: | | |
| Long-term debt | 136,995,233 | 144,447,576 |
| Self-insurance liabilities | 9,308,226 | 9,500,914 |
| Deferred revenue | 12,877,408 | 13,912,038 |
| Other long-term liabilities | 1,375,609 | 957,609 |
| Total noncurrent liabilities | <u>160,556,476</u> | <u>168,818,137</u> |
| Total liabilities | <u>222,190,250</u> | <u>223,278,140</u> |
| Net assets: | | |
| Invested in capital assets, net of related debt | 538,237,891 | 532,350,848 |
| Restricted | 1,492,377 | 1,413,663 |
| Unrestricted | 20,870,459 | 18,806,785 |
| Total net assets | <u>560,600,727</u> | <u>552,571,296</u> |
| Total liabilities and net assets | <u>\$ 782,790,977</u> | <u>\$ 775,849,436</u> |

See accompanying notes to financial statements.

GREATER CLEVELAND REGIONAL TRANSIT AUTHORITY

Statements of Revenues, Expenses, and Changes in Net Assets

Years ended December 31, 2005 and 2004

| | <u>2005</u> | <u>2004</u> |
|---|-----------------------|-----------------------|
| Operating revenues: | | |
| Passenger fares | \$ 38,569,225 | \$ 37,578,329 |
| Advertising and concessions | 1,658,314 | 1,538,474 |
| Total operating revenues | <u>40,227,539</u> | <u>39,116,803</u> |
| Operating expenses: | | |
| Labor and fringe benefits | 161,085,305 | 155,335,078 |
| Materials and supplies | 29,696,180 | 23,109,385 |
| Services | 10,643,665 | 9,701,670 |
| Utilities | 9,645,429 | 8,569,206 |
| Casualty and liability | 7,283,596 | 6,239,880 |
| Purchased transportation | 6,302,627 | 11,108,007 |
| Leases and rentals | 495,237 | 636,817 |
| Taxes | 1,978,606 | 1,451,525 |
| Miscellaneous | 4,435,796 | 3,916,057 |
| Total operating expenses before depreciation | 231,566,441 | 220,067,625 |
| Depreciation expense | 40,669,943 | 41,610,325 |
| Total operating expenses | <u>272,236,384</u> | <u>261,677,950</u> |
| Operating loss | <u>(232,008,845)</u> | <u>(222,561,147)</u> |
| Nonoperating revenue (expenses): | | |
| Sales and use tax revenue | 167,127,247 | 168,658,533 |
| Federal operating grants and reimbursements | 20,801,554 | 20,405,770 |
| State/local operating grants and reimbursements | 4,623,006 | 3,398,067 |
| Investment income | 1,537,959 | 413,375 |
| Interest expense | (6,698,423) | (4,464,502) |
| Other income | 3,957,070 | 1,681,788 |
| Gain on disposal of capital assets | 57,072 | 212,269 |
| Total nonoperating income | <u>191,405,485</u> | <u>190,305,300</u> |
| Net loss before capital grant revenue | <u>(40,603,360)</u> | <u>(32,255,847)</u> |
| Capital grant revenue: | | |
| Federal | 41,046,124 | 28,913,056 |
| State | 4,586,667 | 4,307,717 |
| Local | 3,000,000 | 2,000,000 |
| Total capital grant revenue | <u>48,632,791</u> | <u>35,220,773</u> |
| Increase in net assets | 8,029,431 | 2,964,926 |
| Net assets, beginning of year | <u>552,571,296</u> | <u>549,606,370</u> |
| Net assets, end of year | <u>\$ 560,600,727</u> | <u>\$ 552,571,296</u> |

See accompanying notes to financial statements.

GREATER CLEVELAND REGIONAL TRANSIT AUTHORITY

Statements of Cash Flows

Years ended December 31, 2005 and 2004

| | <u>2005</u> | <u>2004</u> |
|---|----------------------|----------------------|
| Cash flows from operating activities: | | |
| Cash received from customers | \$ 41,402,842 | \$ 38,876,991 |
| Cash payments to suppliers for goods and services | (63,237,600) | (55,831,830) |
| Cash payments to employees for services | (105,438,817) | (103,581,009) |
| Cash payments for employee benefits | (54,209,140) | (51,363,075) |
| Cash payments for casualty and liability | (7,580,039) | (7,081,089) |
| Other receipts | 3,210,286 | 1,090,202 |
| Net cash used in operating activities | <u>(185,852,468)</u> | <u>(177,889,810)</u> |
| Cash flows from noncapital financing activities: | | |
| Sales and use taxes received | 168,997,359 | 165,432,430 |
| Grants, reimbursements, and special fare assistance: | | |
| Federal | 20,801,554 | 20,405,770 |
| State and local | 4,623,006 | 3,398,067 |
| Net cash provided by noncapital financing activities | <u>194,421,919</u> | <u>189,236,267</u> |
| Cash flows from capital and related financing activities: | | |
| Federal capital grant revenue | 36,328,632 | 28,339,088 |
| State capital grant revenue | 2,921,748 | 4,631,819 |
| Local capital grant revenue | 3,000,000 | 2,000,000 |
| Proceeds from lease to service | — | 205,148 |
| Acquisition and construction of capital assets | (55,571,613) | (40,751,453) |
| Proceeds from new debt | — | 70,184,843 |
| Principal paid on bond maturities and other debt | (7,687,196) | (38,351,745) |
| Interest paid on bonds and other debt | (6,869,525) | (5,055,649) |
| Bond issuance costs on new debt | — | (755,973) |
| Net cash provided by (used in) capital and related financing activities | <u>(27,877,954)</u> | <u>20,446,078</u> |
| Cash flows from investing activities: | | |
| Proceeds from maturities of investments | 22,009,725 | 8,000,000 |
| Purchases of investments | (18,040,289) | (29,682,336) |
| Interest received from investments | 1,537,959 | 413,375 |
| Net cash provided by (used in) investing activities | <u>5,507,395</u> | <u>(21,268,961)</u> |
| Net increase (decrease) in cash and cash equivalents | (13,801,108) | 10,523,574 |
| Cash and cash equivalents, beginning of year | <u>34,143,360</u> | <u>23,619,786</u> |
| Cash and cash equivalents, end of year | <u>\$ 20,342,252</u> | <u>\$ 34,143,360</u> |
| Noncash investing and capital financing activities: | | |
| Decrease in fair value of investments | \$ (94,383) | \$ (97,867) |

See accompanying notes to financial statements.

GREATER CLEVELAND REGIONAL TRANSIT AUTHORITY

Statements of Cash Flows

Years ended December 31, 2005 and 2004

| | <u>2005</u> | <u>2004</u> |
|--|-------------------------|-------------------------|
| Reconciliation of operating loss to net cash used in operating activities: | | |
| Operating loss | \$ (232,008,845) | \$ (222,561,147) |
| Adjustments to reconcile operating loss to net cash used in operating activities: | | |
| Depreciation | 40,669,943 | 41,610,325 |
| Amortization-other assets | 37,800 | — |
| Other revenue | 3,210,286 | 1,090,202 |
| Change in assets and liabilities: | | |
| (Increase) decrease in other receivables | 1,175,303 | (239,812) |
| Decrease in materials and supplies inventory | 265,556 | 410,427 |
| Increase in accounts payable, accrued compensation, self-insurance liabilities and other | 797,489 | 1,800,195 |
| Net cash used in operating activities | <u>\$ (185,852,468)</u> | <u>\$ (177,889,810)</u> |

See accompanying notes to financial statements.

GREATER CLEVELAND REGIONAL TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004

1. DESCRIPTION OF AUTHORITY OPERATIONS AND DEFINITION OF THE ENTITY

- A) **The Authority** – The Greater Cleveland Regional Transit Authority (the Authority or GCRTA) is an independent, special purpose political subdivision of the State of Ohio (the State) with powers derived from Sections 306.30 through 306.71 of the Ohio Revised Code. The Authority has territorial boundaries and jurisdiction coextensive with the territorial boundaries of Cuyahoga County. As a political subdivision, it is distinct from, and is not an agency of, the State and the County or any other local governmental unit. The Authority was created on December 30, 1974, by ordinance of the Council of the City of Cleveland and by resolution of the Board of County Commissioners of Cuyahoga County, and became operational on September 5, 1975.

Under Ohio law, the Authority is authorized to levy a sales and use tax for transit purposes, including both capital improvement and operating expenses, at the rate of 0.25, 0.5, 1, or 1.5% if approved by a majority of the electors residing within the territorial boundaries of the Authority. Such a sales and use tax is in addition to the sales and use taxes levied by the State and the County. On July 22, 1975, the voters of the County approved a 1% sales and use tax with no limit on its duration.

The Authority also has the power, under Section 306.40 of the Ohio Revised Code, to levy and collect both voted (after approval at an election) and unvoted ad valorem taxes on all the taxable property within the territorial boundaries of the Authority, in order to pay debt service on its bonds and notes issued in anticipation thereof. Ad valorem taxes have not been levied through 2005.

The Authority is managed by a ten-member Board of Trustees and provides directly, or under contract, virtually all mass transportation within the County.

The Authority is not subject to federal or state income taxes.

- B) **Reporting Entity** – “The Financial Reporting Entity,” as defined by Statement No. 14 of the Governmental Accounting Standards Board (GASB), is comprised of the primary government and its component units. The primary government includes all departments and operations of the Authority which are not legally separate organizations. Component units are legally separate organizations which are fiscally dependent on the Authority or for which the Authority is financially accountable. An organization is fiscally dependent if it must receive the Authority’s approval for its budget, the levying of taxes, or the issuance of debt. The Authority is financially accountable for an organization if it appoints a majority of the organization’s board, and either a) has the ability to impose its will on the organization or b) there is the potential for the organization to provide a financial benefit to or impose a financial burden on the Authority. The reporting entity of the Authority consists solely of the primary government. There are no component units.

Under the guidelines of GASB Statement No. 14, the Authority is a jointly governed organization. Of its ten member board, four of the members are appointed by the Mayor of the City of Cleveland with the consent of City Council; three members, one of whom must reside in the City of Cleveland, are appointed by the County Commissioners; the remaining three members are elected by an association of suburban mayors, city managers, and township trustees. None of the participating governments appoints a majority of the Authority’s board and none has an ongoing financial interest or responsibility. None of the participating governments provided any significant financial transactions with the Authority during 2005.

GREATER CLEVELAND REGIONAL TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies followed in the preparation of these financial statements are summarized below. These policies conform to United States of America's generally accepted accounting principles (GAAP) for local governmental units as prescribed in the statements issued by the Governmental Accounting Standards Board (GASB) and other recognized authoritative sources.

Basis of Accounting – The accounts of the Authority, which are organized as an enterprise fund, are used to account for the Authority's activities that are financed and operated in a manner similar to a private business enterprise. Accordingly, the Authority maintains its records on the accrual basis of accounting. Revenues from operations, investments, and other sources are recorded when earned. Expenses (including depreciation and amortization) of providing services to the public are accrued when incurred.

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

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

Cash and Cash Equivalents – For purposes of the statements of cash flows, the Authority considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

Investments – Investments are reported at fair value based on quoted market prices.

Materials and Supplies Inventory – Materials and supplies inventory are stated at the lower of average cost or fair value. Inventory generally consists of maintenance parts and supplies for rolling stock and other transportation equipment. In accordance with industry practice, all inventories are classified as current assets even though a portion of the inventories are not expected to be utilized within one year.

Capital Assets – Effective January 2004 the Authority defines capital assets as assets with an initial cost of at least \$5,000 and an estimated useful life in excess of one year. In previous years, the initial cost was defined as \$1,000. Capital assets, which include property, facilities infrastructure, and equipment, are stated at historical cost. The cost of normal maintenance and repairs is charged to operations as incurred. Improvements and interest are capitalized and depreciated over the remaining useful lives of the related properties. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets, as follows:

| Description | Years |
|------------------------------------|-------|
| Infrastructure | 45 |
| Buildings and improvements | 20-60 |
| Transportation and other equipment | 5-15 |
| Furniture and fixtures | 3-15 |
| Rolling stock | 7-25 |

GREATER CLEVELAND REGIONAL TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004

Restricted Assets – Restricted assets consist of monies and other resources, the use of which is legally restricted for capital acquisition and construction.

Net Assets – Equity is displayed in three components as follows:

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

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

Restricted Assets – This consists of constraints placed on net assets use through external constraints imposed by grantors, contributors, or laws. When both restricted and unrestricted resources are available for use, generally it is the Authority’s policy to use restricted resources first and then unrestricted resources when they are needed.

Classifications of Revenues – The Authority has classified its revenues as either operating or non-operating. Operating revenue includes activities that have the characteristics of exchange transactions including passenger fares, advertising, and concession revenue. Non-operating revenue includes activities that have the characteristics of non-exchange transactions, such as sales tax proceeds and most federal, state, and local grants and contracts.

Recognition of Revenue and Receivables – The federal government, through the Federal Transit Administration (FTA) and the Ohio Department of Transportation (ODOT), provides financial assistance and makes grants directly to the Authority for operations and acquisition of property and equipment. Operating grants and special fare assistance awards made on the basis of entitlement periods are recorded as grant receivables and revenues over the entitlement periods. Capital grants for the acquisition of property and equipment (reimbursement type grants) are recorded as grant receivables and credited to non-operating revenues when the related capital expenditures are incurred. Capital grants for the maintenance of property, plant and equipment are recorded as grant receivables and credited to non-operating revenues in the period operating expenditures are incurred. Capital grants received in advance of project costs being incurred are deferred. The Sales and Use Tax receivable is recorded in the month the vendor submits the tax to the State of Ohio. There is a three-month delay between the collection of the Sales Tax to the State of Ohio and the remittance to the Authority.

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

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

Compensated Absences – The Authority accrues vacation benefits as earned by its employees. Unused vacation benefits are paid to the employees upon separation from service. Vacation days are limited to a maximum of 50 days.

Self-Insurance Liabilities and Expense – The Authority has a self-insurance program for third-party public compensation liability, property damage claims, and the workers’ compensation claims. For workers’ compensation claims awarded, the Authority pays the same benefits as would be paid by the State of Ohio Bureau of Workers’ Compensation.

GREATER CLEVELAND REGIONAL TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004

These programs are administered by the Authority. Claims are accrued in the year the expenses are incurred, based upon the estimates of the claim liabilities made by management, legal counsel of the Authority, and actuaries. Also provided for are estimates of claims incurred during the year but not yet reported.

Claims expense is accrued in the period the incidents of loss occur, based upon estimates of liability made by management with the assistance of third-party administrators, legal counsel, and actuaries. Claims liability is the best estimate based on known information.

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

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

Changes in Accounting Policy – Effective January 1, 2005, the Authority implemented the provisions of GASB Statement No. 40 *Deposit and Investment Risk Disclosures – an amendment of GASB Statement No. 3*, for the fiscal year ended December 31, 2005. GASB Statement No. 40 revises the existing requirements regarding disclosure of custodial credit, as required by GASB Statement No. 3 and establishes new requirements for disclosures regarding credit risk, concentration of credit risk, interest rate risk, and foreign currency risk.

The Authority also implemented GASB Statement No. 42 Accounting and Financial Reporting for Impairment of Capital Assets and Insurance Recoveries. GASB Statement 42 requires governments to evaluate changes in capital assets to determine any impairment of these assets. GASB Statement No. 42 required no change to the presentation of the Authority’s Financial Statements.

New Accounting Pronouncements – The Governmental Accounting Standards Board (GASB) issued three new accounting pronouncements. Statement No. 46 *Net Assets Restricted by Enabling Legislation – an amendment of GASB Statement No. 34*, is effective for fiscal year beginning January 1, 2006. Statement No. 45 *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, is effective for fiscal year beginning January 1, 2007.

Reclassifications – Certain prior year amounts have been reclassified to conform with the 2005 presentation.

3. CASH, CASH EQUIVALENTS, AND INVESTMENTS

The following is a complete listing of deposits and investments held by the Authority at December 31, 2005:

| | 2005 | 2004 |
|--------------------------------|----------------------|----------------------|
| Demand deposits | \$ 19,912,575 | \$ 25,542,432 |
| Cash on hand | 182,950 | 183,050 |
| Investments | 26,561,372 | 38,701,959 |
| Total | <u>\$ 46,656,897</u> | <u>\$ 64,427,441</u> |
| Demand deposits – bank balance | <u>\$ 27,346,829</u> | <u>\$ 26,838,596</u> |

GREATER CLEVELAND REGIONAL TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004

The deposits and investments of the Authority at December 31, 2005 are reflected in the financial statements as follows:

| | 2005 | 2004 |
|---------------------------|----------------------|----------------------|
| Current Assets: | | |
| Cash and cash equivalents | \$ 17,942,551 | \$ 19,368,752 |
| Short term investments | 3,957,381 | — |
| Noncurrent Assets: | | |
| Investments | 15,345,605 | 12,965,946 |
| Restricted Assets: | | |
| Cash and cash equivalents | 2,399,701 | 14,774,608 |
| Investments | 7,011,659 | 17,318,135 |
| Total | \$ 46,656,897 | \$ 64,427,441 |

The deposits and investments of the Authority are governed by the provisions of the Bylaws of the Authority and the Ohio Revised Code. In accordance with these provisions, only banks located in Ohio and domestic savings and loan associations are eligible to hold public deposits. The provisions also permit the Authority 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. The Authority may also enter into repurchase agreements with any eligible dealer who is a member of the National Association of Securities Dealers for a period not exceeding 30 days.

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of bank failure, the Authority's deposits may not be returned by the bank. Public depositories must give security for all public funds on deposit. These institutions may either specifically collateralize individual accounts in lieu of amounts insured by the Federal Deposit Insurance Corporation (FDIC) or may pledge a pool of government securities, the face value of which is at least 105% of the total value of public monies on deposit at the institution. The Federal depository insurance covers \$100,000 of the Authority's bank balance. The remaining balances of \$19,995,525 and \$25,625,482 as of December 31, 2005 and 2004, respectively, were uninsured and uncollateralized as defined by the GASB. The uncollateralized deposits were, however, covered by a pledged collateral pool not held in the Authority's name, as permitted under Ohio Law.

Custodial Credit Risk of Investments

Custodial credit risk is the risk that in the event of failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Authority 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. 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 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. As of December 31, 2005 and 2004, the Authority had no investments subject to custodial credit risk.

GREATER CLEVELAND REGIONAL TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004

Interest Rate Risk

Interest rate risk is the risk that, over time, the value of investments will decrease as a result of a rise in interest rates. The Authority's policy minimizes interest rate risk by requiring that the Fund attempt to match its investments with anticipated cash flow requirements. Unless related to a specific cash flow, the Authority is generally not permitted to directly invest in securities maturing more than 3 years from original date of purchase according to the Authority's investment policy although the Ohio Revised Code allows up to 5 years.

As of December 31, 2005, the Authority's investment maturities were as follows:

| Investment | Fair value | Investment maturities in in years | |
|-----------------------------------|----------------------|-----------------------------------|-------------------|
| | | Less than one year | One to five years |
| U.S. government agency securities | \$ 26,314,645 | 14,592,560 | 11,722,085 |
| STAR Ohio | 246,727 | 246,727 | — |
| Total investments | <u>\$ 26,561,372</u> | <u>14,839,287</u> | <u>11,722,085</u> |

As of December 31, 2004, the Authority's investment maturities were as follows:

| Investment | Fair value | Investment maturities in in years | |
|-----------------------------------|----------------------|-----------------------------------|-------------------|
| | | Less than one year | One to five years |
| U.S. government agency securities | \$ 28,796,531 | 17,839,886 | 10,956,645 |
| Commercial Paper | 1,487,550 | 1,487,550 | — |
| STAR Ohio | 3,437,379 | 3,437,379 | — |
| Total investments | <u>\$ 33,721,460</u> | <u>22,764,815</u> | <u>10,956,645</u> |

Credit Risk

The Authority's investment policy complies with state law. The classifications of the investments are limited to U.S. government or agency securities, interim deposits and the Ohio Subdivisions Fund (STAR Ohio). Investments in commercial paper must be rated at the time of purchase in the highest classification established by at least two nationally recognized standard rating services.

As of December 31, 2005, the credit quality ratings of the Authority's investments were as follows:

| Investment | Fair value | Rating | Rating organization |
|-----------------------------------|----------------------|-----------|---------------------|
| U.S. government agency securities | \$ 26,314,645 | AAA | S&P/Moody |
| STAR Ohio | 246,727 | Not rated | N/A |
| Total investments | <u>\$ 26,561,372</u> | | |

GREATER CLEVELAND REGIONAL TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004

As of December 31, 2004, the credit quality ratings of the Authority's investments were as follows:

| Investment | Fair value | Rating | Rating organization |
|-----------------------------------|----------------------|-----------|------------------------|
| U.S. government agency securities | \$ 28,796,531 | AAA | S&P/Moody |
| Commercial Paper | 1,487,550 | A-1+/P-1 | S&P/Moody |
| STAR Ohio | 3,437,379 | Not rated | N/A |
| Total investments | \$ <u>33,721,460</u> | | |

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the Authority's investment in a single issuer. The Authority's policy specifies a number of limitations to minimize concentration of credit risk, including prohibiting investing more than 5% of the portfolio in securities (other than U.S. government, mutual funds, external investment pools, and other pooled investments) of any one issuer.

More than 5% of the Fund's investments are in Federal Home Loan Mortgage Company, Federal National Mortgage Association and Federal Home Loan Bank. At December 31, 2005 these investments were 37%, 42.1% and 20%, respectively, and at December 31, 2004 these investments were 35%, 28% and 23%, respectively, of the Fund's total investments.

GREATER CLEVELAND REGIONAL TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004

4. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2005 was as follows:

| | Balance January 1, 2005 | Transfers/ Additions | CIP Transfers/ Disposals | Balance December 31, 2005 |
|---|-------------------------------|-------------------------|-----------------------------|---------------------------------|
| Capital Assets Not Being Depreciated: | | | | |
| Land | \$ 21,352,023 | \$ 6,101,655 | \$ — | \$ 27,453,678 |
| Construction in Progress | 67,547,836 | 34,184,205 | 38,562,776 | 63,169,265 |
| Total Capital Assets Not Being Depreciated | 88,899,859 | 40,285,860 | 38,562,776 | 90,622,943 |
| Capital Assets Being Depreciated: | | | | |
| Infrastructure | 52,701,797 | 1,614,027 | — | 54,315,824 |
| Right of Ways | 248,327,165 | 3,212,770 | — | 251,539,935 |
| Building, Furniture & Fixtures | 387,748,984 | 33,481,235 | — | 421,230,219 |
| Transportation and Other Equipment | 367,304,861 | 22,566,178 | 16,767,602 | 373,103,437 |
| Total Capital Assets Being Depreciated | 1,056,082,807 | 60,874,210 | 16,767,602 | 1,100,189,415 |
| Less Accumulated Depreciation: | | | | |
| Infrastructure | 6,933,269 | 1,057,798 | — | 7,991,067 |
| Right of Ways | 111,026,056 | 6,194,135 | — | 117,220,191 |
| Building, Furniture & Fixtures | 148,661,443 | 10,503,070 | — | 159,164,513 |
| Transportation and Other Equipment | 224,555,358 | 22,914,942 | 16,749,473 | 230,720,827 |
| Total Accumulated Depreciation | 491,176,126 | 40,669,945 | 16,749,473 | 515,096,598 |
| Total Capital Assets Being Depreciated, Net | 564,906,681 | 20,204,265 | 18,129 | 585,092,817 |
| Total Capital Assets, Net | <u>\$ 653,806,540</u> | <u>\$ 60,490,125</u> | <u>\$ 38,580,905</u> | <u>\$ 675,715,760</u> |

Remaining costs to complete construction projects, as of December 31, 2005, which will extend over a period of several years, total \$64 million. Approximately \$61.6 million of these costs are eligible for reimbursement under approved capital grants. The remaining portion of these costs is the responsibility of the Authority and will be funded with sales tax revenue or long-term debt.

For the year ended December 31, 2005, capitalized interest was \$1,083,116.

GREATER CLEVELAND REGIONAL TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004

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

| | Balance January 1, 2004 | Transfers/ Additions | CIP Transfers/ Disposals | Balance December 31, 2004 |
|--|-------------------------------|-------------------------|-----------------------------|---------------------------------|
| Capital Assets Not Being Depreciated: | | | | |
| Land | \$ 20,901,114 | \$ 450,909 | \$ — | \$ 21,352,023 |
| Construction in Progress | 46,473,962 | 40,630,201 | 19,556,327 | 67,547,836 |
| Total Capital Assets Not Being Depreciated | 67,375,076 | 41,081,110 | 19,556,327 | 88,899,859 |
| Capital Assets Being Depreciated: | | | | |
| Infrastructure | 46,669,995 | 6,031,802 | — | 52,701,797 |
| Right of Ways | 240,718,170 | 7,608,995 | — | 248,327,165 |
| Building, Furniture & Fixtures | 386,375,964 | 1,375,871 | 2,851 | 387,748,984 |
| Transportation and Other Equipment | 376,079,345 | 9,899,643 | 18,674,127 | 367,304,861 |
| Total Capital Assets Being Depreciated | 1,049,843,474 | 24,916,311 | 18,676,978 | 1,056,082,807 |
| Less Accumulated Depreciation: | | | | |
| Infrastructure | 6,095,237 | 838,032 | — | 6,933,269 |
| Right of Ways | 104,822,503 | 6,203,553 | — | 111,026,056 |
| Building, Furniture & Fixtures | 136,234,664 | 12,429,119 | 2,340 | 148,661,443 |
| Transportation and Other Equipment | 221,088,835 | 22,139,621 | 18,673,098 | 224,555,358 |
| Total Accumulated Depreciation | 468,241,239 | 41,610,325 | 18,675,438 | 491,176,126 |
| Total Capital Assets Being Depreciated, Net | 581,602,235 | (16,694,014) | 1,540 | 564,906,681 |
| Total Capital Assets, Net | \$ 648,977,311 | \$ 24,387,096 | \$ 19,557,867 | \$ 653,806,540 |

For the year ended December 31, 2004, capitalized interest was \$908,251.

GREATER CLEVELAND REGIONAL TRANSIT AUTHORITY
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5. BONDS AND LOANS PAYABLE

Bonds and loans payable at December 31, 2005 consist of the following:

| Issue | Average Interest Rate | Balance January 1, 2005 | Additions | Reductions | Balance December 31, 2005 | Due Within One Year |
|-----------------------------------|-----------------------|-------------------------|-------------|---------------------|---------------------------|---------------------|
| Series 1996 | 5.24 | \$ 6,710,000 | \$ — | \$ 3,275,000 | \$ 3,435,000 | \$ 3,435,000 |
| Series 1998 | 4.61 | 10,630,000 | — | 1,345,000 | 9,285,000 | 1,405,000 |
| Series 1998R | 4.17 | 28,210,000 | — | 155,000 | 28,055,000 | 160,000 |
| Series 2001 | 4.73 | 17,025,000 | — | 1,075,000 | 15,950,000 | 1,115,000 |
| Series 2002R | 3.75 | 17,215,000 | — | 140,000 | 17,075,000 | 145,000 |
| Series 2004 | 2.96 | 67,235,000 | — | 1,245,000 | 65,990,000 | 1,670,000 |
| SIB Loan | 4.25 | 5,504,011 | — | 452,196 | 5,051,815 | 471,619 |
| Total Bond and Note | | 152,529,011 | — | 7,687,196 | 144,841,815 | \$ 8,401,619 |
| Deferred Refunding Premium | | (4,727,532) | — | (1,251,728) | (3,475,804) | |
| | | 4,333,293 | — | 302,452 | 4,030,841 | |
| Long-term Bonds & Debt | | \$ 152,134,772 | \$ — | \$ 6,737,920 | \$ 145,396,852 | |

Bonds and loans payable at December 31, 2004 consist of the following:

| Issue | Average Interest Rate | Balance January 1, 2004 | Additions | Reductions | Balance December 31, 2004 | Due Within One Year |
|-----------------------------------|-----------------------|-------------------------|----------------------|----------------------|---------------------------|---------------------|
| Series 1996 | 5.24 | \$ 13,440,000 | \$ — | \$ 6,730,000 | \$ 6,710,000 | \$ 3,275,000 |
| Series 1998 | 4.61 | 27,225,000 | — | 16,595,000 | 10,630,000 | 1,345,000 |
| Series 1998R | 4.17 | 28,360,000 | — | 150,000 | 28,210,000 | 155,000 |
| Series 2001 | 4.73 | 27,950,000 | — | 10,925,000 | 17,025,000 | 1,075,000 |
| Series 2002R | 3.75 | 17,350,000 | — | 135,000 | 17,215,000 | 140,000 |
| Series 2004 | 2.96 | — | 67,235,000 | — | 67,235,000 | 1,245,000 |
| SIB Loan | 4.25 | 5,937,583 | — | 433,572 | 5,504,011 | 452,196 |
| Total Bond and Note | | 120,262,583 | 67,235,000 | 34,968,572 | 152,529,011 | \$ 7,687,196 |
| Deferred Refunding Premium | | (1,770,520) | (3,383,520) | (426,508) | (4,727,532) | |
| | | 744,638 | 3,705,816 | 117,161 | 4,333,293 | |
| Long-term Bonds & Debt | | \$ 119,236,701 | \$ 67,557,296 | \$ 34,659,225 | \$ 152,134,772 | |

Certain bonds maturing after December 31, 2006 are subject to optional redemption by the Authority prior to maturity.

During 1996, the Authority issued general obligation capital improvement bonds, Series 1996. The principal of the bonds was used to redeem the Authority's \$70 million short-term Capital Improvement Bond Anticipation Notes. In 2002, \$16,470,000 of the 2002 bond issue was used for the refunding of these bonds.

On November 15, 1998, the Authority issued \$28,965,000 of general obligation capital improvement refunding bonds. A portion of the proceeds of the bonds was used for the advance refunding of \$26,425,000 of the 1996 capital improvement bonds. The proceeds were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments of the refunded debt. The principal balance of the general obligation capital improvement refunding bonds at December 31, 2005 was \$28,055,000.

GREATER CLEVELAND REGIONAL TRANSIT AUTHORITY
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The 1998 general obligation capital improvement refunding bonds advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$2,288,000. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations in proportion to stated interest requirements through the year 2006.

In 1998, the Authority entered into a loan agreement with the State of Ohio, Department of Transportation for a State Infrastructure Bank (SIB) loan in an amount not to exceed \$6,945,000 to be repaid over a fifteen-year period at an annual rate of 4.25%. Through December 31, 2005, the Authority had borrowed \$6,945,000 under this loan agreement to finance the rehabilitation for the Cuyahoga River Viaduct Project.

On December 1, 2001, the Authority issued \$29,890,000 of general obligation capital improvement bonds. The bonds bear interest at rates ranging from 2.50% to 5.63%, per annum, and mature in various installments through December 1, 2021. The principal balance of the capital improvement bonds at December 31, 2005 was \$15,950,000.

On June 6, 2002, the Authority issued \$17,540,000 of general obligation capital improvement refunding bonds bearing interest at an average rate of 3.75% and payable through 2011. A portion of the proceeds of the bonds was used for the advance refunding of \$16,470,000 of the 1996 capital improvement bonds. The proceeds were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments of the refunded debt. The 2002 general obligation capital improvement refunding bonds advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$1,070,000. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations in proportion to stated interest requirements through the year 2006.

In 2002, the Authority advance refunded the Series 1996 bonds to reduce its total debt service payments over the next nine years by approximately \$462,000 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$396,000.

On November 16, 2004 the Authority issued \$67,235,000 of general obligation capital improvement and refunding bonds. Of the \$67,235,000, \$38,000,000 was issued to finance current and future capital improvement projects and the remainder for the advance refunding of previous issues. The bonds bear interest at rates ranging from 2.0% to 5.0% per annum, and mature in various installments through December 1, 2024. Proceeds of \$32,178,171 were placed in an escrow trust fund for the purpose of generating resources for future debt services payments of the refunded debt.

In 2004, the Authority advance refunded the Series 1996, 1998 and 2001 bonds to reduce its total debt service payments over the next 13 years by approximately \$1,052,747, and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$1,057,912.

In prior years, the Authority defeased general obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust assets and the liability for the defeased bonds are not included in the Authority's financial statements. As of December 31, 2005, a total of \$71,690,000 of defeased debt remained outstanding from advance refundings entered into by the Authority.

GREATER CLEVELAND REGIONAL TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
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The annual requirements to pay principal and interest on the bonds and loan outstanding at December 31, 2005 are as follows:

| Year | Principal | Interest |
|--------------|------------------------------|-----------------------------|
| 2006 | \$ 8,401,619 | \$ 6,352,986 |
| 2007 | 8,741,876 | 5,972,475 |
| 2008 | 8,968,002 | 5,713,038 |
| 2009 | 9,320,037 | 5,363,546 |
| 2010 | 9,678,017 | 5,010,613 |
| 2011 - 2015 | 54,272,264 | 18,727,752 |
| 2016 - 2020 | 33,110,000 | 7,228,550 |
| 2021 - 2024 | 12,350,000 | 1,404,875 |
| Total | \$ <u>144,841,815</u> | \$ <u>55,773,835</u> |

6. PURCHASED TRANSPORTATION SERVICES

During the first quarter, the Authority had operating agreements with two Ohio cities that provide transit services within Cuyahoga County. The agreements provide for a fixed rate of reimbursement on actual vehicle miles and standard operator platform hours. Expenses under these agreements were \$3,165,615 and \$7,534,794 in 2005 and 2004, respectively. All passenger fares related to these transit services are collected by the Authority and recorded as revenue.

In March 2005, The Greater Cleveland Regional Transit Authority entered into separate Mass Transit System Transfer Agreements with The City of Maple Heights and The City of North Olmsted. The Authority determined that it was in the best interest of the Authority and the residents of Cuyahoga County to merge the transit systems. The terms of the merger require payments of \$504,000 to The City of Maple Heights and \$750,000 to The City of North Olmsted in three yearly installment ending in 2007.

In addition, the Authority has a contract with a local taxi company to provide transit services within Cuyahoga County for elderly and handicapped persons. Expenses under this contract amounted to \$3,137,011 and \$3,573,213 in 2005 and 2004, respectively.

GREATER CLEVELAND REGIONAL TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004

7. GRANTS, REIMBURSEMENTS, AND SPECIAL FARE ASSISTANCE

Grants, reimbursements, and special fare assistance are included in the non-operating revenues (expenses) and the capital grant revenue categories on the Statement of Revenues, Expenses and Changes in Net Assets for the years ended, December 31, 2005 and 2004 as follows:

| | 2005 | 2004 |
|-------------------------------------|----------------------|----------------------|
| FEDERAL: | | |
| FTA Capital Grants | \$ 41,046,124 | \$ 28,913,056 |
| FTA Maintenance Assistance | 20,436,200 | 20,000,000 |
| FTA Operating Grants | 365,354 | 405,770 |
| Total | \$ <u>61,847,678</u> | \$ <u>49,318,826</u> |
| STATE: | | |
| ODOT Capital Grants | \$ 4,586,667 | \$ 4,307,717 |
| ODOT Fuel Tax Reimbursement | 1,421,109 | 1,313,948 |
| ODOT Elderly and Handicapped Grants | 1,750,852 | 663,541 |
| ODOT Operating Grants | 784,460 | 1,020,578 |
| Total | \$ <u>8,543,088</u> | \$ <u>7,305,784</u> |
| LOCAL: | | |
| Capital Grants | \$ 3,000,000 | \$ 2,000,000 |
| Operating Grants | 666,585 | 400,000 |
| Total | \$ <u>3,666,585</u> | \$ <u>2,400,000</u> |

8. CONTINGENCIES

Federal and State Grants – Under the terms of the various grants, periodic audits are required where certain costs could be questioned as not being an eligible expenditure under the terms of the grant. At December 31, 2005, there were no questioned costs that had not been resolved with the applicable federal and state agencies. Questioned costs could still be identified during audits to be conducted in the future.

Contract Disputes and Legal Proceedings – The Authority has been named as a defendant in a number of contract disputes and other legal proceedings. Although the eventual outcome of these matters cannot be predicted, it is the opinion of management that the ultimate liability is not expected to have a material effect on the Authority's financial position.

GREATER CLEVELAND REGIONAL TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
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9. RETIREMENT BENEFITS

Public Employees Retirement System of Ohio

Plan Description – All full-time employees of the Authority participate in the Ohio Public Employees Retirement System of Ohio (OPERS). OPERS is a cost-sharing multiple-employer defined benefit pension plan created by the State. OPERS provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Chapter 145 of the Ohio Revised Code assigns the authority to establish and amend benefits to the OPERS Board of Trustees. OPERS issues a stand-alone financial report. A copy of the report may be obtained by making a written request to the Ohio Public Employees Retirement System of Ohio, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling (614) 222-6701.

Funding Policy – The Ohio Revised Code provides statutory authority for employee and employer contributions which are summarized as follows:

| | Contribution Rate as a % of Covered Salaries | Contributions | | |
|--------------------------------|---|----------------------|----------------------|----------------------|
| | | 2005 | 2004 | 2003 |
| By statutory authority | 13.55 – 16.70 | \$ 17,770,474 | \$ 16,515,404 | \$ 16,610,320 |
| Less healthcare portion | 4.00 | (5,204,668) | (4,836,014) | (6,129,269) |
| Required employer contribution | | 12,565,806 | 11,679,390 | 10,481,051 |
| By employees | 8.50 – 10.1 | <u>11,130,858</u> | <u>10,344,291</u> | <u>10,419,758</u> |
| Total pension contributions | | \$ <u>23,696,664</u> | \$ <u>22,023,681</u> | \$ <u>20,900,809</u> |

The pension contributions equaled the required contributions for each of the last three years.

Healthcare – OPERS provides post-retirement healthcare coverage to age and service retirees with 10 or more years of qualifying Ohio service credit. Healthcare coverage for disability recipients and primary survivor recipients are also available.

The healthcare coverage provided by the retirement system is considered an Other Post-Employment Benefit (OPEB) as described in GASB Statement No. 12.

A portion of each employer's contribution to OPERS (4.0% of the total 16.70% for law enforcement employees and 4.0% of the total 13.55% for other employees was contributed in 2005) is set aside for the funding of postretirement healthcare. The Ohio Revised Code provides the statutory authority requiring public employers to fund pension and post-retirement healthcare through their contributions to OPERS. The statutory healthcare contribution requirement from the GCRTA for the years ended December 31, 2005 and 2004 (which is included in the GCRTA's total OPERS contribution) was \$5,204,668 and \$4,836,014, respectively. At December 31, 2005, the GCRTA was not responsible for paying premiums, contributions, or claims for OPEB under OPERS for any retirees, terminated employees, or other beneficiaries.

GREATER CLEVELAND REGIONAL TRANSIT AUTHORITY
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The OPEB is advance-funded on an actuarially determined basis through employer contributions and investment earnings thereon. The principal assumptions used for the 2003 actuarial computations (latest available) were as follows:

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

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

Investment Return – The investment assumption rate was 8.00%.

Active Employee Total Payroll – An annual increase of 4.00% 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 4.00% base increase, were assumed to range from 0.50% to 6.3%.

Health Care – Health care costs were assumed to increase 4.00%.

At December 31, 2005, there were 355,287 active participants contributing to the plan. The GCRTA's actuarially required OPEB contribution for 2005 equaled the actual amount contributed to OPERS by the GCRTA. In addition, at December 31, 2004, the actual value of the plan's net assets available for OPEB approximated \$10.8 billion and the actuarial accrued liability, based on the actuarial method used, was \$29.5 billion and \$18.7 billion, respectively.

The contributions allocated to retiree health care, along with investment income on allocated assets and periodic adjustments in health care provisions, are expected to be sufficient to sustain the program indefinitely.

Supplemental Retirement Benefit Plan – GCRTA pays supplemental retirement benefits to various classifications of individuals under several different arrangements. This plan is not governed under ERISA (Employee Retirement Income Security Act of 1974). There were 1,096 participants and benefit payments of \$98,389 in 2005 and 1,056 participants and benefit payments of \$98,734 in 2004.

As of December 31, 2005 and 2004, the Supplemental Pension Fund liability was determined to be \$957,609 based on the 2004 actuarial study.

10. RISK MANAGEMENT

The Authority is exposed to various risks of loss related to third-party liability claims; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Authority has a contract with an outside insurance company to provide all-risk property coverage with various limits on property and equipment of the Authority. The maximum limit of liability in any one occurrence, regardless of the number of locations or coverages involved, cannot exceed \$500,000,000 and the deductible is \$250,000. The Authority also purchases excess liability insurance to protect its assets against severe losses. This umbrella liability coverage is in the amount of \$75,000,000 per accident in excess of a \$5,000,000 self-insured retention. The Authority is self-insured for third-party or public liability and property damage, but has protection for the catastrophic loss exposure. Settled claims have not exceeded coverage in any of the last three years.

The Authority provides employees healthcare benefits, which include medical, drug, dental, and vision. These benefits are provided through both insured and self-funded plans under group agreements.

GREATER CLEVELAND REGIONAL TRANSIT AUTHORITY
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The Authority also operates a self-insurance program for workers' compensation claims. Excess workers' compensation insurance coverage protects the Authority in excess of a self-insured retention of \$300,000 in year one and declining thereafter. The GCRTA, by resolution of the Board of Trustees, established an insurance fund in fiscal year 1980 to accumulate monies to satisfy catastrophic or extraordinary losses. The insurance fund as of December 31, 2005 and 2004 was \$6.0 million, respectively, and is recorded in the accompanying balance sheets.

Changes in the Authority's self insurance liabilities for third-party public liability, property damage, worker's compensation and medical claims are reflected in the table below. The medical claims in 2005, 2004 and 2003 were \$1,272,198, \$1,065,508 and \$825,493 respectively:

| | 2005 | 2004 | 2003 |
|----------------------------|----------------------|----------------------|----------------------|
| Balance, Beginning of Year | \$ 15,682,299 | \$ 16,283,493 | \$ 14,754,000 |
| Incurred Claims | 18,852,118 | 15,804,898 | 18,302,745 |
| Payments | (18,941,871) | (16,406,092) | (16,773,252) |
| Balance, End of Year | <u>\$ 15,592,546</u> | <u>\$ 15,682,299</u> | <u>\$ 16,283,493</u> |

11. SUBSEQUENT EVENT

On March 16, 2006, the Authority issued \$38,490,000 of general obligation capital improvement refunding bonds bearing interest at an average rate of 4.39 percent and payable through 2025. A portion of the proceeds of the bonds will be used for the advance refunding of \$4,890,000 of the 1998 capital improvement bonds and \$8,560,000 of the 2001 capital improvement bonds.