

2006

FINANCIAL SECTION

BASIC FINANCIAL STATEMENTS AND NOTES

COMPREHENSIVE ANNUAL FINANCIAL REPORT



KPMG LLP
Suite 2600
One Cleveland Center
1375 East Ninth Street
Cleveland, OH 44114-1796

Independent Auditors' Report

The Board of Directors
Greater Cleveland Regional Transit Authority
and
The Honorable Mary Taylor, CPA, 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, 2006 and 2005, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit 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, 2006 and 2005, and the changes in its financial position and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 19, 2007 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.

The management discussion and analysis on pages 22 through 34 and the statistical section on pages 55 through 70 are not a required part of the basic financial statements of the Authority, but is supplementary information required by U.S. generally accepted accounting principles. 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 this information and express no opinion on it.

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 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The introductory section has 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 19, 2007

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, 2006 and 2005. 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 \$23.2 million, or 4.1%, increase in 2006 compared to 2005 and a \$8.0 million, or 1.5%, increase in 2005 compared to 2004.
- Current assets decreased by \$0.9 million or 0.1% in 2006 compared to 2005. Current assets increased by \$5.4 million or 7.1% in 2005 compared to 2004.
- Current liabilities decreased by \$1.3 million, or 2.1%, for 2006 compared to 2005. Current liabilities increased by \$7.2 million, or 13.2%, in 2005 compared to 2004.
- The Authority's non-current liabilities increased by \$15.2 million or 9.4% in 2006 compared to 2005. Non-current liabilities decreased by \$8.3 million or 4.9% in 2005 compared to 2004.

Basic Financial Statements and Presentation

The financial statements presented by the Authority are the comparative Balance Sheets; the comparative Statements of Revenues, Expenses and 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>2006</u>	<u>2005</u>	<u>2004</u>
Assets:			
Current assets	\$ 81.5	\$ 81.6	\$ 76.2
Other noncurrent assets	35.9	25.5	45.8
Capital assets (net of accumulated depreciation)	<u>702.5</u>	<u>675.7</u>	<u>653.8</u>
Total assets	<u>\$ 819.9</u>	<u>782.8</u>	<u>775.8</u>
Liabilities:			
Current liabilities	\$ 59.5	61.6	54.4
Noncurrent liabilities	<u>176.6</u>	<u>160.6</u>	<u>168.8</u>
Total liabilities	<u>236.1</u>	<u>222.2</u>	<u>223.2</u>
Net assets:			
Invested in capital assets, net of related debt	558.4	538.2	532.4
Restricted	2.1	1.5	1.4
Unrestricted	<u>23.3</u>	<u>20.9</u>	<u>18.8</u>
Total net assets	<u>583.8</u>	<u>560.6</u>	<u>552.6</u>
Total liabilities and net assets	<u>\$ 819.9</u>	<u>\$ 782.8</u>	<u>\$ 775.8</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 2006, major construction projects aggregating \$16.8 million were completed and transferred to the appropriate property and facilities account. Major projects include the Light Rail Overhaul of \$8.4 million, the Eagle Avenue Substation and Building addition of \$2.7 million, Parma Town Transit Center of \$1.4 million, the Transit Police Headquarters of \$1.0 million, the Puritas Platform Replacement project of \$0.8 million and several smaller projects with a combined total of \$2.5 million.

Included in the December 31, 2006 construction in progress balance are costs associated with the Kingsbury Tunnels Project, LRV Overhaul Project, costs associated with the Euclid Corridor Project, West 117th Street Station Project, the Shaker Heights Traffic Signal Integration Project, and the Shaker Square Station Rehabilitation Project, along with various other projects.

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, the Euclid Corridor Project, Kingsbury Tunnel Project, the Eagle Ave. Substation and Building 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 basic financial statements.

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

Description

	December 31,		
	<u>2006</u>	<u>2005</u>	<u>2004</u>
Operating revenues:			
Passenger fares	\$ 40.9	\$ 38.6	\$ 37.6
Advertising and concessions	1.5	1.6	1.5
Total operating revenues	<u>42.4</u>	<u>40.2</u>	<u>39.1</u>
Operating expenses, excluding depreciation			
Labor and fringe benefits	(166.0)	(161.1)	(155.4)
Materials and supplies	(29.2)	(29.7)	(23.1)
Services	(9.3)	(10.6)	(9.7)
Utilities	(10.9)	(9.6)	(8.6)
Casualty and liability	(6.3)	(7.3)	(6.2)
Purchased transportation	(2.9)	(6.3)	(11.1)
Leases and rentals	(0.3)	(0.5)	(0.6)
Taxes	(1.9)	(2.0)	(1.5)
Miscellaneous	(2.0)	(4.4)	(3.9)
Total operating expenses before depreciation	<u>(228.8)</u>	<u>(231.5)</u>	<u>(220.1)</u>
Depreciation expense	(43.2)	(40.7)	(41.6)
Total operating expenses	<u>(272.0)</u>	<u>(272.2)</u>	<u>(261.7)</u>
Operating loss	(229.6)	(232.0)	(222.6)
Nonoperating revenues (expenses):			
Sales and use tax revenue	170.4	167.2	168.7
Federal operating grants and reimbursements	20.1	20.8	20.4
State/local operating grants and reimbursements	5.2	4.6	3.4
Investment income	2.8	1.5	0.4
Interest expense	(7.9)	(6.7)	(4.5)
Other income	3.4	4.0	1.9
Total nonoperating revenues	<u>194.0</u>	<u>191.4</u>	<u>190.3</u>
Net loss before capital grant revenue	(35.6)	(40.6)	(32.3)
Capital grant revenue	58.8	48.6	35.3
Increase in net assets during the year	23.2	8.0	3.0
Net assets, beginning of year	<u>560.6</u>	<u>552.6</u>	<u>549.6</u>
Net assets, end of year	<u>\$ 583.8</u>	<u>\$ 560.6</u>	<u>\$ 552.6</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 \$2.3 million or 6.0% compared with 2005 attributable to an increase in fares and increase in total ridership from 54.4 million in 2005 to 54.8 million in 2006. 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.

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 69.8% and for 70.2% of the Authority's revenue for 2006 and 2005 respectively. Revenue received from sales and use tax for 2006 increased \$3.2 million, or 1.9% compared to 2005. 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.

Federal Operating Grants and Reimbursements – The Authority received approximately \$20.1 million for 2006 and \$20.8 million in 2005 in preventive maintenance reimbursement funds to cover the costs of certain inventory purchases and maintenance costs incurred.

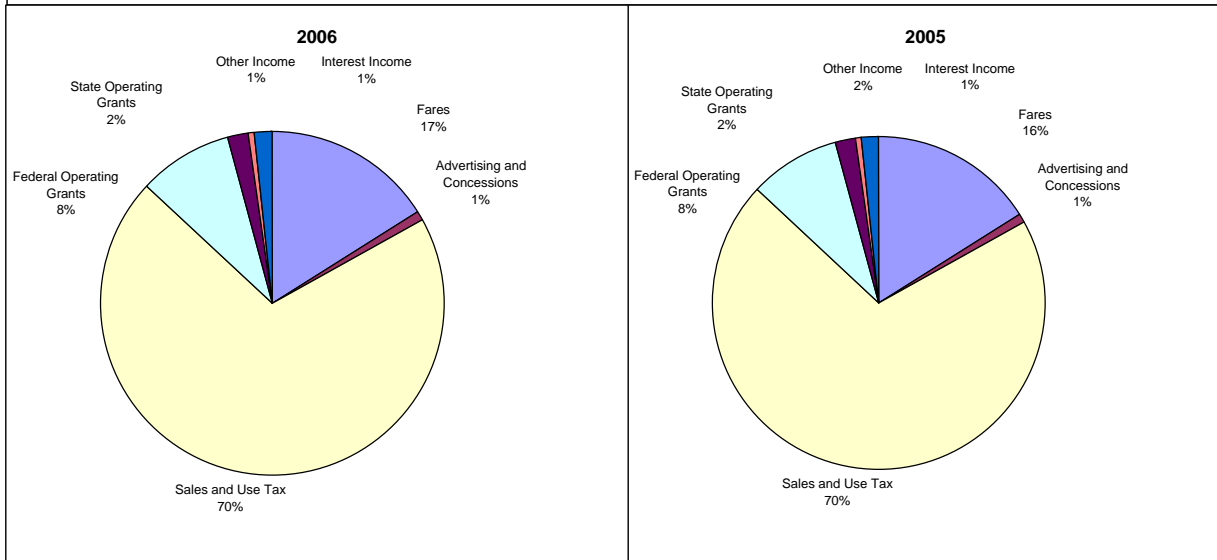
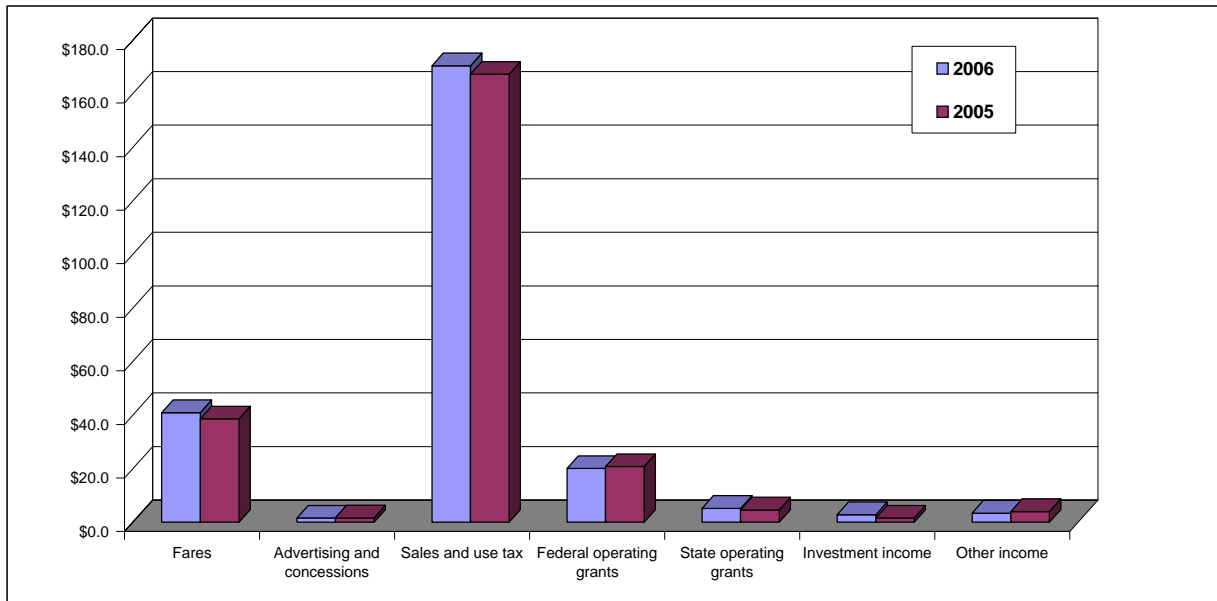
State/Local Operating Grants and Reimbursements – The Ohio Department of Transportation (ODOT) allocates grants for operating assistance and elderly and handicapped programs. This category also includes reimbursement for state fuel taxes paid by the Authority. The increases in this category of \$0.6 million or 13.0% and \$1.2 million or 35% for 2006 and 2005 respectively compared to the prior years were a direct result of receiving more funding at the State level.

Investment Income – Investment income increased of \$1.3 million or 86.7% in 2006 compared to 2005, which was a direct result of an increase in the average interest rate and a higher average investment balance. 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.

REVENUE

Millions of Dollars

	<u>2006</u>	<u>2005</u>	<u>Increase/(Decrease)</u>	
			<u>Amount</u>	<u>Percent</u>
Fares	\$40.9	\$38.6	\$2.3	6.0 %
Advertising and concessions	1.5	1.6	(0.1)	(6.3)
Sales and use tax	170.4	167.2	3.2	1.9
Federal operating grants	20.1	20.8	(0.7)	(3.4)
State operating grants	5.2	4.6	0.6	13.0
Investment income	2.8	1.5	1.3	86.7
Other income	3.4	4.0	(0.6)	(15.0)
Total	<u>\$244.3</u>	<u>\$238.3</u>	<u>\$6.0</u>	2.5 %



Expenses

Labor and Fringe Benefits: Due to an increase in the overall wage rate and the cost of providing health care benefits, these personnel related costs increased by \$4.9 million, or 3.0%, in 2006 compared to 2005, and by \$5.7 million, or 3.7%, in 2005 compared to 2004.

Materials and Supplies: These costs have decreased \$0.5 million or 1.7% in 2006 compared to 2005 due to the lower consumption of materials and supplies during 2006. 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.

Services: These costs decreased by \$1.3 million or 12.3% in 2006 over 2005 as a result of using less computer consulting services for the perpetual inventory system in 2006 as compared with 2005. Costs in this category 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.

Utilities: Utility costs for 2006 compared to 2005 and 2005 compared to 2004 increased by \$1.3 million and \$1.0 million, respectively, due to higher utility rates.

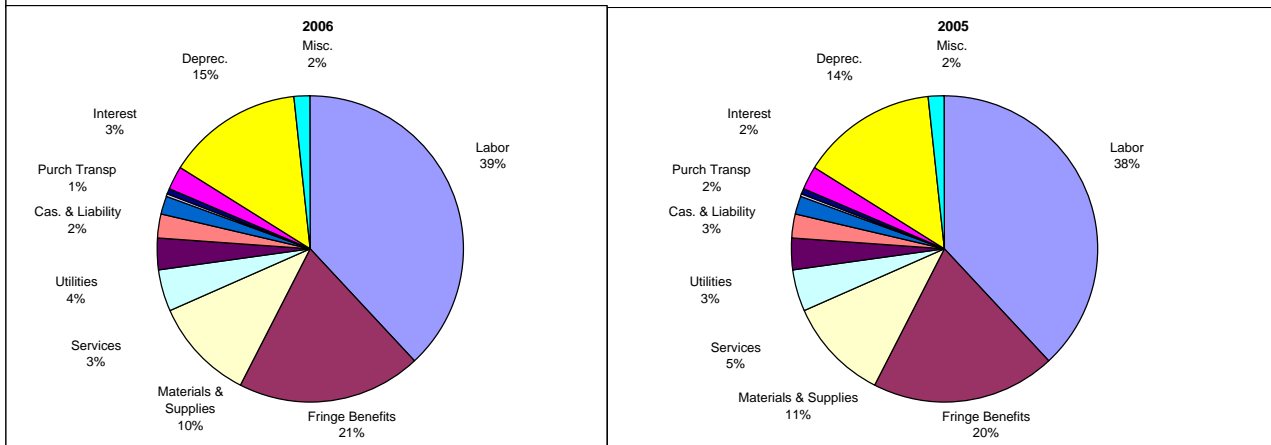
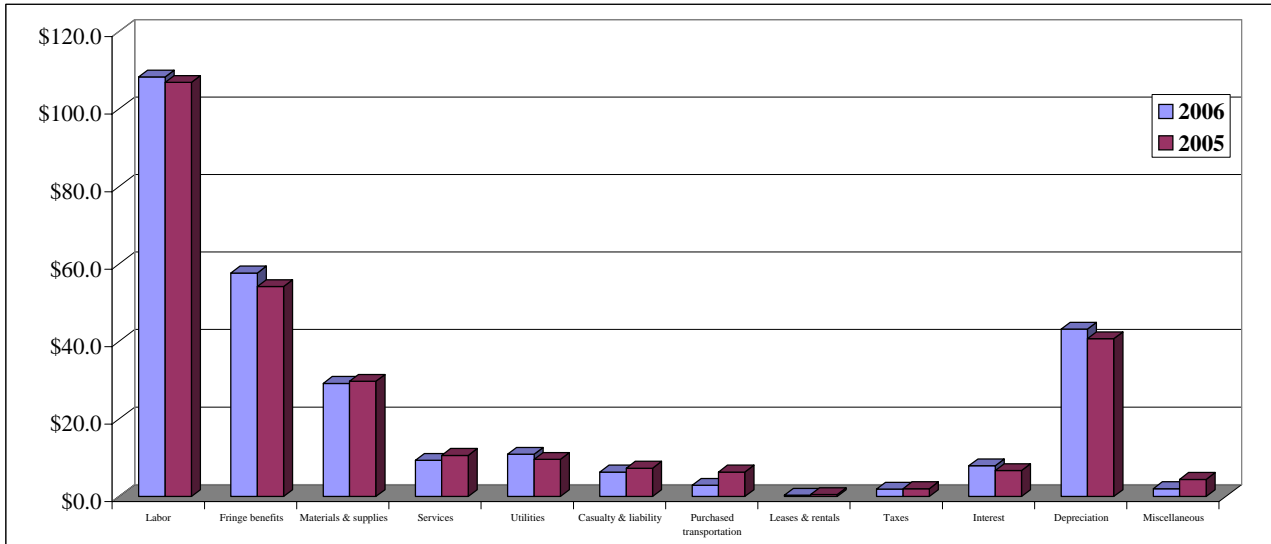
Casualty and Liability: The \$1.0 million decrease in these costs is due to lower than expected claims for 2006 as compared to 2005. The \$1.1 million increase in these costs is due to higher than expected claims for 2005 as compared to 2004. Casualty and liability claims are recorded based on actuarial studies performed in both 2006 and 2005.

Purchased Transportation: Costs in this category decreased for 2006 compared to 2005 by \$3.4 million or 54.0% and from 2005 compared to 2004 by \$4.8 million or 36.0% 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.

Expenses by Object Class

Millions of Dollars

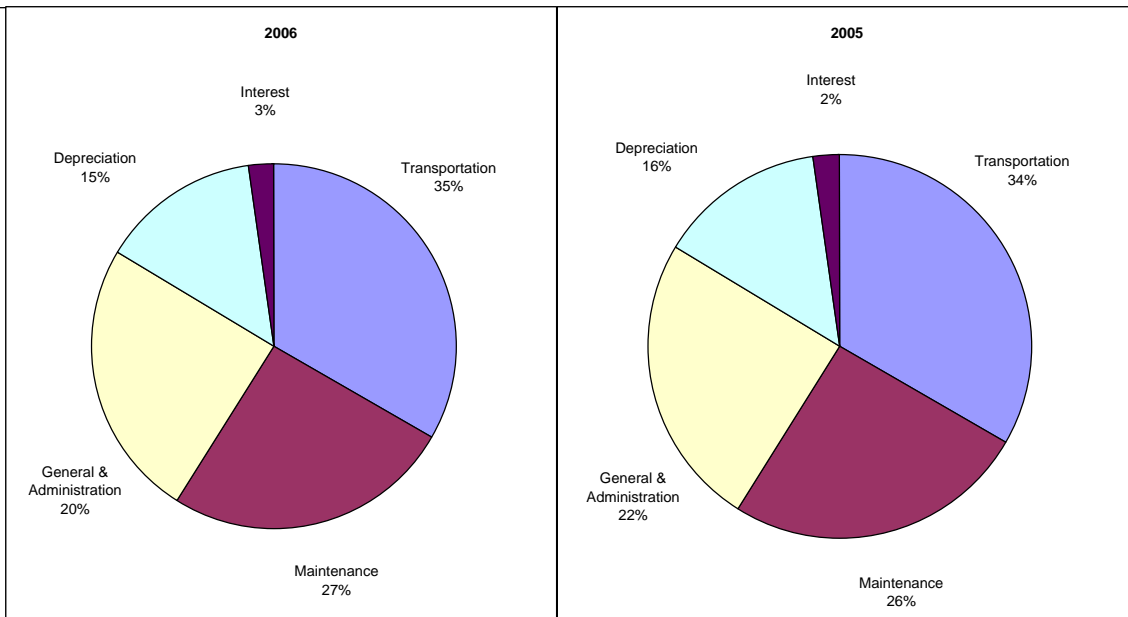
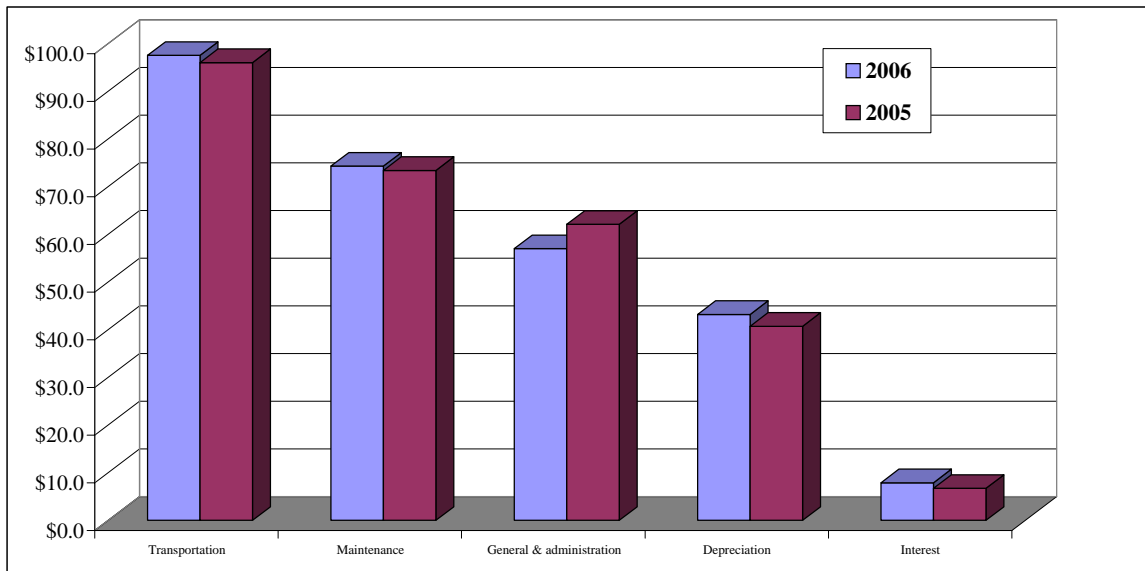
	<u>2006</u>	<u>2005</u>	<u>Increase/(Decrease)</u> <u>Amount</u>	<u>Percent</u>
Labor	\$108.3	\$106.9	\$1.4	1.3 %
Fringe benefits	57.7	54.2	3.5	6.5
Materials & supplies	29.2	29.7	(0.5)	(1.7)
Services	9.3	10.6	(1.3)	(12.3)
Utilities	10.9	9.6	1.3	13.5
Casualty & liability	6.3	7.3	(1.0)	(13.7)
Purchased transportation	2.9	6.3	(3.4)	(54.0)
Leases & rentals	0.3	0.5	(0.2)	(40.0)
Taxes	1.9	2.0	(0.1)	(5.0)
Interest	7.9	6.7	1.2	17.9
Depreciation	43.2	40.7	2.5	6.1
Miscellaneous	2.0	4.4	(2.4)	(54.5)
Total	\$279.9	\$278.9	\$1.0	0.4 %



Expenses by Function

Millions of Dollars

	<u>2006</u>	<u>2005</u>	<u>Increase/(Decrease)</u>	
			<u>Amount</u>	<u>Percent</u>
Transportation	\$97.5	\$96.0	\$1.5	1.6 %
Maintenance	74.3	73.4	0.9	1.2
General & administration	57.0	62.1	(5.1)	(8.2)
Depreciation	43.2	40.7	2.5	6.1
Interest	7.9	6.7	1.2	17.9
Total	<u>\$279.9</u>	<u>\$278.9</u>	<u>\$1.0</u>	<u>0.4 %</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 March 7, 2006 The Authority issued \$38,490,000 of general obligation capital improvement and refunding bonds. Of the \$38,490,000, \$25,000,000 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 3.94% to 5.00% per annum, and mature in various installments through December 1, 2025. Proceeds of \$14,146,326 were placed in an escrow trust fund for the purpose of generating resources for future debt services payments of the refunded debt.

In 2006, The Authority advance refunded the Series 1998 and 2001 bonds to reduce its total debt service payments over the next 15 years by approximately \$412,215, and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$413,877.

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 \$156.5 million of outstanding capital improvement bonds as of December 31, 2006 of which \$81.1 million is non-callable and \$75.4 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, 2006 include:

<u>Series</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Original Principal</u>	<u>December 31, 2006 Balance</u>	<u>Average Interest Rate</u>
<u>General Obligation Improvement Bonds</u>					
1998	03/01/98	12/01/2018	32,955,000	2,990,000	4.61%
2001	12/11/01	12/01/2021	29,890,000	6,275,000	4.73%
2004	11/16/04	12/01/2024	67,235,000	64,320,000	2.96%
2006	02/23/06	12/01/2025	38,490,000	38,090,000	4.25%
<u>General Improvement Refunding Bonds</u>					
1998R (11/15/98 annually thru 2016)				27,895,000	4.17%
Series 2002R (12/2002 annually thru 2011)				<u>16,930,000</u>	3.75%
Total General Obligation Bonds				156,500,000	
Other- State Infrastructure Bank Loans (annually thru 2014)				<u>4,580,196</u>	4.25%
Total Debt				\$161,080,196	
Deferred Refunding Premium				(2,804,495)	
				<u>4,882,554</u>	
Long-term Debt				<u>\$163,158,255</u>	

At December 31, 2006, the maximum annual debt service charges permitted under Ohio law for new debt issuance was \$16.5 million.

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.

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>					
1997	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><u>\$145,396,852</u></u>	

At December 31, 2005, the maximum annual debt service charges permitted under Ohio law for new debt issuance was \$15.9 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, 2006 and 2005

Assets	2006	2005
Current assets:		
Cash and cash equivalents	\$ 19,770,844	\$ 17,942,551
Short term investments	285,783	3,957,381
Receivables:		
Sales and use tax	44,547,537	42,686,262
Accrued interest and other	1,169,635	657,608
State capital assistance	1,850,401	3,008,865
Federal capital assistance	4,811,841	6,485,436
Material and supplies inventory	9,074,602	6,861,976
Total current assets	81,510,643	81,600,079
Noncurrent assets:		
Investments	13,538,719	15,345,605
Restricted for capital assets:		
Cash and cash equivalents	6,670,689	907,324
Investments	12,419,879	7,011,659
Restricted for debt service:		
Cash and cash equivalents	2,087,559	1,492,377
Other assets	1,212,790	718,173
Capital assets:		
Land	32,364,571	27,453,678
Infrastructure	54,339,324	54,315,824
Right of ways	251,668,113	251,539,935
Building, furniture and fixtures	429,802,541	421,230,219
Transportation and other equipment	389,576,768	373,103,437
Construction in progress	92,090,412	63,169,265
Total capital assets	1,249,841,729	1,190,812,358
Less accumulated depreciation	(547,373,270)	(515,096,598)
Capital assets – net	702,468,459	675,715,760
Total noncurrent assets and capital assets	738,398,095	701,190,898
Total assets	\$ 819,908,738	\$ 782,790,977
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	\$ 11,882,631	\$ 8,066,221
Contracts and other payables	10,528,001	14,876,810
Contract retainers	1,851,104	2,078,564
Accrued compensation	19,876,446	21,414,304
Interest payable – bonds	584,338	511,936
Current portion of long-term debt	9,606,876	8,401,619
Current portion – self-insurance liabilities	5,190,779	5,457,391
Total current liabilities	59,520,175	60,806,845
Noncurrent liabilities:		
Long-term debt	153,551,379	136,995,233
Self-insurance liabilities	9,640,019	10,135,155
Deferred revenue	12,433,241	12,877,408
Other long-term liabilities	1,004,957	1,375,609
Total noncurrent liabilities	176,629,596	161,383,405
Total liabilities	236,149,771	222,190,250
Net assets:		
Invested in capital assets, net of related debt	558,400,773	538,237,891
Restricted	2,087,559	1,492,377
Unrestricted	23,270,635	20,870,459
Total net assets	583,758,967	560,600,727
Total liabilities and net assets	\$ 819,908,738	\$ 782,790,977

See accompanying notes to financial statements.

GREATER CLEVELAND REGIONAL TRANSIT AUTHORITY

Statements of Revenues, Expenses, and Changes in Net Assets

Years ended December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Operating revenues:		
Passenger fares	\$ 40,924,290	\$ 38,569,225
Advertising and concessions	1,525,462	1,658,314
Total operating revenues	<u>42,449,752</u>	<u>40,227,539</u>
Operating expenses:		
Labor and fringe benefits	165,975,690	161,085,305
Materials and supplies	29,263,998	29,696,180
Services	9,284,994	10,643,665
Utilities	10,886,037	9,645,429
Casualty and liability	6,263,268	7,283,596
Purchased transportation	2,886,623	6,302,627
Leases and rentals	269,624	495,237
Taxes	1,937,271	1,978,606
Miscellaneous	2,077,748	4,435,796
Total operating expenses before depreciation	228,845,253	231,566,441
Depreciation expense	43,199,303	40,669,943
Total operating expenses	<u>272,044,556</u>	<u>272,236,384</u>
Operating loss	<u>(229,594,804)</u>	<u>(232,008,845)</u>
Nonoperating revenue (expenses):		
Sales and use tax revenue	170,476,647	167,127,247
Federal operating grants and reimbursements	20,081,322	20,801,554
State/local operating grants and reimbursements	5,180,464	4,623,006
Investment income	2,782,204	1,537,959
Interest expense	(7,883,257)	(6,698,423)
Other income	3,353,368	4,014,142
Total nonoperating income	193,990,748	191,405,485
Net loss before capital grant revenue	<u>(35,604,056)</u>	<u>(40,603,360)</u>
Capital grant revenue:		
Federal	53,470,621	41,046,124
State	4,750,941	4,586,667
Local	540,734	3,000,000
Total capital grant revenue	<u>58,762,296</u>	<u>48,632,791</u>
Increase in net assets	23,158,240	8,029,431
Net assets, beginning of year	<u>560,600,727</u>	<u>552,571,296</u>
Net assets, end of year	<u>\$ 583,758,967</u>	<u>\$ 560,600,727</u>

See accompanying notes to financial statements.

GREATER CLEVELAND REGIONAL TRANSIT AUTHORITY

Statements of Cash Flows

Years ended December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Cash flows from operating activities:		
Cash received from customers	\$ 41,937,725	\$ 41,402,842
Cash payments to suppliers for goods and services	(55,328,263)	(63,237,600)
Cash payments to employees for services	(109,912,065)	(105,438,817)
Cash payments for employee benefits	(57,601,483)	(54,209,140)
Cash payments for casualty and liability	(7,025,016)	(7,580,039)
Other receipts	2,549,512	3,210,286
Net cash used in operating activities	<u>(185,379,590)</u>	<u>(185,852,468)</u>
Cash flows from noncapital financing activities:		
Sales and use taxes received	168,615,372	168,997,359
Grants, reimbursements, and special fare assistance:		
Federal	20,081,322	20,801,554
State and local	5,180,464	4,623,006
Net cash provided by noncapital financing activities	<u>193,877,158</u>	<u>194,421,919</u>
Cash flows from capital and related financing activities:		
Federal capital grant revenue	55,144,216	36,328,632
State capital grant revenue	6,269,094	2,921,748
Local capital grant revenue	540,734	3,000,000
Acquisition and construction of capital assets	(74,337,546)	(55,571,613)
Proceeds from new debt	25,003,289	—
Principal paid on bond maturities and other debt	(8,801,619)	(7,687,196)
Interest paid on bonds and other debt	(6,981,365)	(6,869,525)
Net cash used in capital and related financing activities	<u>(3,163,197)</u>	<u>(27,877,954)</u>
Cash flows from investing activities:		
Proceeds from maturities of investments	26,078,061	22,009,725
Purchases of investments	(26,007,796)	(18,040,289)
Interest received from investments	2,782,204	1,537,959
Net cash provided by investing activities	<u>2,852,469</u>	<u>5,507,395</u>
Net increase (decrease) in cash and cash equivalents	8,186,840	(13,801,108)
Cash and cash equivalents, beginning of year	<u>20,342,252</u>	<u>34,143,360</u>
Cash and cash equivalents, end of year	\$ <u>28,529,092</u>	\$ <u>20,342,252</u>
Noncash investing and capital financing activities:		
Decrease in fair value of investments	\$ (156,336)	\$ (94,383)

See accompanying notes to financial statements.

GREATER CLEVELAND REGIONAL TRANSIT AUTHORITY

Statements of Cash Flows

Years ended December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ (229,594,804)	\$ (232,008,845)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	43,199,303	40,669,943
Amortization-other assets	44,900	37,800
Other revenue	2,549,512	3,210,286
Change in assets and liabilities:		
(Increase) decrease in other receivables	(512,027)	1,175,303
(Increase) decrease in materials and supplies inventory	(2,212,626)	265,556
Increase in accounts payable, accrued compensation, self-insurance liabilities and other	1,146,152	797,489
Net cash used in operating activities	<u>\$ (185,379,590)</u>	<u>\$ (185,852,468)</u>

See accompanying notes to financial statements.

GREATER CLEVELAND REGIONAL TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005

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 2006.

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 2006.

GREATER CLEVELAND REGIONAL TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005

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 U.S. generally accepted accounting principles (GAAP) for local governmental units as prescribed in the statements issued by the 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, 2006 AND 2005

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

Bond Premiums, Issuance Costs, and Deferred Amounts on Refundings – Bond premiums and issuance costs are deferred and amortized over the life of the bonds using the straight-line method. Deferred amounts on refundings are deferred and amortized on a straight-line basis over the shorter of the remaining life of the old debt or the life of the new debt.

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.

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.

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

Classifications of Revenues and Expenses – The Authority has classified its revenues and expenses as either operating or non-operating in the statements of revenues, expenses, and changes in net assets.

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.

Operating expenses include the costs of operating a mass transit system, administrative expenses, and depreciation on capital assets. All expenses not meeting this definition, including interest expense, are reported as non-operating expenses.

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 in the fiscal year in which all eligibility requirements have been satisfied.

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.

GREATER CLEVELAND REGIONAL TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005

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 revenue in the period in which all eligibility requirements have been satisfied.

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.

These programs are administered by the Authority. Claims and the related claims expense are accrued in the period the incidents of loss occur, 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 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 U.S. 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 for the periods beginning after June 15, 2005, the GASB issued Statement No. 46, *Net Assets Restricted by Enabling 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 or the judiciary can compel a government to honor. This statement did not have an impact on the Authority's financial statements.

In June 2006, GASB Statement No. 47, *Accounting for Termination Benefits*. This Statement establishes accounting guidance and disclosure requirements for termination benefit arrangements. This statement is effective in two parts. The provisions related to termination benefits other than "other post employment benefit plans" (OPEB) are effective for periods beginning after June 15, 2005. The Statement was implemented for the year ended December 31, 2006 and did not have an impact on the Authority's financial statements. The remaining provisions related to OPEB are effective at the time GASB Statement No. 45 *Accounting and Financial Reporting by Employers for Postemployment Benefits other than Pension*, is implemented.

New Accounting Pronouncements – The Governmental Accounting Standards Board (GASB) issued three new accounting pronouncements. Statement No. 45 *Accounting and Financial Reporting by Employers for Postemployment Benefits other than Pension* is effective for periods beginning after December 2006. Statement No. 48 *Sales and Pledges of Receivable and Intra-entity Transfers of Assets and Future Revenues*, is effective for periods beginning after December 2006. Statement No. 49 *Financial Reporting for Pollution Remediation Obligations*, is effective for periods beginning after December 2007. The Authority is currently evaluating the impact of adopting these statements.

Reclassifications – Certain prior year amounts have been reclassified to conform with the 2006 presentation.

GREATER CLEVELAND REGIONAL TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005

3. CASH, CASH EQUIVALENTS, AND INVESTMENTS

The following is a complete listing of deposits and investments held by the Authority at December 31, 2006:

	2006	2005
Demand deposits	\$ 28,346,292	\$ 20,159,302
Cash on hand	182,800	182,950
Investments	26,244,381	26,314,645
Total	\$ 54,773,473	\$ 46,656,897
Demand deposits – bank balance	\$ 36,515,897	\$ 27,346,829

The deposits and investments of the Authority at December 31, 2006 are reflected in the financial statements as follows:

	2006	2005
Current Assets:		
Cash and cash equivalents	\$ 19,770,844	\$ 17,942,551
Short term investments	285,783	3,957,381
Noncurrent Assets:		
Investments	13,538,719	15,345,605
Restricted Assets:		
Cash and cash equivalents	8,758,248	2,399,701
Investments	12,419,879	7,011,659
Total	\$ 54,773,473	\$ 46,656,897

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

GREATER CLEVELAND REGIONAL TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005

\$100,000 of the Authority's bank balance. The remaining balances of \$28,246,292 and \$20,059,302 as of December 31, 2006 and 2005, 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, 2006 and 2005, the Authority had no investments subject to custodial credit risk.

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, 2006, 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	\$ 26,007,797	18,063,766	7,944,031
STAR Ohio	236,584	236,584	—
Total investments	<u>\$ 26,244,381</u>	<u>18,300,350</u>	<u>7,944,031</u>

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>

GREATER CLEVELAND REGIONAL TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005

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, 2006, the credit quality ratings of the Authority's investments were as follows:

Investment	Fair value	Rating	Rating organization
U.S. government agency securities	\$ 26,007,797	AAA	S&P/Moody
STAR Ohio	<u>236,584</u>	Not rated	N/A
Total investments	<u>\$ 26,244,381</u>		

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	<u>246,727</u>	Not rated	N/A
Total investments	<u>\$ 26,561,372</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, 2006 these investments were 9%, 36% and 52%, respectively, and at December 31, 2005 these investments were 37%, 42.1% and 20%, respectively, of the Fund's total investments.

GREATER CLEVELAND REGIONAL TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005

4. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2006 was as follows:

	Balance January 1, 2006	Transfers/ Additions	CIP Transfers/ Disposals	Balance December 31, 2006
Capital Assets Not Being Depreciated:				
Land	\$ 27,453,678	\$ 4,910,893	\$ —	\$ 32,364,571
Construction in Progress	63,169,265	45,679,776	16,758,629	92,090,412
Total Capital Assets Not Being Depreciated	<u>90,622,943</u>	<u>50,590,669</u>	<u>16,758,629</u>	<u>124,454,983</u>
Capital Assets Being Depreciated:				
Infrastructure	54,315,824	23,500	—	54,339,324
Right of Ways	251,539,935	128,178	—	251,668,113
Building, Furniture & Fixtures	421,230,219	8,572,322	—	429,802,541
Transportation and Other Equipment	373,103,437	27,605,440	11,132,109	389,576,768
Total Capital Assets Being Depreciated	<u>1,100,189,415</u>	<u>36,329,440</u>	<u>11,132,109</u>	<u>1,125,386,746</u>
Less Accumulated Depreciation:				
Infrastructure	7,991,067	1,136,191	—	9,127,258
Right of Ways	117,220,191	6,216,348	—	123,436,539
Building, Furniture & Fixtures	159,164,513	13,299,315	—	172,463,828
Transportation and Other Equipment	230,720,827	22,547,450	10,922,632	242,345,645
Total Accumulated Depreciation	<u>515,096,598</u>	<u>43,199,304</u>	<u>10,922,632</u>	<u>547,373,270</u>
Total Capital Assets Being Depreciated, Net	<u>585,092,817</u>	<u>6,869,864</u>	<u>209,477</u>	<u>578,013,476</u>
Total Capital Assets, Net	<u>\$ 675,715,760</u>	<u>\$ 43,720,805</u>	<u>\$ 16,968,106</u>	<u>\$ 702,468,459</u>

Remaining costs to complete construction projects, as of December 31, 2006, which will extend over a period of several years, total \$113.8 million. Approximately \$110.9 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, 2006, capitalized interest was \$190,726.

GREATER CLEVELAND REGIONAL TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005

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	\$ 653,806,540	\$ 60,490,125	\$ 38,580,905	\$ 675,715,760

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

GREATER CLEVELAND REGIONAL TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005

5. BONDS AND LOANS PAYABLE

Bonds and loans payable at December 31, 2006 consist of the following:

Issue	Average Interest Rate	Balance January 1, 2006	Additions	Reductions	Balance December 31, 2006	Due Within One Year
Series 1996	5.24	\$ 3,435,000	\$ —	\$ 3,435,000	\$ —	\$ —
Series 1998	4.61	9,285,000	—	6,295,000	2,990,000	1,465,000
Series 1998R	4.17	28,055,000	—	160,000	27,895,000	165,000
Series 2001	4.73	15,950,000	—	9,675,000	6,275,000	1,155,000
Series 2002R	3.75	17,075,000	—	145,000	16,930,000	150,000
Series 2004	4.25	65,990,000	—	1,670,000	64,320,000	5,315,000
Series 2006	4.39	—	38,490,000	400,000	38,090,000	865,000
SIB Loan		5,051,815	—	471,619	4,580,196	491,876
Total Bond and Note		144,841,815	38,490,000	22,251,619	161,080,196	\$ 9,606,876
Deferred Refunding Premium		(3,475,804)	(696,326)	(1,367,635)	(2,804,495)	
		4,030,841	1,199,132	347,419	4,882,554	
Long-term Bonds & Debt		\$ 145,396,852	\$ 38,992,806	\$ 21,231,403	\$ 163,158,255	

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	

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, 2006 was \$27,895,000.

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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, 2006, 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, 2006 was \$6,275,000.

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 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.

On March 7, 2006 the Authority issued \$38,490,000 of general obligation capital improvement and refunding bonds. Of the \$38,490,000, \$25,000,000 was issued to finance current and future capital improvement projects and the remainder for the advance refunding of a portion of the Series 1998 and 2001 bonds. The issuance is expected to reduce the Authority's total debt service payments over the next 15 years by approximately \$412,215, and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$413,877. The bonds bear interest at rates ranging from 4.0% to 5.0% per annum, and mature in various installments through December 1, 2025. Proceeds of \$14,146,326 were placed in an escrow trust fund for the purpose of generating resources for future debt services payments of the refunded debt.

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, 2006, a total of \$40,705,000 of defeased debt remained outstanding from advance refundings entered into by the Authority.

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The annual requirements to pay principal and interest on the bonds and loan outstanding at December 31, 2006 are as follows:

Year	Principal	Interest
2007	\$ 9,606,876	\$ 7,012,057
2008	9,868,002	6,718,020
2009	10,255,037	6,332,529
2010	10,648,017	5,942,195
2011 - 2015	59,767,264	22,737,814
2016 - 2020	40,050,000	9,794,213
2021 - 2025	20,885,000	2,523,953
Total	\$ <u>161,080,196</u>	\$ <u>61,060,781</u>

6. PURCHASED TRANSPORTATION SERVICES

During the first quarter of 2005, 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 in 2005. All passenger fares related to these transit services were 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 \$2,886,623 and \$3,137,011 in 2006 and 2005, respectively.

GREATER CLEVELAND REGIONAL TRANSIT AUTHORITY
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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, 2006 and 2005 as follows:

	2006	2005
FEDERAL:		
FTA Capital Grants	\$ 53,470,621	\$ 41,046,124
FTA Maintenance Assistance	20,000,001	20,436,200
FTA Operating Grants	81,321	365,354
Total	\$ <u>73,551,943</u>	\$ <u>61,847,678</u>
STATE:		
ODOT Capital Grants	\$ 4,750,941	\$ 4,586,667
ODOT Fuel Tax Reimbursement	1,482,458	1,421,109
ODOT Elderly and Handicapped Grants	1,879,767	1,750,852
ODOT Operating Grants	916,413	784,460
Total	\$ <u>9,029,579</u>	\$ <u>8,543,088</u>
LOCAL:		
Capital Grants	\$ 540,734	\$ 3,000,000
Operating Grants	901,826	666,585
Total	\$ <u>1,442,560</u>	\$ <u>3,666,585</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, 2006, 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.

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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		
		2006	2005	2004
By statutory authority Less healthcare portion	13.70 – 16.93% 4.50	\$ 17,725,876 (5,773,210)	\$ 17,770,474 (5,204,668)	\$ 16,515,404 (4,836,014)
Required employer contribution By employees	9.0– 10.1	11,952,666 <u>11,597,387</u>	12,565,806 <u>11,130,858</u>	11,679,390 <u>10,344,291</u>
Total pension contributions		\$ <u>23,550,053</u>	\$ <u>23,696,664</u>	\$ <u>22,023,681</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 (4.5% of the total 16.93% for law enforcement employees and 4.5% of the total 13.70% for other employees was contributed in 2006) 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, 2006 and 2005 (which is included in the GCRTA's total OPERS contribution) was \$5,773,210 and \$5,204,668, respectively. At December 31, 2006, 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 – All investments are carried at market value. 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 annually, not to exceed a 12% corridor.

Investment Return – The investment assumption rate for 2005 was 6.50%.

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 at the projected wage inflation rate plus an additional factor ranging from 0.50% to 6% for the next 9 years. In subsequent years, (10 and beyond) health care costs were assumed to increase 4.00% (the projected wage inflation rate).

At December 31, 2006 and 2005, there were 369,214 and 355,287 active participants contributing to the plan. The GCRTA's actuarially required OPEB contribution for 2006 and 2005 equaled the actual amount contributed to OPERS by the GCRTA. In addition, at December 31, 2005, the actual value of the plan's net assets available for OPEB approximated \$11.1 billion and the actuarial accrued liability, based on the actuarial method used, was \$31.3 billion and \$20.2 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). In 2006 there were 1,222 participants in pay status and 2,210 active employees and benefit payments of \$94,797. In 2005 there were 1,096 participants in pay status and 2,193 active employees and benefit payments of \$98,389.

As of December 31, 2006 and 2005, the Supplemental Pension Fund liability was determined to be \$1,004,944 based on the 2006 actuarial study. The market value of associated assets totaled \$883,709 and \$839,387 as of December 31, 2006 and 2005, respectively.

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.

GREATER CLEVELAND REGIONAL TRANSIT AUTHORITY
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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.

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, 2006 and 2005 was \$5.2 and \$6.0 million, respectively, and is recorded in the accompanying balance sheets. The Authority expects to settle claims in the amount of \$5.2 million within one year of the date of the statement of net assets, which has been reflected as the current portion of the self-insurance liabilities.

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.

	2006	2005	2004
Balance, Beginning of Year	\$ 15,592,546	\$ 15,682,299	\$ 16,283,493
Incurred Claims	15,606,889	18,852,118	15,804,898
Payments	(16,368,637)	(18,941,871)	(16,406,092)
Balance, End of Year	<u>\$ 14,830,798</u>	<u>\$ 15,592,546</u>	<u>\$ 15,682,299</u>