

DENTON COUNTY TRANSPORTATION AUTHORITY

BASIC FINANCIAL STATEMENTS

AND

SUPPLEMENTARY INFORMATION

Fiscal Years Ended September 30, 2007 and 2006



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DENTON COUNTY TRANSPORTATION AUTHORITY

Introductory

Fiscal Year Ended September 30, 2007





Letter of Transmittal

February 28, 2008

Chairman and Members of the Board:

It is my pleasure to submit, for your acceptance, the Denton County Transportation Authority (“DCTA”) Annual Report for the fiscal year ended September 30, 2007. This document, prepared by the finance department, has been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) and audited in accordance with the generally accepted auditing standards by a firm of licensed certified public accountants.

This report consists of management’s representations concerning the finances of DCTA. Consequently, management assumes full responsibility for the completeness and reliability of the information presented in this report. To provide a reasonable basis for making these representations, management of DCTA has established internal controls that are designed to protect the assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the financial statements in conformity with GAAP. DCTA’s administrative policies and accounting procedures are continually reviewed, evaluated, and modified to meet the current needs of the entity. Management asserts, to the best of our knowledge and belief, that this financial report is complete and reliable in all material respects.

The fiscal year 2007 and 2006 financial statements were audited by Rylander, Clay & Opitz, LLP, a firm of licensed Certified Public Accountants. The goal of the independent audit is to provide reasonable assurance that the financial statements of DCTA for the fiscal years ended September 30, 2007 and 2006 are free of material misstatement. The independent audit involved 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; and evaluating the overall financial statement presentation. The independent auditor concluded, based on the audit, that there was a reasonable basis for rendering an unqualified opinion that the DCTA financial statements for the fiscal year ended September 30, 2007 are fairly presented in conformity with GAAP. The independent auditor’s report is presented as the first component of this report. DCTA received an unqualified opinion (page 1), the highest obtainable.

The financial statements are presented in three sections:

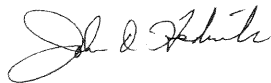
1. The introductory section contains a title page, this letter of transmittal, a listing of the Members of the Board of Directors, general information related to the organization.

2. The financial section consists of the independent auditor's report (page 1) on the financial statements followed by management's discussion and analysis (pages 2 to 7) serves as an audited executive summary of the financial statements, the Financial Statements (pages 8 to 10), and the Notes to the Financial Statements (pages 11 to 21) which provide various disclosures to ensure that a complete picture is presented in the financial statements.

3. The Supplemental Information (pages 22 to 30) provides the fiscal year 2007 original budget, final budget, and 2006 and 2005 actual financial data; Schedule of FTA Expenditures, related notes and auditors reports.

The preparation of this report could not have been accomplished without the efficient and dedicated services of the financial staff of DCTA. I express my appreciation to all staff members that assisted and contributed to the preparation of this report. Credit also must be given to the DCTA board for their support for maintaining the highest standards of professionalism in the governance of the Denton County Transportation Authority.

Sincerely,

A handwritten signature in cursive script, appearing to read "John O. Hedrick".

John O. Hedrick
President

FINANCIAL SECTION





INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of the
Denton County Transportation Authority

We have audited the accompanying basic financial statements of the Denton County Transportation Authority (the "Authority") as of and for the years ending September 30, 2007 and 2006. These basic 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of September 30, 2007 and 2006, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 19, 2008, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's discussion and analysis and the schedule of revenues and expenses – budget and actual for the year ended September 30, 2007, are not a required part of the basic financial statements, but are supplementary information the Governmental Accounting Standards Board requires. We applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion thereon.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and is also not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

Rylander, Clay + Opitz, L.L.P.

February 19, 2008

**Denton County Transportation Authority
Management's Discussion and Analysis
September 30, 2007 and 2006**

The management of the Denton County Transportation Authority ("DCTA") prepared this narrative overview and analysis of its financial activities for the fiscal years ended September 30, 2007 and 2006. This discussion and analysis is designed to provide an objective and easily readable analysis of DCTA financial activities based on currently known facts, decisions, or conditions. The information presented should be read in conjunction with the accompanying financial statements, notes thereto, and the additional information furnished in the letter of transmittal.

Financial Highlights

As of September 30, 2007 and 2006, total assets of DCTA exceeded total liabilities by \$32,602,621 and \$22,805,705 respectively. The amount of unrestricted net assets as of September 30, 2007 was \$25,352,863 compared to \$16,622,199 in 2006. Unrestricted net assets are the amount which may be used to meet DCTA's ongoing obligations in accordance with the fiscal policies.

Net assets increased \$9,796,916 during the current fiscal year compared to an increase of \$7,901,138 in the prior year. The increase in the current fiscal year net assets is a result of increased operating revenue, sales tax revenue, operating assistance grants, and investment income net of the increase in operating expenses.

Net capital assets were \$7,249,758 as of September 30, 2007 compared to \$6,183,506 as of September 30, 2006. The net capital asset increase of \$1,066,252 was primarily due to expenditures for five, thirty-two passenger buses for the Connect fixed route service at a cost of \$1,475,610; seven, sixteen-passenger buses for the Lewisville Connect fixed route service at a cost of \$484,236; five, nine-passenger buses for the Access paratransit service at a cost of \$316,253; and service vehicles and equipment at a cost of \$170,281 less depreciation amortization and asset retirements of \$1,380,128.

Overview of the Basic Financial Statements

This discussion and analysis is intended to serve as an introduction to DCTA's accompanying financial statements and notes. The basic financial statements consist of four components: 1) statement of net assets, 2) statement of revenues, expenses, and changes in net assets, 3) statement of cash flows, and 4) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

DCTA activities are accounted for in a single entity enterprise fund; therefore, government-wide financial statements are not presented. Enterprise funds are generally used to report business-



**Denton County Transportation Authority
Management's Discussion and Analysis
September 30, 2007 and 2006**

type activities of governmental entities. The financial statements are prepared on the accrual basis of accounting meaning that all expenses are recorded when incurred and all revenues are recognized when earned in accordance with accounting principles generally accepted in the United States of America. Certain statements in the report are, or will be, forward-looking statements. Forward-looking statements should not be read as a guarantee of future performance or results and are subject to risks and uncertainties that could cause actual performance or results to differ materially from those expressed in the statements.

Statement of Net Assets - The statement of net assets reports all of the financial and capital resources of DCTA. The statement is presented in the format where total assets equal total liabilities plus net assets. Assets and liabilities are presented in order of liquidity and are classified as current (convertible into cash within one year) and non-current. The focus of the statement of net assets is to show a picture of the liquidity and health of the organization as of the end of the reporting period. Changes in net assets may serve as an indication of whether the financial position of DCTA is improving or deteriorating.

Statement of Revenues, Expenses, and Changes in Net Assets - The statement of revenues, expenses, and changes in net assets is similar to an income statement. This statement includes operating revenues, such as bus passenger fares and contracts to provide transit related service to third parties; operating expenses, such as costs of operating the transit system, administrative expenses, and depreciation on capital assets; and non-operating revenue and expenses, such as sales tax revenue, grant revenue, and interest income. The focus of the statement of revenues, expenses, and changes in net assets is to present the change in net assets during the two most recent fiscal years. The increase or decrease in net assets will show the effect of DCTA's current year operations on its financial position.

Statement of Cash Flows - The statement of cash flows discloses net cash provided by or used for operating activities, non-capital financing activities, capital and related financing activities, and from investing activities. The statement of cash flows, related notes, and other financial statements can be used to assess DCTA's ability to provide adequate cash flow to support current operations and plans for future expansion.

The activities of DCTA are supported by a one-half percent sales and use tax collected in member cities, passenger fares, contract services, and federal grants.

Notes to Financial Statements - The notes to the financial statements are an integral part of the basic financial statements that describe the significant accounting policies and provide additional information that is essential to understanding the data provided in the financial statements.



**Denton County Transportation Authority
Management's Discussion and Analysis
September 30, 2007 and 2006**

Financial Analysis

Statement of Net Assets - As noted earlier, net assets may serve over time as an indicator of DCTA's financial position. Total assets exceeded total liabilities by \$32,602,621 and \$22,805,705 as of September 30, 2007 and 2006 respectively. The largest portion, 78% in 2007 and 73% in 2006, of the excess is in unrestricted net assets which represent assets with no external restriction as to use or purpose. The unrestricted net assets can be employed for any purpose designated by the governing board. Net assets of DCTA increased 24% or \$9,796,916 during the current fiscal year compared to an increase of 53% or \$7,901,138 in the prior year. The increase in the current fiscal year net assets is a result of increased operating revenue, sales tax revenue, operating assistance grants, and investment income net of the increase in operating expenses.

Condensed Statement of Net Assets

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Assets			
Current Assets	\$ 35,861,841	\$ 24,135,216	\$ 18,200,620
Capital Assets	7,249,758	6,183,506	2,264,339
Total Assets	<u>\$ 43,111,599</u>	<u>\$ 30,318,722</u>	<u>\$ 20,464,959</u>
Liabilities and Net Assets			
Current Liabilities	\$ 10,508,978	\$ 5,387,653	\$ 4,379,058
Non-current Liabilities	-	2,125,364	1,181,334
Total Liabilities	<u>10,508,978</u>	<u>7,513,017</u>	<u>5,560,392</u>
Net Assets			
Invested in Capital Assets	7,249,758	6,183,506	2,264,339
Unrestricted	25,352,863	16,622,199	12,640,228
Total Net Assets	<u>32,602,621</u>	<u>22,805,705</u>	<u>14,904,567</u>
Total Liabilities and Net Assets	<u>\$ 43,111,599</u>	<u>\$ 30,318,722</u>	<u>\$ 20,464,959</u>

Assets - During fiscal year 2007, DCTA total assets increased 42% or \$12,792,877 over 2006. The increase is primarily due to a \$16,887,317 increase in the DCTA cash and cash equivalents offset by a decrease of \$5,682,351 in investments.

Capital Assets, net of depreciation, increased 17% or \$1,066,252 due to the acquisition of five, thirty-two passenger buses at a cost of \$1,475,610; seven, sixteen-passenger buses at a cost of \$484,236; five, nine-passenger buses at a cost of \$316,253; and service vehicles and equipment at a cost of \$170,281 less depreciation amortization and asset retirements of \$1,380,128.



**Denton County Transportation Authority
Management's Discussion and Analysis
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Liabilities - Current liabilities increased 95% or \$5,121,325 primarily due to retainage held on contracts, operating activities, and transfer of long term to current liabilities related to Enhanced Local Assistance Program ("ELAP"). The DCTA current ratio, current assets of \$35,861,841 over current liabilities of \$10,508,978, was 3.4:1 as of September 30, 2007 compared to 4.5:1 as of September 30, 2006. DCTA has not formally restricted cash funds to pay current liabilities, but has adequate cash and investments to satisfy these obligations.

Non-current liabilities decreased \$2,125,364 in the current year due to the transfer of the accrual of ELAP funds payable to current liabilities. The ELAP liability represents the amount available to the participating member cities of Denton, Highland Village and Lewisville to provide financial assistance for local transportation projects that enhance mobility. The terms of the interlocal agreements with the member cities requires DCTA to apportion twenty-five percent of the first four years sales and use tax receipts to the member cities and to pay the amount due for approved projects. DCTA management anticipates the final ELAP payments to be made by April 30, 2008 to be between \$9.5 and \$10.0 million.

Statement of Revenues, Expenses, and Changes in Net Assets – During the 2007 fiscal year DCTA's activities resulted in an increase in net assets of \$9,796,916 compared to an increase of \$7,901,138 in 2006. The increase in the current fiscal year net assets is a result of increased operating revenue, sales tax revenue, federal grants, and investment income net of the increase in operating expenses. The changes in net assets for the fiscal years ended September 30, 2007 and 2006 with comparative information for 2005 are shown in the following table.



**Denton County Transportation Authority
Management's Discussion and Analysis
September 30, 2007 and 2006**

Statements of Revenues, Expenses and Changes in Net Assets

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Operating revenues			
Passenger revenue	\$ 382,141	\$ 199,627	\$ 198,391
Contract services	2,035,271	1,646,719	1,414,214
Total operating revenue	<u>2,417,412</u>	<u>1,846,346</u>	<u>1,612,605</u>
Operating expenses			
Salaries, wages, and fringe benefits	4,357,164	755,780	296,949
Services	3,450,595	2,361,773	1,160,717
Materials and supplies	1,404,956	73,340	22,585
Utilities	76,864	10,471	6,865
Casualty and liability insurance	388,924	135,434	2,552
Purchased transportation	-	4,075,845	3,707,829
Facility and equipment rents	319,076	194,116	74,717
Other	143,363	81,851	53,733
Depreciation	1,379,928	914,830	619,970
Total operating expenses	<u>11,520,870</u>	<u>8,603,440</u>	<u>5,945,917</u>
Operating loss	<u>(9,103,458)</u>	<u>(6,757,094)</u>	<u>(4,333,312)</u>
Non-operating revenues (expenses)			
Sales tax	15,530,585	14,796,379	13,685,028
Federal and state grants	5,932,486	2,808,151	2,339,832
Enhanced local assistance program	(3,882,646)	(3,699,095)	(3,421,257)
Investment income	1,320,149	752,797	303,992
Loss on disposal of assets	(200)	-	(2,456)
Total non-operating revenue	<u>18,900,374</u>	<u>14,658,232</u>	<u>12,905,139</u>
Change in net assets before capital contributions	9,796,916	7,901,138	8,571,827
Capital Contributions	-	-	371,317
Change in net assets	<u>9,796,916</u>	<u>7,901,138</u>	<u>8,943,144</u>
Net assets, beginning of year	<u>22,805,705</u>	<u>14,904,567</u>	<u>5,961,423</u>
Net assets, end of year	<u>\$ 32,602,621</u>	<u>\$ 22,805,705</u>	<u>\$ 14,904,567</u>



**Denton County Transportation Authority
Management's Discussion and Analysis
September 30, 2007 and 2006**

Operating Revenues

Passenger Revenue - The 2007 passenger revenues increased 91% or \$182,514 over the prior year. The increase is due to new passenger services provided by a full year service for the interim Commuter Express and the addition of Connect service in Lewisville. Commuter Express service is a motor coach service operating between Denton and Dallas, Texas on an interim basis until DCTA rail service is implemented. Connect service is a fixed route bus service operating in Denton and Lewisville, Texas.

Contract Service - The 2007 contract service revenues increased 24% or \$388,552 over the prior year. The increase is due to expansion of the University of North Texas ("UNT") contract services to provide bus service for students and faculty.

Operating Expenses

Operating Expense – The 2007 operating expenses increased 34% or \$2,917,430 over the prior year. The increased operating expense is primarily due to the addition of new services for Commuter Express service between Denton and Dallas, local Connect service in Lewisville, and new routes in Denton resulting in increased salary, wages and benefits for the bus operations and materials and supplies expense. The increases in these expenses were partially offset by the decrease in the purchased transportation expense. In addition, service expense increased in fiscal year 2007 for consulting cost and increased activity for the Environmental Impact Study ("EIS") as DCTA prepares to deliver regional rail in Denton County.

In fiscal year 2007, DCTA entered into a management contract with First Transit, Inc., an independent contractor, to manage the operation of the DCTA public bus system in Denton County. First Transit, Inc. provides a qualified and experienced general manager and home office support personnel to perform all services and functions necessary to ensure effective and efficient management and administration of the transit system including new and expanded services. In addition, DCTA combined the Lewisville and Denton operations at the Denton facility. DCTA provides the accounting services for operations and began reporting the 2007 bus operation expenses in the related expense categories.

In fiscal year 2006 DCTA contracted with McDonald Transit Associates, Inc. ("McDT"), under separate purchase of service operating agreements in Lewisville and Denton to provide bus services. McDT provided accounting services and employed the personnel required to operate the service and were reimbursed for operating costs plus a fixed fee under the contract. In addition, DCTA contracted with the City of Lewisville to provide maintenance service on the Lewisville fleet. DCTA incurred purchased transportation expense under this contract of \$4,075,845 for services in 2006. The McDT services were treated as a purchase of service contract and all operating expenses were reported in the purchased transportation service expense



**Denton County Transportation Authority
Management's Discussion and Analysis
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category. The change in management contract and accounting for the operations has created substantial variances between the fiscal year 2007 and 2006 operating expenses.

The 2007 depreciation expense increased 51% or \$465,098 over the prior year. This increase is due to the addition of new vehicles as DCTA continues to modernize bus fleet.

Non-operating Revenue and Expenses

Sales Tax Revenue - The 2007 sales tax revenue increased 5% or \$734,206 over 2006. DCTA collects one-half percent sales and use tax in the member cities of Denton, Highland Village, and Lewisville.

Federal and State Grant Revenue – The 2007 federal and state grant revenue increased 111% or \$3,124,335 over 2006. DCTA and the Federal Transit Administration completed the grant transfer process to transfer the open Section 5307 Urbanized Area Formula program grants from the cities of Denton and Lewisville to DCTA resulting in a one time increase in the grant revenue in fiscal year 2007. Grant revenue for fiscal year 2007 was \$5,932,486 and is projected to be approximately \$3,500,000 in 2008.

Enhanced Local Assistance Program Expense - The 2007 ELAP expense increased 5% or \$183,551 over 2006. ELAP expense is calculated at 25% of the sales tax revenue.

Investment Income – The 2007 investment income increased 75% or \$567,352 over 2006 due to an increase in the interest rate and investment balance.

Debt Administration

As of September 30, 2007, DCTA had not incurred any debt other than accounts payable and accrued expenses.

DCTA Fiscal Year 2007 Budget

During fiscal year 2007 the DCTA budget, adopted September 21, 2006 was amended to reflect a net increase in the change in net assets of \$1,458,982. The budgeted salary, wages and benefits were decreased \$124,043, services for consulting cost was reduced \$2,033,226 and \$109,043 was transferred from salary, wages, and benefits to insurance expense. The budgeted transit system operating assistance grant revenue budget was reduced \$589,244.



**Denton County Transportation Authority
Management's Discussion and Analysis
September 30, 2007 and 2006**

The operating budget for 2008 continues to recognize the importance of providing quality transportation services for Denton County residents and other customers. As fuel and energy costs continue increasing, DCTA will continue providing cost effective transportation alternatives to our customers, reducing congestion, improving air quality and the quality of life in Denton County.

**Comparative Condensed Statements of Revenues, Expenses and Changes in Net Assets
Budget Year Ending September 30, 2008 and Financial Year Ended 2006 and 2007**

	<u>2008 Budget</u>	<u>2007 Actual</u>	<u>2006 Actual</u>	<u>Increase (Decrease) from 2007</u>	<u>Percent Increase (Decrease)</u>
Operating Revenues	\$ 2,447,865	\$ 2,417,412	\$ 1,846,346	\$ 30,453	1%
Operating Expenses	10,059,606	11,520,870	8,603,440	(1,461,264)	-13%
Operating Loss	(7,611,741)	(9,103,458)	(6,757,094)	1,491,717	-16%
Non-Operating Revenues	19,205,605	18,900,374	14,658,232	305,231	2%
Change in Net Assets	11,593,864	9,796,916	7,901,138	1,796,948	18%
Net Assets, Beginning of Year	32,602,621	22,805,705	14,904,567	9,796,916	43%
Net Assets, End of Year	<u>\$ 44,196,485</u>	<u>\$ 32,602,621</u>	<u>\$ 22,805,705</u>	<u>\$ 11,593,864</u>	<u>36%</u>

DCTA Fiscal Year 2008 Budget

The DCTA adopted fiscal year 2008 budget for operating revenues shows an increase of 1% or \$30,453 over 2007 actual results. This increase is due to an anticipated increase in riders and services under the UNT contract to provide bus service for students, staff, and faculty.

The fiscal year 2008 operating expenses are projected to decrease 13% or \$1,461,264 over 2007 actual results. The decrease is primarily due to a reduction in the service expense as the consulting services for the EIS end in the first quarter of fiscal year 2008. Rail design and related expenditures for the regional rail project will be capitalized in 2008.

Non-operating revenue, net of expenses, is projected to increase 2% or \$305,031 over 2007 actual results. The increase in non-operating revenue is due to a budgeted increase of \$109,856 in sales tax revenue, less a decrease of \$2,397,884 in grant revenue, less a decrease of \$247,403 in investment income, plus a favorable reduction in the ELAP expense of \$2,840,462 as the program ends in the first quarter of 2008.



**Denton County Transportation Authority
Management's Discussion and Analysis
September 30, 2007 and 2006**

Requests for Information

The financial report is designed to provide the citizens of our member cities, customers and other interested parties with a general overview of DCTA finances. If you have any questions regarding this report or need any additional information, contact DCTA at 1660 S. Stemmons Freeway, Suite 250, Lewisville, Texas 75067, by phone at (972) 221-4600, or by electronic mail at info@dcta.net.



DENTON COUNTY TRANSPORTATION AUTHORITY

STATEMENTS OF NET ASSETS

September 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 24,077,791	\$ 7,190,474
Investments	8,099,289	13,781,640
Receivables	3,446,122	3,051,981
Prepaid expenses	238,639	111,121
	<u>35,861,841</u>	<u>24,135,216</u>
Total current assets		
Capital assets, net of accumulated depreciation	<u>7,249,758</u>	<u>6,183,506</u>
	<u>\$ 43,111,599</u>	<u>\$ 30,318,722</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	\$ 328,078	\$ 352,530
Accrued payroll and related payroll taxes	241,333	33,840
Other accrued liabilities	586,035	769,277
Enhanced Local Assistance Program - current	9,341,865	4,210,339
Deferred contract revenue	11,667	21,667
	<u>10,508,978</u>	<u>5,387,653</u>
Total current liabilities		
Non-current Liabilities		
Enhanced Local Assistance Program - non-current	<u>-</u>	<u>2,125,364</u>
	<u>-</u>	<u>2,125,364</u>
Total non-current liabilities		
Commitments and Contingencies - Note 8		
Net Assets		
Invested in capital assets	7,249,758	6,183,506
Unrestricted	<u>25,352,863</u>	<u>16,622,199</u>
	<u>32,602,621</u>	<u>22,805,705</u>
Total net assets		
Total liabilities and net assets	<u>\$ 43,111,599</u>	<u>\$ 30,318,722</u>

See notes to financial statements.



DENTON COUNTY TRANSPORTATION AUTHORITY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

Years Ended September 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Operating Revenues		
Passenger revenue	\$ 382,141	\$ 199,627
Contract services	2,033,900	1,644,794
Other	1,371	1,925
Total operating revenues	<u>2,417,412</u>	<u>1,846,346</u>
Operating Expenses		
Salaries, wages and fringe benefits	4,357,164	755,780
Services	3,450,595	2,361,773
Materials and supplies	1,404,956	73,340
Utilities	76,864	10,471
Insurance	388,924	135,434
Purchased transportation services	-	4,075,845
Facility and equipment rents	319,076	194,116
Other - miscellaneous	143,363	81,851
	<u>10,140,942</u>	<u>7,688,610</u>
Depreciation	1,379,928	914,830
Total operating expenses	<u>11,520,870</u>	<u>8,603,440</u>
Operating loss	<u>(9,103,458)</u>	<u>(6,757,094)</u>
Non-Operating Revenues (Expenses)		
Sales tax revenue	15,530,585	14,796,379
Transit system operating assistance grants	5,932,486	2,808,151
Enhanced local assistance	(3,882,646)	(3,699,095)
Investment income	1,320,149	752,797
Loss on disposal of assets	(200)	-
Total non-operating revenue	<u>18,900,374</u>	<u>14,658,232</u>
Change in net assets	9,796,916	7,901,138
Net assets, beginning of year	<u>22,805,705</u>	<u>14,904,567</u>
Net assets, end of year	<u><u>\$ 32,602,621</u></u>	<u><u>\$ 22,805,705</u></u>

See notes to financial statements.



DENTON COUNTY TRANSPORTATION AUTHORITY

STATEMENTS OF CASH FLOWS

Years Ended September 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Cash Flows from Operating Activities		
Receipts from customers and users	\$ 2,331,019	\$ 1,643,386
Payment to suppliers	(3,146,773)	(1,015,075)
Payments for EIS	(2,289,403)	(1,456,825)
Payments for purchased transportation	(339,194)	(3,904,436)
Payments to employees	(4,477,222)	(750,802)
	<u>(7,921,573)</u>	<u>(5,483,752)</u>
Net cash used by operating activities	(7,921,573)	(5,483,752)
Cash Flows from Non-capital Financing Activities		
Sales tax received	15,365,273	14,594,620
Enhanced Local Assistance	(876,484)	(2,075,533)
Operating grant reimbursements	5,783,068	2,638,436
	<u>20,271,857</u>	<u>15,157,523</u>
Net cash provided by non-capital financing activities	20,271,857	15,157,523
Cash Flows from Capital and Related Financing Activities		
Acquisition and construction of capital assets	(2,468,454)	(4,814,196)
	<u>(2,468,454)</u>	<u>(4,814,196)</u>
Net cash used by capital and related financing activities	(2,468,454)	(4,814,196)
Cash Flows from Investing Activities		
Interest received on investments	1,230,767	519,706
Purchase of investments	(7,475,280)	(14,351,287)
Proceeds from the sale of investments	13,250,000	13,975,000
	<u>7,005,487</u>	<u>143,419</u>
Net cash provided by investing activities	7,005,487	143,419
Net increase in cash and cash equivalents	16,887,317	5,002,994
Cash and cash equivalents, beginning of year	<u>7,190,474</u>	<u>2,187,480</u>
Cash and cash equivalents, end of year	<u>\$ 24,077,791</u>	<u>\$ 7,190,474</u>

See notes to financial statements.



DENTON COUNTY TRANSPORTATION AUTHORITY

STATEMENTS OF CASH FLOWS (Continued)

Years Ended September 30, 2007 and 2006

	2007	2006
Operating loss	\$ (9,103,458)	\$ (6,757,094)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation expense	1,379,928	914,830
Change in operating assets and liabilities		
Operating accounts receivable	(82,401)	97,455
Prepaid expenses	(127,518)	(49,662)
Operating accounts payable	(26,377)	(160,336)
Accrued payroll and payroll related taxes	207,495	24,058
Other accrued liabilities	(159,242)	446,997
Deferred revenue	(10,000)	-
Total adjustments	<u>1,181,885</u>	<u>1,273,342</u>
Net cash used by operating activities	<u>\$ (7,921,573)</u>	<u>\$ (5,483,752)</u>

See notes to financial statements.



DENTON COUNTY TRANSPORTATION AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Denton County Transportation Authority (“DCTA”) as reflected in the accompanying financial statements for the fiscal years ended September 30, 2007 and 2006, conform to accounting principles generally accepted in the United States of America (“GAAP”) for local governmental units, as prescribed by the Governmental Accounting Standards Board, and include applicable standards of the Financial Accounting Standards Board.

Financial Reporting Entity

The financial statements of DCTA include all governmental activities, organizations and functions as required by accounting principles generally accepted in the United States of America. DCTA does not have any component units and does not meet the requirements to be included as a component unit in other governmental entities. Accordingly DCTA does not have any related parties or related party transactions in the accompanying financial statements.

DCTA is a coordinated county transportation authority of the State of Texas, created pursuant to Chapter 460 of the Texas Transportation Code. This legislation requires that a Service Plan, an outline of the services that could be provided by an authority confirmed by the voters, be developed by the transit authority. A Service Plan was developed and the authority was confirmed by a public referendum held November 5, 2002. A second election was held in eight municipalities on September 13, 2003, for consideration and approval of a one-half percent sales and use tax. The sales and use tax and associated Service Plan passed in three cities, Denton, Highland Village and Lewisville. Collection of the sales tax began on January 1, 2004.

The Board of Directors which governs DCTA currently consists of 14 authorized positions. The Board is composed of:

1. One member appointed by the governing body of each municipality with a population of 17,000 or more located in Denton County;
2. Three members appointed by the Commissioner’s Court, two of whom must reside in the unincorporated area of Denton County;
3. Three members to be designated by the remaining municipalities with a population of more than 500 but less than 17,000 located in Denton County.

Basis of Accounting

The activities of the DCTA are similar to those of proprietary funds of local jurisdictions and are therefore reported as an enterprise fund. The activities are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with operations are included in a single accounting; revenues are recognized in the accounting period in which they are earned, and expenses are recorded at the time liabilities are incurred. Enterprise funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and delivering goods in connection with a proprietary fund’s principal ongoing operations. The DCTA principal operating revenues are derived from charges to customers for sales and services. Operating expenses include the cost of sales and services, administrative expenses,



DENTON COUNTY TRANSPORTATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS

NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as non-operating revenues and expenses.

All dollar amounts, unless otherwise noted, are in whole dollars. Reference to Years 2007 and 2006 are fiscal years ending September 30, 2007 and 2006.

DCTA has elected not to apply all Financial Accounting Standards Board Statements and Interpretations issued after November 30, 1989.

Cash and Cash Equivalents

Cash and cash equivalents consists of cash on hand, amounts invested in repurchase agreements, demand deposits, and short-term investments with maturities of three months or less when purchased. Cash and cash equivalents are valued at cost which is substantially the fair value.

Receivables

Receivables consist primarily of amounts due to DCTA from sales tax collections, federal grants, and customer billings. Management does not believe any credit risk exists related to these receivables. Management evaluates the receivables to determine if an allowance for doubtful accounts should be established, and considers the collection history, the aging of the accounts and other specific information known to management that may affect collectibility. Based upon this assessment, management has determined that an allowance is not necessary.

Investments

The investment policies of DCTA are governed by the Public Funds Investment Act, Chapter 2256 of the Texas Government Code. DCTA funds are managed and invested based on safety, liquidity, diversification and yield. The investments are stated at fair value.

Prepaid Expenses

Prepaid expenses consist primarily of insurance payments which are amortized over the policy period and prepaid rents.

Capital Assets

All capital assets are stated at historical cost. Capital assets are defined as assets which:

1. Have a useful life of more than one year and a unit a cost greater than \$5,000;
2. Have a unit cost of \$5,000 or less, but are part of a network or combined unit of property; or
3. Were purchased with grant money.

Maintenance and repair expenditures which substantially improve or extend the useful life of property are capitalized. The cost of routine maintenance and repairs is expensed as incurred. The provision for depreciation of transportation property and equipment is calculated under the straight-line method using the respective estimated useful lives of major asset classifications, as follows:



DENTON COUNTY TRANSPORTATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS

NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Transportation vehicles:	<u>Years</u>
Bus	7-12
Paratransit	4-5
Transportation equipment	3-5
Office equipment	3

A mid-month convention is used to determine the first month in which depreciation will be charged. Therefore, a full month of depreciation expense is recorded in the first month for assets placed in service prior to the fifteenth day of the month; otherwise, depreciation is charged in the subsequent month. When property and equipment are disposed, depreciation is removed from the respective accounts and the resulting gain or loss is recorded.

Except for sales of assets in which the unit fair value is less than \$5,000, proceeds from the sale of property, facilities and equipment purchased with funds provided by federal grants for capital expenditures are remitted to the Federal Transit Administration (“FTA”) on the same percentage basis that such funds were provided by grant contracts with the FTA.

The transit system operated by DCTA includes certain facilities owned by others. DCTA has contractual rights to operate these facilities under the terms of the authorizing legislation and other agreements.

Current Liabilities

DCTA has not formally restricted cash funds to pay current liabilities, but has adequate cash and investments to satisfy these obligations.

Compensated Absences

Employees receive compensation for vacations, holidays, illness, personal days, and certain other qualifying absences. The number of days compensated for the various categories of absence is based on length of service. Sick days and vacation days that have been earned, but not paid, have been accrued in the accompanying financial statements. Compensation for holidays and other qualifying absences are not accrued in the accompanying financial statements as rights to such compensation do not accumulate or vest.

Enhanced Local Assistance Program

The Enhanced Local Assistance Program (“ELAP”) is a mobility improvement program for participating member cities. ELAP provides financial assistance for mobility projects approved by DCTA for a maximum period of four years. Funding is available to participating cities at an amount equal to twenty-five percent of the DCTA sales and use tax collections from the respective city. DCTA recognized ELAP expenses of \$3,882,646 and \$3,699,095 in fiscal years 2007 and 2006 with a related current liability of \$9,341,865 in fiscal year 2007, and current and non-current liability of \$4,210,339 and \$2,125,364, in 2006, respectively. Payments to participating cities in 2007 and 2006 were \$876,484 and \$2,075,533, respectively.



DENTON COUNTY TRANSPORTATION AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred Revenue

The University of North Texas (UNT) and Texas Woman's University (TWU) have contracted with DCTA to provide transportation for faculty, staff, and students in Denton, Texas through the Connect service. The universities have paid for this service in advance, and DCTA recognizes the revenue through straight-line amortization over the respective period.

Net Assets

Equity is displayed in two components as follows:

Invested in Capital Assets – This consists of capital assets, net of accumulated depreciation.

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

Operating Revenues

Passenger revenue consists of fare box collections, the sale of passes and amortization of deferred revenue. Fare box revenue is recorded at the time service is performed. Revenue from the sale of passes is recorded at the time of the sale. Deferred revenue from advance payments on contracts is amortized straight-line over the respective period.

Contract service revenue is revenue related to providing transit services to third parties on a contractual basis. Contract revenue is recorded in the period earned. DCTA provides contract service for UNT, TWU, Corinth, and Hickory Creek.

Classification of Revenues and Expenses

DCTA classifies its revenues as either operating or non-operating. Operating revenues include activities from the sale of transit services. Non-operating revenue is revenue not associated with the operations of the DCTA transit service and includes grant income, investment income and income from sales and use tax collections.

Operating expenses will be incurred for activities related to providing public transportation services. Such activities include transportation, maintenance, depreciation on capital assets and general and administrative functions. Non-operating expenses include the Enhanced Local Assistance Program provided to member cities.

Estimates

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



DENTON COUNTY TRANSPORTATION AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial Instruments and Credit Risk

In accordance with the Texas Public Funds Investment Act and the DCTA investment policy, DCTA invests in obligations of the United States or its agencies and instrumentalities. These financial instruments subject DCTA to limited credit risk.

Credit risk with respect to trade and other receivables is limited as they are primarily due from the State of Texas for sales tax collections and other city and state governmental units in the State of Texas.

NOTE 2. BUDGETARY DATA

Section 460 of the Texas Transportation Code requires DCTA to create an annual budget. DCTA maintains control over operating expenditures by the establishment of the annual operating budget. Budgets are prepared on the accrual basis consistent with accounting principles generally accepted in the United States of America. Annual proposed operating and capital budgets are prepared by management, presented to Denton County residents at public meetings and reviewed by the Board of Directors prior to adoption of the final budget in September. The operating and capital budgets follow the same preparation and review cycle.

Operating budget appropriations terminate at the end of the fiscal year. Capital budget amounts are not included in the accompanying financial statements. Capital budget amounts are budgeted over the life of the respective project, not on an annual basis.

During the course of the annual budget cycle, it may be necessary to modify the budget by a process of amendment or transfer. For example, modifications may be required because of changes in the purpose, description, terms and conditions, or changes in the cost of an approved service or item. All budget amendments require Board of Directors' approval. Budget transfers within a department may be authorized by the DCTA President and reported to the Board. The Board of Directors monitors, reviews and accepts the monthly and year to date financial statements with budget comparisons and explanations of material variances.

The original and amended budgets are presented in the accompanying financial statements. Significant amendments made during the fiscal year 2007 included a decrease in operating expenses of 15%, primarily for consulting services under the Environmental Impact Study, and non-operating revenues and expenses were decreased 3% for a reduction in estimated transit system grant revenue.

NOTE 3. SERVICE AND FACILITY AGREEMENTS

On October 1, 2006 DCTA entered into a management contract with First Transit, Inc. as an independent contractor to manage the operation of the DCTA public transit system in the Denton County urban area. Under the direction of DCTA staff and guidance of DCTA policy, First Transit, Inc. provides a qualified and experienced General Manager and home office support personnel to perform all services and functions necessary to ensure effective and efficient management and administration of the transit system including new and expanded services. In addition, DCTA combined the Lewisville and Denton



DENTON COUNTY TRANSPORTATION AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOTE 3. SERVICE AND FACILITY AGREEMENTS (CONTINUED)

operations at the Denton facility. DCTA provides the accounting services for operations and began reporting the fiscal year 2007 bus operation expenses in the related expense categories.

In fiscal year 2006, DCTA contracted with McDonald Transit Associates, Inc. ("McDT"), under separate purchase transportation operating agreements in Lewisville and Denton, to provide management services for the bus operations. McDT provided management services through their subsidiaries, Lewisville Transit Management, Inc. and Denton Transit Management, Inc. bus and paratransit services. McDT provided accounting services, employed the personnel required to operate the service and was reimbursed for operating costs plus a fixed fee. In addition, DCTA contracted with the City of Lewisville to provide maintenance service on the paratransit fleet in Lewisville. DCTA incurred purchased transportation expense under this contract of \$4,075,846 for services in 2006.

DCTA has entered into interlocal facility lease agreements with the cities of Lewisville and Denton, effective October 1, 2005. The facility leases are for three one-year periods with two annual renewal options and include office space, bus storage, maintenance areas and fueling facilities. The Lewisville lease was terminated in 2007 when the operations were combined at the Denton facility.

NOTE 4. CASH, CASH EQUIVALENTS, AND INVESTMENTS

Cash and Cash Equivalents

DCTA adopted the Governmental Accounting Standards Board Statement No. 40, "Deposit and Investment Risk Disclosures" in fiscal year 2006. The standard requires that entities disclose essential risk information about deposit and investment requirements addressing common risks of investments.

DCTA cash and cash equivalents are deposited in various accounts as allowed by the Texas Public Funds Investment Act and the DCTA Investment Policy. The custodial credit risk for deposits is the risk that in the event of a bank failure, the DCTA deposits may not be recovered. Balances for these accounts are insured by the Federal Depository Insurance Corporation, and the deposits in excess of the insured amount are collateralized by pledged book entry securities held in a securities account at a Federal Reserve Bank in DCTA's name by a third party or were invested in U.S. Government Securities as allowed by the Texas Public Funds Investment Act.

At year end, cash and cash equivalents consisted of the following:

	September 30, 2007	September 30, 2006
Demand Deposits	\$ (2,010,052)	\$ (38,053)
Sweep Repurchase Agreements	2,812,875	146,028
Money Market Account	2,132,440	2,022,235
TexSTAR	21,142,528	5,060,264
Total Cash and Cash Equivalents	\$ 24,077,791	\$ 7,190,474



DENTON COUNTY TRANSPORTATION AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOTE 4. CASH, CASH EQUIVALENTS, AND INVESTMENTS (CONTINUED)

Cash Equivalents and Investments

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The DCTA investment policy limits investment maturities to two years as a means of managing its exposure to fair value losses arising from increasing interest rates. In addition, the policy limits weighted average maturity of the overall portfolio to twelve months.

As authorized by the DCTA Investment Policy and in accordance with the Texas Public Funds Investment Act, cash equivalents and investments during the year were invested in U.S. Government Agency Securities, U.S. Treasury Notes and TexSTAR. TexSTAR is administered by First Southwest Asset Management, Inc. and JP Morgan Fleming Asset Management. TexSTAR is a local government investment pool created under the Inter-local Cooperation Act specifically tailored to meet Texas state and local government investment objectives of preservation of principal, daily liquidity and competitive yield. The fund is rated AAAM by Standard and Poor's and maintains a weighted average maturity of 60 days or less, with a maximum maturity of 13 months for any individual security. The fund seeks to maintain a constant dollar objective and fulfills all of the requirements of the Texas Public Funds Investment Act for local government investment pools. Furthermore, State statutes authorize DCTA to invest funds in other cash equivalents such as money market mutual funds. All DCTA investments are subject to the Texas Public Funds Investment Act. DCTA investments are reported at fair value, and all investments are insured or registered, or the securities are held by the DCTA agent in DCTA's name.

Concentration of credit risk is the risk of loss attributable to the magnitude of a government's investment in a single issuer. The issuers where securities at year-end exceeded 5% of the total investments are as follows:

Investments	September 30, 2007			September 30, 2006		
	Fair Value	% of Portfolio	Weighted Average Days To Maturity	Fair Value	% of Portfolio	Weighted Average Days To Maturity
FNMA (Fannie Mae)	\$3,498,177	44%	301	\$ 5,471,190	40%	296
FHLB	498,771	6%	131	1,980,069	15%	258
FHLMC (Freddie Mac)	1,989,428	25%	57	2,477,499	18%	217
U.S. Treasury Notes	2,003,678	25%	114	3,474,255	25%	107
Certificates of Deposit	-	-	-	250,000	2%	14
Total Investments	<u>7,990,054</u>	<u>100%</u>	<u>183</u>	<u>13,653,013</u>	<u>100%</u>	<u>146</u>
Interest Receivable	109,235			128,627		
Total	<u>\$8,099,289</u>			<u>\$13,781,640</u>		

Investments in FHLMC are not rated. Investments in FHLB are rated AAA by Standard and Poor's, and investments in U.S. Treasury Notes are backed by the U.S. Government.



DENTON COUNTY TRANSPORTATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS

NOTE 5. CAPITAL ASSETS

Changes in capital assets for the fiscal year ended September 30, 2007 are as follows:

	Beginning Balance September 30, 2006	Increases	Decreases	Ending Balance September 30, 2007
Capital assets, being depreciated:				
Vehicles and operating equipment	\$ 7,600,360	\$ 2,406,660	\$ (200)	\$ 10,006,820
Leasehold improvements	-	39,720	-	39,720
Office furniture and equipment	120,860	-	-	120,860
Capital Assets	<u>7,721,220</u>	<u>2,446,380</u>	<u>(200)</u>	<u>10,167,400</u>
Less accumulated depreciation for:				
Vehicles and operating equipment	1,493,492	1,319,950	-	2,813,442
Leasehold improvements	-	17,023	-	17,023
Office furniture and equipment	44,222	42,955	-	87,177
Accumulated depreciation	<u>1,537,714</u>	<u>1,379,928</u>	<u>-</u>	<u>2,917,642</u>
DCTA capital assets, net	<u>\$ 6,183,506</u>	<u>\$ 1,066,452</u>	<u>\$ (200)</u>	<u>\$ 7,249,758</u>

Primary capital asset expenditures in 2007 included five, thirty-two passenger buses for the Connect fixed route service at a cost of \$1,475,610; seven, sixteen-passenger buses for the Lewisville Connect fixed route service at a cost of \$484,236; and five, nine-passenger buses for the Access paratransit and demand response services at a cost of \$316,253.



DENTON COUNTY TRANSPORTATION AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOTE 6. ELAP LIABILITIES

The amount classified as non-current ELAP payable in 2006 was \$2,125,364. ELAP current and non-current liabilities had the following activity in 2007:

Enhanced Local Assistance Program	Beginning Balance September 30, 2006	Accrued Payable	Payments	Transfer	Ending Balance September 30, 2007
ELAP Current Payable	\$ 4,210,339	\$ 3,882,646	\$ (876,484)	\$ 2,125,364	\$ 9,341,865
ELAP Non-current Payable	2,125,364	-	-	(2,125,364)	-
Total ELAP Payable	<u>\$ 6,335,703</u>	<u>\$ 3,882,646</u>	<u>\$ (876,484)</u>	<u>\$ -</u>	<u>\$ 9,341,865</u>

ELAP is a four year program beginning January 1, 2004 and ending December 31, 2007. DCTA will make final payments to the participating cities for approved ELAP projects by April 30, 2008.

NOTE 7. PENSION, RETIREMENT, AND DEFERRED COMPENSATION PLANS

DCTA has a qualified deferred compensation defined contribution plan under the Internal Revenue Code Section 457 for full time employees. AIG Valic is the administrator of the plan. Employees can make voluntary contributions in the plan through pretax payroll deductions up to the limits allowed by the Internal Revenue Code Section 457. DCTA presently matches up to a maximum of five percent of the participating employee's salary in a 401(A) plan, with 20% of the DCTA contribution vesting to the employee each year.

During fiscal year 2007 and 2006, the employee contributions were \$75,251 or 8% of the total payroll and \$65,135 or 11% of the total payroll, respectively. DCTA contributions were \$39,221 in 2007 and \$24,908 in 2006, or 4% of the total payroll for each year.

NOTE 8. COMMITMENTS AND CONTINGENCIES

Risk Management

DCTA is exposed to various types of risk of loss including torts; theft of, damage to, or destruction of assets; errors or omissions; job-related illnesses or injuries to employees; natural disasters; and environmental occurrences.

DCTA is a participant in the Texas Municipal League Intergovernmental Risk Pool ("TML") to provide insurance for errors and omission, general liability, workers' compensation, automobile liability and physical damage coverage. TML was self-sustaining in 2007 based on premiums charged, so that total contributions plus earnings on the contributions will be sufficient to satisfy claims and liabilities.



DENTON COUNTY TRANSPORTATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS

NOTE 8. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Premiums are assessed based on the rates set by the Texas State Board of Insurance for each participating political subdivision's experience. DCTA has a \$1,000 deductible for errors and omissions liability with limits of \$1,000,000 per wrongful act and an annual aggregate of \$2,000,000. General liability coverage has no deductible with limits of \$1,000,000 per occurrence and an annual aggregate of \$2,000,000. Worker's compensation coverage has a zero dollar deductible. Automobile liability has a limit of \$5,000,000 per occurrence. DCTA vehicles are insured for physical damage for collision and comprehensive coverage after a \$10,000 deductible.

DCTA has a government crime policy with Fidelity and Deposit Company of Maryland insuring against employee theft up to \$1,000,000 per loss.

DCTA has not incurred any losses under these plans.

Litigation

DCTA has no known claims or lawsuits pending.

State and Federal Grants

DCTA participates in several State and Federal grant programs, which are governed by various rules and regulations of the grantor agencies. Cost charged to these grant programs are subject to audit, approval, and adjustment by the grantor agencies, which could result in refunds to the grantor. It is management's opinion that DCTA has complied with substantially all of the requirements under the respective grants, and therefore no provision has been recorded in the accompanying financial statements for such liabilities.

Commitments

The Board has approved a Service Plan that includes design and construction of a 21-mile commuter rail line connecting Denton and Dallas counties. The Environmental Impact Study and Preliminary Engineering started November 2005. The estimated cost of the contract is \$7,600,000. In fiscal year 2007 and 2006, DCTA has expended approximately \$2,435,000 and \$1,897,000, respectively on this contract. Under the terms of the contract DCTA can terminate the contract for cause or convenience with a thirty day notice to the contractor. Accordingly, the accompanying financial statements do not reflect this future obligation.

These current expenditures, current contract commitments, and any future commitments will be funded by DCTA out of available cash and investments, future sales tax collections, federal grants and debt financing.



DENTON COUNTY TRANSPORTATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS

NOTE 8. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Commitments (Continued)

DCTA has entered into certain operating lease agreements. All operating leases to which DCTA is currently a party expire within the next three years. The total lease expense for 2007 was \$319,076, and \$194,116 for 2006, which is net of a \$63,600 reimbursement from the purchase of service contractor. The lease payments by year are:

Lease Commitments	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>Total</u>
Connect Central	\$ 5,670	\$ -	\$ -	\$ 5,670
Brookhollow office lease	85,410	27,940	16,298	129,648
Denton operating facility	127,284	26,518	-	153,802
Denton Park and Ride	22,100	-	-	22,100
Lewisville Park and Ride	11,050	-	-	11,050
Total lease commitments	<u>\$ 251,514</u>	<u>\$ 54,458</u>	<u>\$ 16,298</u>	<u>\$ 322,270</u>



SUPPLEMENTARY INFORMATION



DENTON COUNTY TRANSPORTATION AUTHORITY

SCHEDULE OF REVENUES AND EXPENSES – BUDGET AND ACTUAL

Year Ended September 30, 2007
with Comparative Actual for 2006

	2007				2006 Actual
	Original Budget	Final Budget	Actual	Variance	
Operating Revenues					
Passenger revenues	\$ 440,005	\$ 442,405	\$ 382,141	\$ (60,264)	\$ 199,627
Contract service revenues	1,918,309	1,915,909	2,033,900	117,991	1,644,794
Other revenues	-	-	1,371	1,371	\$ 1,925
Total operating revenues	<u>2,358,314</u>	<u>2,358,314</u>	<u>2,417,412</u>	<u>59,098</u>	<u>1,846,346</u>
Operating Expenses					
Salaries, wages and fringe benefits	4,818,241	4,694,198	4,357,164	337,034	755,780
Services	5,438,339	3,405,113	3,450,595	(45,482)	2,361,773
Materials and supplies	1,427,339	1,427,339	1,404,956	22,383	73,340
Utilities	43,200	43,200	76,864	(33,664)	10,471
Insurance, casualties and losses	191,724	300,767	388,924	(88,157)	135,434
Purchased transportation service	-	-	-	-	4,075,845
Miscellaneous	213,415	213,415	143,363	70,052	194,116
Leases and rentals	344,337	344,337	319,076	25,261	81,851
Depreciation	1,609,650	1,609,650	1,379,928	229,722	914,830
Total operating expenses	<u>14,086,245</u>	<u>12,038,019</u>	<u>11,520,870</u>	<u>517,149</u>	<u>8,603,440</u>
Operating income/(loss)	<u>(11,727,931)</u>	<u>(9,679,705)</u>	<u>(9,103,458)</u>	<u>576,247</u>	<u>(6,757,094)</u>
Non-Operating Revenues (Expenses)					
Sales tax revenue	15,268,063	15,268,063	15,530,585	262,522	14,796,379
Enhanced local assistance	(3,817,016)	(3,817,016)	(3,882,646)	(65,630)	(3,699,095)
Transit system operating assistance grants	6,686,806	6,097,562	5,932,486	(165,076)	2,808,151
Net investment income	1,282,674	1,282,674	1,320,149	37,475	752,797
Gain (loss) on disposal of assets	-	-	(200)	(200)	-
Total non-operating revenue	<u>19,420,527</u>	<u>18,831,283</u>	<u>18,900,374</u>	<u>69,091</u>	<u>14,658,232</u>
Net income	<u>\$ 7,692,596</u>	<u>\$ 9,151,578</u>	<u>\$ 9,796,916</u>	<u>\$ 645,338</u>	<u>\$ 7,901,138</u>



DENTON COUNTY TRANSPORTATION AUTHORITY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended September 30, 2007

Federal Grantor/Pass-Through Grantor Program Title	Grantor ID Number	Catalog of Federal Domestic Assistance ID Number	Federal Expenditures
U.S. Department of Transportation:			
<u>Federal Transit Administration Cluster:</u>			
FTA/Formula (and flex funds)	TX-90-X538	20.507	\$ 316,529
FTA/Formula (and flex funds)	TX-90-X576	20.507	57,948
FTA/Formula (and flex funds)	TX-90-X724	20.507	1,745,077
FTA/Formula (and flex funds)	TX-90-X771	20.507	3,400,899
Clean Fleet	n/a	20.507	34,170
JARC	n/a	20.507	133,181
Total U.S. Department of Transportation			5,687,804
Total Federal Expenditures			\$ 5,687,804

See notes to schedule of expenditures of Federal Awards.



DENTON COUNTY TRANSPORTATION AUTHORITY

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended September 30, 2007

NOTE 1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Denton County Transportation Authority and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements on OMB A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

NOTE 2. SUBRECIPIENTS

Of the federal expenditures presented in the schedule, Denton County Transportation Authority provided no federal awards to subrecipients.

NOTE 3. NON-CASH ASSISTANCE

The Denton County Transportation Authority did not receive any non-cash assistance from federal awards for the year ended September 30, 2007.

NOTE 4. LOANS

At year-end, the Denton County Transportation Authority had no loans or loan guarantees outstanding with federal awarding agencies.





**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Board of Directors
Denton County Transportation Authority

We have audited the basic financial statements of Denton County Transportation Authority ("the Authority") as of and for the year ended September 30, 2007, and have issued our report thereon dated February 19, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

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

Compliance

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

This report is intended solely for the information of the Board of Directors, management and others within the organization and the U.S. Department of Transportation and is not intended to be and should not be used by anyone other than these specified parties.

Rylander, Clay + O'pitz, L.L.P.

February 19, 2008





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

To the Board of Directors
Denton County Transportation Authority

Compliance

We have audited the compliance of Denton County Transportation Authority ("the Authority") with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to its major federal program for the year ended September 30, 2007. The Authority's major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the Authority's management. Our responsibility is to express an opinion on the Authority's compliance based on our audit.

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

In our opinion, the Authority complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended September 30, 2007. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying Schedule of Findings and Questioned Costs as item 07-01.

Internal Control Over Compliance

The management of the Authority is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Authority's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies,

that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by any entity's internal control.

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

The Authority's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the Authority's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Directors, management, and others within the organization, and the U.S. Department of Transportation and is not intended to be and should not be used by anyone other than those specified parties.

Rylander, Clay & Opitz, L.L.P.

February 19, 2008



DENTON COUNTY TRANSPORTATION AUTHORITY

SUMMARY SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS For the Year Ended September 30, 2007

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	<u>Unqualified</u>		
Internal control over financial reporting:			
• Material weakness(es) identified?	<u> </u> yes	<u> </u> X no	
• Significant deficiencies identified that are not considered to be material weaknesses?	<u> </u> yes	<u> </u> X none reported	
Noncompliance material to financial statements noted?	<u> </u> yes	<u> </u> X no	

Federal Awards

Internal control over major programs:			
• Material weakness(es) identified?	<u> </u> yes	<u> </u> X no	
• Significant deficiencies identified that are not considered to be material weaknesses?	<u> </u> yes	<u> </u> X none reported	

Type of auditor's report issued on compliance for major programs:

Unqualified

Any audit findings disclosed that are required to be Reported in accordance with section 510(a) of Circular A-133?

 X yes no

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
20.507	Federal Transit Administration Cluster

Dollar threshold used to distinguish between type A and type B programs:

\$ 300,000

Auditee qualified as low-risk auditee?

 X yes no



DENTON COUNTY TRANSPORTATION AUTHORITY

SUMMARY SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS (CONTINUED) For the Year Ended September 30, 2007

Section II - Financial Statement Findings

A. Reportable conditions in internal control.

None

B. Compliance Findings

None

Section III - Federal Award Findings and Questioned Costs

Federal Transportation Administration

Finding 07-01 CFDA 20.507

Federal award number: TX-90-X771

Condition: DCTA included retainage as outlays on the financial status reports.

Specific requirement: According to Circular A-102, the grantee should employ methods and procedures for transferring funds that minimize the time elapsing between the receipt of funds and the need for the funds.

Effects: Outlays are overstated in the Financial Status Report as a result of DCTA including retainage amounts.

Question costs: Federal outlays were over reported by \$244,683. Actual amount requested for reimbursement did not include the retainage.

Cause of the condition: DCTA inadvertently included retainages in the outlays reported to the grantor.

Recommendations: DCTA should reduce federal outlays by \$244,683 in the next Financial Status Report filed, and implement procedures to ensure that only actual costs are reported.

Management response: DCTA will reduce outlays in the Financial Status Report for the quarter ending December 31, 2007.



DENTON COUNTY TRANSPORTATION AUTHORITY

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

For the Year Ended September 30, 2007

Audit Finding 06-01: CFDA 20.507

Federal award number: TX-90-X496, TX-90-X538, TC-90-X576, TX-90-X724

Specific requirement: According to FTA Circular 5010.1C, quarterly financial status report, milestone/progress report, transit enhancement report and DBE quarterly progress report are due within 30 days of calendar year end.

Condition: DCTA did not file financial status report, milestone/progress report, transit enhancement report and DBE Quarterly Progress Report.

Recommendation: DCTA should implement policy and procedures to ensure all required reports are filed timely and accurately.

Current status: Reports for the current year were submitted timely.

