

DENTON COUNTY TRANSPORTATION AUTHORITY

BASIC FINANCIAL STATEMENTS

AND

SUPPLEMENTARY INFORMATION

Fiscal Years Ended September 30, 2008 and 2007



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DENTON COUNTY TRANSPORTATION AUTHORITY

Introductory

Fiscal Year Ended September 30, 2008



Letter of Transmittal

February 19, 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, 2008. 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 2008 and 2007 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, 2008 and 2007 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, 2008 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, and 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 9), which serves as an executive summary of the financial statements, the Financial Statements (pages 10 to 13), and the Notes to the Financial Statements (pages 14 to 24), which provide various disclosures to ensure that a complete picture is presented in the financial statements.

3. The Supplemental Information (pages 25 to 34) provides the fiscal year 2008 original budget, final budget, and 2007 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 entire DCTA Finance Department staff. We also express our appreciation to all the staff members who assisted and contributed to the successful completion of this report.

We would like to thank the members of the DCTA Board of Directors and Finance Committee for their interest and support in planning and conducting the financial operation of the Denton County Transportation Authority in a responsible and progressive manner as well as for their support for maintaining the highest standards of professionalism.

Sincerely,



M. Scott Neeley
Executive Vice-President



Anna M. Mosqueda
Vice President Finance/ Chief Financial Officer

Introduction

The Organization

DCTA is a Coordinated County Transportation Authority granted powers under House Bill 3323 which was approved by the 77th Texas Legislature and signed into law in 2001. It is now codified as Chapter 460 of the Texas Transportation Code. The legislation required DCTA to develop a Service Plan, to outline the public transportation services that could be provided Denton County residents. Denton County residents confirmed DCTA November 5, 2002 by a county-wide vote. DCTA created the Service Plan, which was submitted to the voters in eight Denton County cities on September 13, 2003, for consideration and approval of a one-half percent sales and use tax. The Service Plan and associated sales tax was passed in three cities, Denton, Highland Village and Lewisville (“Participating Cities”). Collection of the sales tax began on January 1, 2004. DCTA provides planning, operations, funding, and management of the public transportation services in Denton County for the Participating Cities through sales and use tax receipts and other available revenues. Other non-participating cities in Denton County may choose to contract with DCTA for service, or to become a member by participating in a sales and use tax election with an additional payment of a capital recovery component.

DCTA’s Service Plan includes a rail component and three layers of bus service, including interim regional commuter bus service, local fixed rout bus service and demand response service. In addition, a network of Park-and-Rides, Regional Rail and Bus Facilities will be established to service Denton County residents. These elements will provide services to help mitigate and improve mobility issues in the near term as well as connect the County’s larger cities to rail when the service is implemented.

Regional rail is the central element of the DCTA Service Plan and when implemented will provide a convenient connection to the Dallas Area Rapid Transit light rail services in Carrollton, Texas. It is DCTA is partnering with the Dallas Area Rapid Transit (“DART”) to develop a seamless service for DCTA and DART riders.

DCTA is governed by a Board of Directors currently composed of fourteen members: one member from each municipality with a population of 17,000 or more (8); three members from the unincorporated area of Denton County; and three members designated by the remaining municipalities with a population of more than 500 and less than 17,000. Each Board member serves a term of two years. The Board is responsible for the general policy governance of the DCTA with the President and staff responsible for day-to-day management and implementation of the DCTA’s goals and objectives.

Current Board Members

Board Member	Position	Appointed by
Charles Emery	Chairman	Lewisville
Charles Correll	Vice – Chairman	Denton County Unincorporated
Dorothy Palumbo	Secretary	Highland Village
Jeff Snowden	Treasurer	Frisco
Pat Howell	Member	Corinth
Skip Kalb	Member	Small Cities
Dave Kovatch	Member	The Colony
Larry L’Heureux	Member	Denton County Unincorporated
Guy L. McElory	Member	Denton
Doug Peach	Member	Little Elm
Jim Robertson	Member	Flower Mound
Thomas Smith	Member	Denton County At-Large
Tom Spencer	Member	Small Cities
Bill Walker	Member	Small Cities

The Past

Fiscal year 2005 was the first year of operations and brought many changes to DCTA. The existing fleet of bus, Para transit vehicles and operating assets were acquired from the cities of Denton and Lewisville. The related vendor operations contracts were assigned to DCTA. Operating facilities were leased from the cities of Denton and Lewisville.

In October, 2006, DCTA entered into new management service contract for our bus operations with First Transit. The service provider employs a general manager to manage the bus operations and DCTA funds the operating subsidiary company where the drivers and operations staff is employed.

In fiscal year 2007 DCTA implemented Commuter Express Service and expanded and enhanced Fixed Route , UNT and Access bus.

On May 30, 2006, the first regional service in Denton County, The DCTA Commuter Express was launched. This interim service provides safe, reliable, cost effective rides for commuters between Denton, Highland Village, Lewisville and Dallas. DCTA acquired seven over the road coach units to provide this service at a cost of \$1,618,000.

The acquisition of twelve thirty-five foot units for UNT and Denton Connect service supported DCTA’s continuing focus on providing quality service to our customers. Seven thirty-foot vehicles were all purchased to launch the Lewisville Connect Service in November 2006

Many elderly and disabled citizens rely on DCTA Access services to get to work, school, shopping, and medical appointments. DCTA continues to provide reliable transportation with trained drivers to assist our passengers in this service. In November 2006, five thirty-foot replacement vehicles were purchased. And, also in fiscal year 2006, a

RouteMatch scheduling system and centralized dispatching operation were installed at the Denton operations facility.

The Present

In Fiscal year 2008 DCTA made significant strides in addressing the regional rail component of its Service Plan.

The first phase of the regional rail project, planned to be operational late in 2010, is anticipated to provide rail service between Lewisville and a connection with DART's light rail service in Carrollton. This project is expected to cover approximately 21 miles between the City of Denton and the DART connection.

In 2005, DCTA's Board of Directors adopted the consultant's recommendation that the former Missouri-Kansas-Texas Railroad (MKT) be selected as the Locally Preferred Alternative for the initial rail corridor project.

A Rail Operations division was established and in January of 2008 the Regional Transportation Commission (RTC) approved RTRFI funding of \$57.2 million for Light Rail Vehicles and, on August 2008, \$193.0 million for the construction of a 21-mile regional rail line with five stations, a bicycle and pedestrian trail within the rail corridor. This provides for 80% funding for DCTA's estimated \$313 million rail project. In 2008 the Environmental Impact Study (EIS) required to advance the rail project was completed. Rail revenue service is planned to start in December 2010.

DCTA completed its first debt transaction with the issuance of \$20 million in June of 2008. These tax-exempt Sales Tax Revenue bonds were issued as a private placement to fund costs related to the design and construction of the DCTA Rail project. Design plans for the Rail project advanced to 65% completion and the rail station locations were finalized.

The Enhanced Local Assistance Program was completed with DCTA providing just over \$14.3 million in funds to the three member cities of Denton, Highland Village and Lewisville for transportation – related improvements.

As DCTA moves forward with the Rail project, its goal is to provide an efficient, integrated transportation service that focuses on customer service. DCTA Commuter Express experienced a 82% increase in ridership and over-all ridership increased 10% when compared to 2007. DCTA acquired the land for a Bus Operations and Maintenance Facility. When construction is completed in 2010 this will allow DCTA to move its bus administrative operations and maintenance facility from the current temporary leased facility to one that will better support DCTA's goal of improving transportation for the county and region.

As fuel and energy costs continue their upward spiral, DCTA will focus on providing cost effective transportation alternatives to our customers, reducing congestion, improving air quality and enhancing the quality of life for residents and visitors to Denton County.

The Future

The commuter rail project will be a key activity for DCTA in 2009. Advancing the rail project with the goal of completing the final design and starting construction to meet the target revenue service date of December 2010 is reflected in the 2009 budget. The Capital Projects budget allocates funds for the design and construction of the rail line and stations as well as the purchase of rail vehicles.

The Bus Service operations continue to emphasize customer focus and service delivery. Design will be completed on a new Bus Operations & Maintenance Facility with a target construction completion date of May 2010. The new facility will help DCTA maintain its fleet reliability and continue its 100% on-time performance of preventative maintenance.

Citizen Advisory Teams were established in the member cities to include users of the bus services in implementing workable solutions that improve bus operations.

DCTA will continue to raise local, regional, and national awareness of the important role of public transportation and emphasize customer focus and service delivery.

FINANCIAL SECTION





R | C | O RYLANDER, CLAY & OPITZ, LLP
CERTIFIED PUBLIC ACCOUNTANTS
Smart Solutions. Real Results.

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, 2008 and 2007. 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, 2008 and 2007, 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 17, 2009, 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, 2008, 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, LLP

February 17, 2009

**Denton County Transportation Authority
Management's Discussion and Analysis
September 30, 2008 and 2007**

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, 2008 and 2007. 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, 2008 and 2007, total assets of DCTA exceeded total liabilities by \$44,035,027 and \$32,602,621 respectively. The amount of unrestricted net assets as of September 30, 2008 was \$40,757,626 compared to \$25,352,863 in 2007. 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 \$11,432,406 during the current fiscal year compared to an increase of \$9,796,916 in the prior year. The increase in the current fiscal year net assets is a result of increased operating revenue, sales tax revenue, reduction in the Enhanced Local Assistance expense net of the decrease in operating expenses

Net capital assets were \$13,432,834 as of September 30, 2008 compared to \$7,249,758 as of September 30, 2007. The net capital asset increase was primarily due to the construction work in progress for the rail project.

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-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.



**Denton County Transportation Authority
Management's Discussion and Analysis
September 30, 2008 and 2007**

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.

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 \$44,035,027 and \$32,602,621 as of September 30, 2008 and 2007 respectively. The largest portion, 93% in 2008 and 78% in 2007, 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 35% or \$ 11,432,406 during the current fiscal year compared to an increase of 43% or \$9,796,916 in the prior year. The increase in the current fiscal



**Denton County Transportation Authority
Management's Discussion and Analysis
September 30, 2008 and 2007**

year net assets is a result of increased operating revenue, sales tax revenue, bond proceeds, operating assistance grants, and investment income net of the increase in operating expenses.

Condensed Statement of Net Assets

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Assets			
Current Assets	\$ 53,029,472	\$ 35,861,841	\$ 24,135,216
Capital Assets	13,538,767	7,249,758	6,183,506
Total Assets	<u>\$ 66,568,239</u>	<u>\$ 43,111,599</u>	<u>\$ 30,318,722</u>
Liabilities and Net Assets			
Current Liabilities	\$ 2,533,212	\$ 10,508,978	\$ 5,387,653
Non-current Liabilities	20,000,000	-	2,125,364
Total Liabilities	22,533,212	10,508,978	7,513,017
Net Assets			
Invested in Capital Assets	3,277,401	7,249,758	6,183,506
Unrestricted	40,757,626	25,352,863	16,622,199
Total Net Assets	<u>44,035,027</u>	<u>32,602,621</u>	<u>22,805,705</u>
Total Liabilities and Net Assets	<u>\$ 66,568,239</u>	<u>\$ 43,111,599</u>	<u>\$ 30,318,722</u>

Assets - During fiscal year 2008, DCTA total assets increased 54% or \$23,456,640 over 2007. The net increase is primarily due to a \$17,167,631 increase in the DCTA current assets, due to an increase in cash & cash equivalents and increase of \$6,289,009 in capital assets.

Capital Assets, net of depreciation, increased 87% or \$6,289,009 due to the capitalization of design and construction costs of URS EIS, URS Final Design and Rail Consultants invoices at a cost of \$7,169,548 in to construction work in progress; Land acquisition legal fees of \$24,357; Copier machine for \$12,500; Bond issuance costs of \$105,933 paid 20% local match to City of Denton for Downtown Denton Transit center at a cost of \$388,712; less depreciation amortization and asset retirements of \$1,412,039.



**Denton County Transportation Authority
Management's Discussion and Analysis
September 30, 2008 and 2007**

Liabilities - Current liabilities decreased 76% or \$7,975,766 primarily due to the payment of retainage held on contracts, payment of current liabilities related to Enhanced Local Assistance Program ("ELAP"). The DCTA current ratio, current assets of \$53,029,472 over current liabilities of \$2,533,212, was 20.93:1 as of September 30, 2008 compared to 3.4:1 as of September 30, 2007. DCTA has not formally restricted cash funds to pay current liabilities, but has adequate cash and investments to satisfy these obligations.

Non-current liabilities increased \$20,000,000 in the current year due to the new bond issuance.

Statement of Revenues, Expenses, and Changes in Net Assets – During the 2008 fiscal year DCTA's activities resulted in an increase in net assets of \$11,432,406 compared to an increase of \$9,796,916 in 2007. The increase in the current fiscal year net assets is a result of increased operating revenue, sales tax revenue, and a reduction in Enhanced Local Assistance net of the reduction in operating expenses. The changes in net assets for the fiscal years ended September 30, 2008 and 2007 are shown in the following table.



Denton County Transportation Authority
Management's Discussion and Analysis
September 30, 2008 and 2007

Statements of Revenues, Expenses and Changes in Net Assets

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Operating revenues			
Passenger revenue	492,282	382,141	199,627
Contract services	2,238,605	2,035,271	1,646,719
Total operating revenue	<u>2,730,887</u>	<u>2,417,412</u>	<u>1,846,346</u>
Operating expenses			
Salaries, wages, and fringe benefits	4,885,173	4,357,164	755,780
Services	918,070	3,489,499	2,361,773
Materials and supplies	1,821,531	1,404,956	73,340
Utilities	68,103	76,864	10,471
Casualty and liability insurance	445,320	388,924	135,434
Purchased transportation	-	(38,904)	4,075,845
Facility and equipment rents	330,926	319,076	194,116
Other	198,723	143,363	81,851
Depreciation	1,402,035	1,379,928	914,830
Total operating expenses	<u>10,069,881</u>	<u>11,520,870</u>	<u>8,603,440</u>
Operating loss	<u>(7,338,994)</u>	<u>(9,103,458)</u>	<u>(6,757,094)</u>
Non-operating revenues (expenses)			
Sales tax	16,208,354	15,530,585	14,796,379
Federal and state grants	2,916,207	5,932,486	2,808,151
Enhanced local assistance program	(1,067,837)	(3,882,646)	(3,699,095)
Investment income	1,188,514	1,320,149	752,797
Interest Expense	(156,267)		
Amortization of Bond Issuance Costs	(7,567)		
Design Cost	(300,000)		
Loss on disposal of assets	(10,004)	(200)	-
Total non-operating revenue	<u>18,771,400</u>	<u>18,900,374</u>	<u>14,658,232</u>
Change in net assets	11,432,406	9,796,916	7,901,138
Net assets, beginning of year	<u>32,602,621</u>	<u>22,805,705</u>	<u>14,904,567</u>
Net assets, end of year	<u>44,035,027</u>	<u>32,602,621</u>	<u>22,805,705</u>



**Denton County Transportation Authority
Management's Discussion and Analysis
September 30, 2008 and 2007**

Operating Revenues

Passenger Revenue - The 2008 passenger revenues increased 29% or \$110,141 over the prior year. The increase is due to an 81% increase in ridership for the interim Commuter Express service which completed its first full year of operation in FY2007. DCTA also experienced increased in ACCESS and fixed route ridership. Commuter Express service is a motor coach service operating between Denton and Dallas, Texas on an interim basis until DCTA rail service is implemented. The increases in fuel costs experienced in 2007-2008 by consumers resulted in an increase in the use of DCTA transportation services included the interim Commuter Express Service which connects Denton, Highland Village, and Lewisville to Dallas.

Contract Service - The 2008 contract service revenues increased 10% or \$203,334 over the prior year. The increase is due to increased ridership and increased fuel costs of the University of North Texas ("UNT") contract services to provide bus service for students and faculty.

Operating Expenses

Operating Expense – The 2008 operating expenses decreased 13% or \$1,450,989 over the prior year. The decreased operating expense is primarily due to the reduction in Services expense for consulting costs for an Environmental Impact Study (EIS) which DCTA undertook in 2007 as DCTA prepares to deliver regional passenger rail service to Denton County. The decrease in professional services expenses were partial offset by increases in fuel expenses as well as salaries/wages and related benefits. The increase in personnel costs was for additional staff which was approved to support DCTA growth.

The 2008 depreciation expense increased 2% or \$22,107 over the prior year. There were no major purchases of revenue service vehicles compared to 2007.

Non-operating Revenue and Expenses

Sales Tax Revenue - The 2008 sales tax revenue increased 4% or \$677,769 over 2007. 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 2008 federal and state grant revenue decreased 51% or \$3,016,279 over 2007. In 2008, DCTA became an Urbanized Area with 200,000 in population which it had not reached in 2007. As a result under the existing FTA guidelines, DCTA was no longer eligible for 5307 operating assistance grants. This resulted in a decrease of \$1.4 million in grant revenues over the prior year. In 2007, DCTA also received \$3,372,384 grant money for an Environmental Impact Study as DCTA planned for its rail service project.



**Denton County Transportation Authority
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Enhanced Local Assistance Program Expense - The 2008 ELAP expense decreased 72% or \$2,814,809 over 2007. ELAP expense is calculated at 25% of the sales tax revenue. 2008 was the final year of the ELAP program.

Investment Income – The 2008 investment income decreased 10% or \$131,635 over 2007 due to a decrease in the interest rate as a result of market conditions.

Debt Administration

In June of 2008 DCTA completed its first debt issuance. DCTA issued \$20,000,000 in tax-exempt Sales Tax Revenue Bonds. The bonds were issued through a private placement with a maximum 5 year term to fund the DCTA A-train regional passenger rail project. This rail project will provide passenger rail service connecting Denton and Dallas counties. The principal payment is due in one lump sum in June, 2013 with interest due semi-annually. The first interest payment is scheduled for December 2008.

DCTA Fiscal Year 2008 Budget

During fiscal year 2008 the DCTA budget, adopted September 27, 2007 was amended with major change to include \$300,000 in expenses for DCTA's participation in the DART Trinity Mills Station rail design. The changes to the Trinity Mills Station rail design will accommodate DCTA's rail vehicle movements into the Trinity Mills Station on the DART Green line.

The operating budget for 2009 continues to recognize the importance of providing quality transportation services for Denton County residents and other customers. As fuel and energy costs continue to increase, 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	9,964,123	11,520,870	8,603,440	\$ (1,556,747)	-14%
Operating Loss	(7,516,258)	(9,103,458)	(6,757,094)	\$ 1,587,200	-17%
Non-Operating Revenues	18,787,687	18,900,374	14,658,232	\$ (112,687)	-1%
Change in Net Assets	11,271,429	9,796,916	7,901,138	\$ 1,474,513	15%
Net Assets, Beginning of Year	32,602,621	22,805,705	14,904,567	\$ 9,796,916	43%
Net Assets, End of Year	<u>\$ 43,874,050</u>	<u>\$ 32,602,621</u>	<u>\$ 22,805,705</u>	\$ 11,271,429	35%



**Denton County Transportation Authority
Management's Discussion and Analysis
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DCTA Fiscal Year 2009 Budget

The DCTA adopted fiscal year 2009 budget for operating revenues shows an increase of 4% or \$106,019 over 2008 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 as well as increase in passenger revenues.

The fiscal year 2009 operating expenses are projected to increase 11% or \$1,063,210 over 2008 actual results. The increase is primarily due to an increase in fuel costs and salary and wages for the additional full-time staff added in late 2008.

Non-operating revenue, net of expenses, is projected to decrease 4% or \$803,330 over 2008 actual results. The decrease in non-operating revenue is due to a budgeted decrease in transit operating assistance grants. The ELAP program ended in FY 2008 and is no longer budgeted. The 2009 budget includes \$36,594,000 from the total \$250,360,000 Regional Toll Revenue Funding Initiative (RTRFI) which was approved to fund 80% of the DCTA A-train regional rail project which is estimated at a total \$312,950,000. This will fund the 2009 capital project expenditures budgeted for the rail project.

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, 2008 and 2007

	2008	2007
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 37,900,494	\$ 24,077,791
Investments	-	8,099,289
Receivables	4,943,154	3,446,122
Prepaid expenses	341,257	238,639
Restricted assets - cash and cash equivalents	9,844,567	-
Total current assets	53,029,472	35,861,841
Bond issuance costs, net of accumulated amortization	105,933	-
Capital assets:		
Land and other non-depreciable assets	7,582,617	-
Other capital assets, net of accumulated depreciation	5,850,217	7,249,758
Total assets	\$ 66,568,239	\$ 43,111,599
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	\$ 1,192,966	\$ 328,078
Accrued payroll and related payroll taxes	305,631	241,333
Other accrued liabilities	1,012,948	586,035
Enhanced Local Assistance Program	-	9,341,865
Deferred contract revenue	21,667	11,667
Total current liabilities	2,533,212	10,508,978
Non-current Liabilities		
Bonds Payable	20,000,000	-
Total non-current liabilities	20,000,000	-
Commitments and Contingencies - Note 8		
Net Assets		
Invested in capital assets, net of related debt	3,277,401	7,249,758
Unrestricted	40,757,626	25,352,863
Total net assets	44,035,027	32,602,621
Total liabilities and net assets	\$ 66,568,239	\$ 43,111,599

See notes to financial statements.



DENTON COUNTY TRANSPORTATION AUTHORITY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

Years Ended September 30, 2008 and 2007

	2008	2007
Operating Revenues		
Passenger revenue	\$ 492,282	\$ 382,141
Contract services	2,234,145	2,033,900
Other	4,460	1,371
Total operating revenues	<u>2,730,887</u>	<u>2,417,412</u>
Operating Expenses		
Salaries, wages and fringe benefits	4,884,853	4,356,664
Services	924,227	3,451,095
Materials and supplies	1,844,446	1,404,956
Utilities	68,103	76,864
Insurance	445,320	388,924
Facility and equipment rents	330,926	319,076
Other - miscellaneous	169,971	143,363
	<u>8,667,846</u>	<u>10,140,942</u>
Depreciation	1,402,035	1,379,928
Total operating expenses	<u>10,069,881</u>	<u>11,520,870</u>
Operating loss	<u>(7,338,994)</u>	<u>(9,103,458)</u>
Non-Operating Revenues (Expenses)		
Sales tax revenue	16,208,354	15,530,585
Transit system operating assistance grants	2,916,207	5,932,486
Enhanced local assistance	(1,067,837)	(3,882,646)
Investment income	1,188,514	1,320,149
Interest expense	(156,267)	-
Amortization of bond issuance costs	(7,567)	-
Design cost	(300,000)	-
Loss on disposal of assets	(10,004)	(200)
Total non-operating revenue	<u>18,771,400</u>	<u>18,900,374</u>
Change in net assets	11,432,406	9,796,916
Net assets, beginning of year	<u>32,602,621</u>	<u>22,805,705</u>
Net assets, end of year	<u>\$ 44,035,027</u>	<u>\$ 32,602,621</u>

See notes to financial statements.



DENTON COUNTY TRANSPORTATION AUTHORITY

STATEMENTS OF CASH FLOWS

Years Ended September 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Cash Flows from Operating Activities		
Receipts from customers and users	\$ 2,699,327	\$ 2,331,019
Payment to suppliers	(2,750,077)	(3,146,773)
Payments for EIS	-	(2,289,403)
Payments for purchased transportation	-	(339,194)
Payments to employees	(4,820,555)	(4,477,222)
	<u>(4,871,305)</u>	<u>(7,921,573)</u>
Net cash used by operating activities		
Cash Flows from Non-capital Financing Activities		
Sales tax received	16,138,610	15,365,273
Enhanced Local Assistance	(10,409,702)	(876,484)
Operating grant reimbursements	1,541,008	5,783,068
	<u>7,269,916</u>	<u>20,271,857</u>
Net cash provided by non-capital financing activities		
Cash Flows from Capital and Related Financing Activities		
Acquisition and construction of capital assets	(7,595,115)	(2,468,454)
Proceeds from issuance of bonds	19,896,000	-
Bond fees	(9,500)	-
	<u>12,291,385</u>	<u>(2,468,454)</u>
Net cash provided (used) by capital and related financing activities		
Cash Flows from Investing Activities		
Interest received on investments	1,188,514	1,230,767
Purchase of investments	-	(7,475,280)
Startup costs for DART railway construction	(300,000)	-
Proceeds from the sale of investments	8,099,289	13,250,000
	<u>8,987,803</u>	<u>7,005,487</u>
Net cash provided by investing activities		
Net increase in cash and cash equivalents	23,677,799	16,887,317
Cash and cash equivalents, beginning of year	<u>24,077,791</u>	<u>7,190,474</u>
Cash and cash equivalents, end of year	<u>\$ 47,755,590</u>	<u>\$ 24,077,791</u>

See notes to financial statements.



DENTON COUNTY TRANSPORTATION AUTHORITY

STATEMENTS OF CASH FLOWS (Continued)

Years Ended September 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Operating loss	\$ (7,338,994)	\$ (9,103,458)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation expense	1,402,035	1,379,928
Change in operating assets and liabilities		
Operating accounts receivable	(41,560)	(82,401)
Prepaid expenses	(102,618)	(127,518)
Operating accounts payable	864,888	(26,377)
Accrued payroll and payroll related taxes	64,298	207,495
Other accrued liabilities	270,646	(159,242)
Deferred revenue	10,000	(10,000)
Total adjustments	<u>2,467,689</u>	<u>1,181,885</u>
Net cash used by operating activities	<u><u>\$ (4,871,305)</u></u>	<u><u>\$ (7,921,573)</u></u>
Non cash financing activity:		
Bond issuance costs	<u><u>\$ 110,000</u></u>	<u><u>\$ -</u></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, 2008 and 2007, 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 2008 and 2007 are fiscal years ending September 30, 2008 and 2007.

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 collectability. 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.

Restricted Assets

Restricted assets consist of unspent bond proceeds and are held as cash and cash equivalents.

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 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. Interest incurred as a result of construction in progress and contracts with durations over one year are capitalized.



DENTON COUNTY TRANSPORTATION AUTHORITY

NOTES TO FINANCIAL STATEMENTS

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

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:

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 \$1,067,837 and \$3,882,646 in fiscal years 2008 and 2007 with no liability in 2008, and current liabilities of \$9,341,865, in 2007. Payments to participating cities in 2008 and 2007 were \$10,409,702 and \$876,484, 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, net of related debt – This consists of capital assets, net of accumulated depreciation and related debt.

Unrestricted – This consists 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, interest expense on debt, design costs related to the Trinity Mills project and amortization of bond fees.

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 2008 included a decrease in operating expenses of \$96,413 primarily for consulting services on the rail project, and non-operating revenues and expenses decreased by \$300,000 to modify the design of the Trinity Mills project and by \$117,913 due to a reduction in anticipated operating assistance grants.



DENTON COUNTY TRANSPORTATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS

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 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.

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, 2008	September 30, 2007
Demand Deposits	\$ 9,751,199	\$ (2,010,052)
Sweep Repurchase Agreements	128,648	2,812,875
Money Market Account	2,203,492	2,132,440
TexSTAR	35,661,722	21,142,528
Total Cash and Cash Equivalents	\$ 47,745,061	\$ 24,077,791



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.

NOTE 5. CAPITAL ASSETS

Changes in capital assets for the fiscal year ended September 30, 2008 are as follows:

	Balance September 30, 2007	Increases	Decreases	Balance September 30, 2008
Capital assets, not being depreciated:				
Land	\$ -	\$ 24,357	\$ -	\$ 24,357
Construction in progress	-	7,558,260	-	7,558,260
	-	7,582,617	-	7,582,617
Vehicles and operating equipment	\$ 10,006,820	\$ -	\$ (13,039)	\$ 9,993,781
Leasehold improvements	39,720	-	-	39,720
Office furniture and equipment	120,860	12,500	-	133,360
Total capital assets, being depreciated	10,167,400	12,500	(13,039)	10,166,861



DENTON COUNTY TRANSPORTATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS

NOTE 5. CAPITAL ASSETS (Continued)

	Balance September 30, 2007	Increases	Decreases	Balance September 30, 2008
Less accumulated depreciation for:				
Vehicles and operating equipment	2,813,442	1,357,732	(3,033)	4,168,141
Leasehold	17,023	22,697	-	39,720
Office furniture and equipment	87,177	21,606	-	108,783
Accumulated depreciation	<u>2,917,642</u>	<u>1,402,035</u>	<u>(3,033)</u>	<u>4,316,644</u>
Capital assets, being depreciated, net	<u>7,249,758</u>	<u>(1,389,535)</u>	<u>(10,006)</u>	<u>5,850,217</u>
Total capital assets, net	<u>\$ 7,249,758</u>	<u>\$ 6,193,082</u>	<u>\$ (10,006)</u>	<u>\$ 13,432,834</u>

Primary capital asset expenditures in 2008 relate to the design of the 21-mile rail corridor. See related commitment disclosure in Note 9.

NOTE 6. ELAP LIABILITIES

ELAP is a four year program beginning January 1, 2004 and ending December 31, 2007. DCTA made final payments to the participating cities for approved ELAP projects by April 30, 2008. ELAP current liabilities had the following activity in 2008:

Enhanced Local Assistance Program	Balance September 30, 2007	Accrued Payable	Payments	Transfer	Balance September 30, 2008
ELAP Current Payable	<u>\$ 9,341,865</u>	<u>\$ 1,436,811</u>	<u>\$ (10,416,176)</u>	<u>\$ -</u>	<u>\$ -</u>

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 2008 and 2007, the employee contributions were \$62,519 or 7% of the total payroll and \$75,251 or 8% of the total payroll, respectively. DCTA contributions were \$33,577 in 2008 and \$39,221 in 2007, or 4% of the total payroll for each year.



DENTON COUNTY TRANSPORTATION AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOTE 8. LONG-TERM LIABILITIES

In June of 2008, DCTA issued privately held revenue bonds for \$20,000,000. The proceeds from the bonds is being used for the construction of the railway that is connecting Denton and Dallas counties. As of September 30, 2008, DCTA has drawn down approximately \$10,200,000 for construction. DCTA has pledged the sales tax revenues towards the repayment of the bonds. The bond principle is due in one lump sum on June 15, 2013. The annual debt service requirements follow:

<u>Fiscal Year ending September 30</u>	<u>Principal</u>	<u>Interest</u>
2009	\$ -	\$ 571,350
2010	-	586,000
2011	-	586,000
2012	-	3,000,000
2013	<u>20,000,000</u>	<u>3,000,000</u>
Total requirements	<u>\$ 20,000,000</u>	<u>\$ 7,743,350</u>

The interest is due semi annually in June and December with the first payment payable on December 15, 2008. The interest rate is fixed for the first three years and then changes to a variable rate based upon the following:

Years 1 – 3:	2.93%
Years 4 – 5:	LIBOR x 62.075% + .70%

The bond agreement states that the interest rate cannot exceed 15%. Because the variable interest rate can not be calculated in years four and five, the maximum interest rate of 15% has been reflected in the debt service requirements listed above. Total interest expense for 2008 is \$156,267 and no interest was paid during the year.

The bond agreement requires DCTA to establish and maintain a pledged revenue account and a bond fund account at a depository and as an account in the general ledger for the purpose of accumulating principal and interest when it becomes due and payable. At September 30, 2008 these accounts have not been established.

NOTE 9. 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 2008 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 9. 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 no 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

Commuter Rail Project

The board has approved a service plan that includes design and construction of a 21-mile commuter rail connecting Denton and Dallas counties. The Environmental Impact Study (EIS) and Preliminary Engineering started November 2005. The estimated cost of the contract is \$7,600,000. The EIS project was completed in July 2008. The final Design and Design Support Services contract started in February 2008, and the maximum amount of the contract is approximately \$14,700,000. In fiscal year 2008 and 2007, DCTA has expended \$4,434,000 and \$2,435,000, respectively on these contracts. Under the terms of the contracts DCTA can terminate the contracts for cause or convenience with a thirty day notice to the contractor. Accordingly, the accompanying financial statements do not reflect this future obligation. Four stations are scheduled to be built along the 21-mile rail corridor. In December 2008, DCTA purchased the land for one of the stations located in Denton for approximately \$3.2 million.

DCTA signed a contract for professional services for the rail and bus projects. The initial term of this agreement is 3 years with an option to renew for two additional calendar years. The work performed under this contract requires approval on a task order basis by the Executive Director of Rail Operations. DCTA provides a description and scope of the requested task and a cost proposal is provided by the contractor. The contractor provides support services for tasks/projects that are included in the DCTA operating and capital budget. The estimated budget amount of this agreement is \$1,000,000 per year.



DENTON COUNTY TRANSPORTATION AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOTE 9. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Commuter Rail Project (continued)

Subsequent to September 30, 2008, DCTA signed a contract on October 27, 2008 for approximately \$500,000 for pre-construction services for the construction of the 21-mile rail line between Denton and Carrollton as part of the DCTA Rail project.

Bus Operating and Maintenance Facility

A contract in the amount of \$590,000 was awarded in November, 2008 for design and engineering services to construct a bus operating and maintenance facility. DCTA purchased the land for this project in October 2008 for approximately \$1.1 million. It will be located within the City of Denton and include accommodations for the current fleet as well as provide for expansion to handle anticipated growth.

Park and Ride Facility

In 2007, DCTA was awarded a grant under the Congestion Mitigation Air Quality Improvement Program (CMAQ). The grant is for the acquisition and construction of a Park & Ride Facility to be located in South Lewisville. The Hebron Park & Ride Facility will provide vehicle parking with access to the DCTA Commuter Express and Connect bus services, as well as future access to the regional rail service. Land was purchased for this project in December 2008 for approximately \$1.2 million.

Operating Lease Agreements

DCTA has entered into certain operating lease agreements. All operating leases to which DCTA is currently a party will expire within the next two years. The total lease expense for 2008 was \$322,991, and \$319,076 for 2007. The lease payments by year are:

Lease Commitments	2009	2010	Total
Connect Central	\$ 5,670	\$ 5,670	\$ 11,340
Service Bay Building	86,104	-	86,104
Denton operating facility	105,315	9,533	114,848
Denton Park and Ride	33,150	22,100	55,250
Highland Village Park and Ride	4,250	-	4,250
Lewisville Park and Ride	16,575	11,050	27,625
Total lease commitments	\$ 251,064	\$ 48,353	\$ 299,417

Funding

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.

NOTE 10. OTHER DISCLOSURES

For the year ending September 30, 2008, expenditures exceeded appropriations by \$295,245, due primarily to increased fuel prices and increased usage. These over-expenditures were funded by increases from contract revenue, passenger revenue, and sales tax revenue.



SUPPLEMENTARY INFORMATION



DENTON COUNTY TRANSPORTATION AUTHORITY

SCHEDULE OF REVENUES AND EXPENSES – BUDGET AND ACTUAL

Year Ended September 30, 2008

with Comparative Actual for 2007

	2008				2007 Actual
	Original Budget	Final Budget	Actual	Variance	
Operating Revenues					
Passenger revenues	\$ 420,825	\$ 426,825	\$ 492,282	\$ 65,457	\$ 382,141
Contract service revenues	2,027,040	2,021,040	2,234,145	213,105	2,033,900
Other revenues	-	-	4,460	4,460	1,371
Total operating revenues	<u>2,447,865</u>	<u>2,447,865</u>	<u>2,730,887</u>	<u>283,022</u>	<u>2,417,412</u>
Operating Expenses					
Salaries, wages and fringe benefits	4,809,223	4,809,223	4,884,853	(75,630)	4,356,664
Services	1,266,735	1,171,252	924,227	247,025	3,451,095
Materials and supplies	1,538,198	1,538,198	1,844,446	(306,248)	1,404,956
Utilities	68,820	68,820	68,103	717	76,864
Insurance, casualties and losses	453,048	453,048	445,320	7,728	388,924
Miscellaneous	287,828	287,828	169,971	117,857	143,363
Leases and rentals	315,708	315,708	330,926	(15,218)	319,076
Depreciation	1,320,046	1,320,046	1,402,035	(81,989)	1,379,928
Total operating expenses	<u>10,059,606</u>	<u>9,964,123</u>	<u>10,069,881</u>	<u>(105,758)</u>	<u>11,520,870</u>
Operating income/(loss)	<u>(7,611,741)</u>	<u>(7,516,258)</u>	<u>(7,338,994)</u>	<u>177,264</u>	<u>(9,103,458)</u>
Non-Operating Revenues (Expenses)					
Sales tax revenue	15,640,441	15,640,441	16,208,354	567,913	15,530,585
Enhanced local assistance	(1,042,184)	(1,042,184)	(1,067,837)	(25,653)	(3,882,646)
Transit system operating assistance grants	3,534,602	3,416,684	2,916,207	(500,477)	5,932,486
Net investment income	1,072,746	1,072,746	1,188,514	115,768	1,320,149
Interest expense	-	-	(156,267)	(156,267)	-
Amortization of bond issuance costs	-	-	(7,567)	(7,567)	-
Design cost	-	(300,000)	(300,000)	-	-
Gain (loss) on disposal of assets	-	-	(10,004)	(10,004)	(200)
Total non-operating revenue	<u>19,205,605</u>	<u>18,787,687</u>	<u>18,771,400</u>	<u>(16,287)</u>	<u>18,900,374</u>
Net income	<u>\$ 11,593,864</u>	<u>\$ 11,271,429</u>	<u>\$ 11,432,406</u>	<u>\$ 160,977</u>	<u>\$ 9,796,916</u>



DENTON COUNTY TRANSPORTATION AUTHORITY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended September 30, 2008

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-X771	20.507	\$ 1,086,634
FTA/Formula (and flex funds)		20.507	1,654,995
Ozone	n/a	20.507	32,442
JARC	n/a	20.507	142,586
Total U.S. Department of Transportation			2,916,657
Total Federal Expenditures			\$ 2,916,657

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, 2008

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, 2008.

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, 2008, and have issued our report thereon dated February 17, 2009. 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 and other matters

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 one instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as item 08-1.

We noted certain matters that we reported to management of the Authority in a separate letter dated February 17, 2009.

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 & Opitz, LLP

February 17, 2009





**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, 2008. 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, 2008.

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.

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, LLP

February 17, 2009



DENTON COUNTY TRANSPORTATION AUTHORITY

SUMMARY SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS For the Year Ended September 30, 2008

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? yes X no
- Significant deficiencies identified that are not considered to be material weaknesses? yes X none reported

Noncompliance material to financial statements noted? yes X no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? yes X no
- Significant deficiencies identified that are not considered to be material weaknesses? yes 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? yes X 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, 2008

Section II - Financial Statement Findings

A. Significant deficiencies in internal control.

None

B. Compliance Finding

The bond agreement requires DCTA to establish and maintain a pledged revenue account and a bond fund account at a depository institution and as an account in the general ledger for the purpose of accumulating principal and interest when it becomes due and payable. At September 30, 2008 these accounts have not been established.

Management Response: Agree regarding depository account. Appropriate depository account(s) will be established as required. However, at time of 2008 financing, GL account 2151- Bond Interest Payable was established as current liability to account for semi-annual interest payment and GL acct 2900 was established as long-term liability to account for \$20 million Bond Note Payable as this is a one-time bullet payment due in 2013.

Section III - Federal Award Findings and Questioned Costs

None



DENTON COUNTY TRANSPORTATION AUTHORITY

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

For the Year Ended September 30, 2008

Federal Transportation Administration

Finding 07-01: CFDA 20.507

Federal award number: TX-90-X771

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.

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

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.

Current status: DCTA reduced outlays in the Financial Status Report.

