

DENTON COUNTY TRANSPORTATION AUTHORITY

BASIC FINANCIAL STATEMENTS

AND

SUPPLEMENTARY INFORMATION

Fiscal Years Ended September 30, 2010 and 2009

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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 Denton County Transportation Authority (“DCTA”) as of and for the years ended September 30, 2010 and 2009. These basic financial statements are the responsibility of DCTA’s management. Our responsibility is to express opinions on these financial statements based on our audits.

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. 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 the 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of DCTA as of September 30, 2010 and 2009 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 January 18, 2011, on our consideration of DCTA’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management’s discussion and analysis and the budgetary comparison information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise DCTA's basic financial statements. 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 not a required part of the basic financial statements of DCTA. This schedule is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Rylander, Clay & Opitz, LLP

January 18, 2011



**Denton County Transportation Authority
Management's Discussion and Analysis
For the Year Ended September 30, 2010
(Unaudited)**

The management of the Denton County Transportation Authority ("DCTA") offers readers of the DCTA's financial statements this narrative overview and analysis of the financial activities for the fiscal year ended September 30, 2010. 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.

We encourage the readers to consider the information presented here in conjunction with accompanying financial statements, notes thereto and additional information that is furnished in our letter of transmittal and the statistical section of this report. In addition, readers are encouraged to review information on the annual budget and other agency information found on the DCTA website at www.dcta.net. It should be noted that the Independent Auditor's Report describes the auditor's association with the various sections of the report and that all of the additional information from the website and other DCTA sources is unaudited and has not been updated for events that may have occurred subsequent to the issuance of the respective report.

In Brief

- As of September 30, 2010 and 2009, total assets of DCTA exceeded total liabilities by \$231,794,974 and \$117,230,995 respectively. The amount of unrestricted net assets as of September 30, 2010 was \$39,507,585 compared to \$37,531,815 in 2009. 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 \$114,563,979 during the current fiscal year compared to an increase of \$73,195,968 in the prior year. The increase in the current fiscal year net assets is primarily a result of increase of \$39.4 million in capital grants related to the construction of the rail project and an increase in transit grants of \$1.6 million. Funding was received in March 2009 and construction started for DCTA's first major passenger rail project.
- Net capital assets were \$213.2 million as of September 30, 2010 compared to \$99.7 million as of September 30, 2009. The increase was due to land acquisition and construction work in progress related to 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 as well as a statistical section (unaudited) to provide the reader additional information relative to DCTA.

**Denton County Transportation Authority
Management's Discussion and Analysis
For the Year Ended September 30, 2010
(Unaudited)**

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.

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 its 3 member cities: Denton, Highland-Village and Lewisville; passenger fares, contract services, and state/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
For the Year Ended September 30, 2010
(Unaudited)**

Financial Analysis

Statement of Net Assets - As noted earlier, net assets and especially net assets by category may serve over time as a useful indicator of DCTA's financial position. Total assets exceeded total liabilities by \$ 231,794,974 and \$117,230,995 as of September 30, 2010 and 2009 respectively. The largest portion, 83% in 2010 is invested in capital assets (net of related debt) primarily as a result of the rail line construction and related acquisitions. The remaining 17% is in unrestricted net assets which represent assets with no external restriction as to the use or purpose. The unrestricted net assets can be employed for any lawful purpose designated by the governing board. In 2009, 32% of the excess was in unrestricted net assets. Net assets of DCTA increased 98% or \$114,5653,979 during the current fiscal year compared to an increase of 166% or \$73,195,968 in the prior year. The increase in the current fiscal year net assets is primarily a result of an increase in capital assets for the construction of the rail line and rail vehicles related to the A-train passenger rail project.

Condensed Statement of Net Assets

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Assets			
Current assets	\$ 150,683,380	\$ 240,384,789	\$ 53,029,472
Non-current assets	218,896,083	99,782,412	13,538,767
Total Assets	<u>\$ 369,579,463</u>	<u>\$ 340,167,201</u>	<u>\$ 66,568,239</u>
Liabilities and Net Assets			
Current liabilities	\$ 116,894,489	\$ 202,936,206	\$ 2,533,212
Non-current liabilities	20,890,000	20,000,000	20,000,000
Total Liabilities	137,784,489	222,936,206	22,533,212
Net Assets			
Invested in capital assets	192,287,389	79,699,180	3,277,402
Unrestricted	39,507,585	37,531,815	40,757,626
Total Net Assets	<u>231,794,974</u>	<u>117,230,995</u>	<u>44,035,027</u>
Total Liabilities and Net Assets			
Assets	<u>\$ 369,579,463</u>	<u>\$ 340,167,201</u>	<u>\$ 66,568,239</u>

Assets - During fiscal year 2010, DCTA total assets increased 9% or \$ 29,412,262 over FY2009. The net increase is primarily due to a \$102,427,574 decrease in the DCTA current assets of restricted cash & cash equivalents related to the funding of the A-train project and an increase of \$106,782,092 in capital assets.

**Denton County Transportation Authority
Management's Discussion and Analysis
For the Year Ended September 30, 2010
(Unaudited)**

Capital Assets, net of depreciation, increased \$119.1 million due to the capitalization of final design and construction costs for construction work in progress; land acquisition; bond issuance costs; less depreciation, amortization and asset retirements.

Liabilities - Current liabilities decreased \$86,041,717 primarily due to the decrease in deferred revenue related to the RTRFI funding for the rail line construction and rail vehicles. Revenues are recognized as grant funds were drawn down for expenditures related to the rail project.

Just over \$102 million related to rail line construction and rail vehicle expenditures resulted in a decrease in deferred revenue. An increase in retainage held on contracts for the rail line construction and the Hebron Park and Ride project along with an increase in construction contracts payable resulted in the net decrease in current liabilities.

DCTA's current ratio, current assets of \$150,683,380 and current liabilities of \$116,894,489, was 1.29:1 as of September 30, 2010 compared to 1.19:1 as of September 30, 2009 and 20.9:1 as of September 30, 2008. DCTA has restricted current assets - cash and cash equivalents and recognized deferred revenue as a current liability related to the A-train project.

There was \$890,000 change in non-current liabilities in FY010 due to the issuance of refunding bonds. This was a refunding of 2008 sales tax revenue bonds to allow for the repayment of the bonds over a 20-year period rather than the original five-year payment schedule.

Statement of Revenues, Expenses, and Changes in Net Assets – During the 2010 fiscal year DCTA's activities resulted in an increase in net assets of \$114,563,979 compared to an increase of \$73,195,968 in 2009. The increase in the current fiscal year net assets is the result of the A-train capital project and related reimbursement of expenditures in addition to the Transit System grants. The changes in net assets for the fiscal years ended September 30, 2010 and 2009 are shown in the following table.

**Denton County Transportation Authority
Management's Discussion and Analysis
For the Year Ended September 30, 2010
(Unaudited)**

Statements of Revenues, Expenses and Changes in Net Assets

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Operating revenues			
Passenger revenue	\$ 539,938	\$ 514,944	\$ 492,282
Contract services	2,368,908	2,086,401	2,238,605
Other	129,311	112,834	
Total operating revenue	<u>3,038,157</u>	<u>2,714,179</u>	<u>2,730,887</u>
Operating expenses			
Salaries, wages, and fringe benefits	5,890,580	5,377,646	4,885,173
Services	1,547,574	1,113,057	918,070
Materials and supplies	1,674,511	1,383,676	1,821,531
Utilities	74,165	72,712	68,103
Casualty and liability insurance	328,109	403,328	445,320
Facility and equipment rents	322,041	323,369	330,926
Other	143,697	145,078	198,723
Depreciation	1,093,469	1,039,436	1,402,035
Total operating expenses	<u>11,074,146</u>	<u>9,858,302</u>	<u>10,069,881</u>
Operating loss	<u>(8,035,989)</u>	<u>(7,144,123)</u>	<u>(7,338,994)</u>
Non-operating revenues (expenses)			
Sales tax	16,188,072	15,666,457	16,208,354
Capital grants	102,970,259	63,543,494	-
Transit system operating assistance grants	3,432,290	1,756,241	2,916,207
Enhanced local assistance program	-	-	(1,067,837)
Investment income	105,503	335,979	1,188,514
Interest Expense	(162,284)	-	(156,267)
Amortization of bond issuance costs	(89,696)	(22,700)	(7,567)
Unreimbursed prior year grant expenses	-	(504,959)	-
Design costs and construction	194,099	(439,011)	(300,000)
Gain (loss) on disposal of assets	(38,275)	4,590	(10,004)
Total non-operating revenue	<u>122,599,968</u>	<u>80,340,091</u>	<u>18,771,400</u>
Change in net assets	114,563,979	73,195,968	11,432,406
Net assets, beginning of year	<u>117,230,995</u>	<u>44,035,027</u>	<u>32,602,621</u>
Net assets, end of year	<u>\$ 231,794,974</u>	<u>\$ 117,230,995</u>	<u>\$ 44,035,027</u>

**Denton County Transportation Authority
Management's Discussion and Analysis
For the Year Ended September 30, 2010
(Unaudited)**

Operating Revenues

Passenger Revenue - The 2010 passenger revenues increased 5% or \$24,994 over the prior year. The increase is due to increases in fixed route ridership and enhancements to fixed route schedules

Contract Service - The 2010 contract service revenues increased 14% or \$282,507 over the prior year. The increase is due to the new contract with North Central Texas College (NCTC) and increased service hours for the University of North Texas (UNT) contract services. The contracts provide bus service for students and faculty. Since fuel prices are a pass-through on the contracts, the increase in fuel prices over 2009 also impacted the increase in contract revenues.

Operating Expenses

Operating Expense – The 2010 operating expenses increased 12% or \$1,215,844 over the prior year. The increased operating expense is primarily due to the impact of increased salaries/wages and related benefits for bus operators and filling of 4 vacant management positions for DCTA; increase in professional services due to starting the update of the long-range service, marketing activity for the A-train start-up and well as increase in legal fees related to contract resolution issues; increase in materials and supplies resulting from the increase in fuel expenditures as compared to 2009.

The 2010 depreciation expense increased 5% or \$54,033 over the prior year. This increase is primarily due to additional purchases of revenue service bus vehicles.

Non-operating Revenue and Expenses

Sales Tax Revenue - The 2010 sales tax revenue increased \$521,615 over 2009. DCTA collects one-half percent sales and use tax in the member cities of Denton, Highland Village, and Lewisville. The Dallas-Fort Worth Metroplex (DFW) has been impacted by the recession and the credit crisis in 2009. However, Texas has fared better than the rest of the country. We saw slow but continued improvement in 2010 as reflected by the increase in sales tax revenue.

Capital Grants – Capital grants revenue increased \$39,426,765 primarily as a result of revenue recognition of rail capital project expenditures reimbursed from RTRFI funds.

Transit System Operating Assistance Grants - The 2010 federal and state grant revenue increased 95% or \$1,676,049 over 2009. ARRA and CMAQ grants for the Hebron Park and Ride construction and CMAQ grants for Commuter Express forward commute service comprised the major portion of the increase.

Investment Income – The 2010 investment income decreased 69% or \$230,476 over 2009 due to a decrease in the interest rate as a result of market conditions.

**Denton County Transportation Authority
Management's Discussion and Analysis
For the Year Ended September 30, 2010
(Unaudited)**

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 was due in one lump sum in June, 2013 with interest due semi-annually. The Series 2008 Sales Tax Revenue bonds were refunded through a private placement to long-term debt on December 17, 2009. These bonds will be repaid over 20 years at an interest rate of 3.99%. The first principal payment will be due in 2013. No additional debt was issued in FY2010.

DCTA Fiscal Year 2010 Budget

The FY2009-2010 budget was adopted September 24, 2009. Amendments to the original budget included a decrease in capital grants revenue to recognize anticipated progress on the A-train project, decrease in transit system grants due to delay of projects and a reduction in anticipated investment income. A new debt issuance for the bus operations and maintenance facility which would have resulted in additional interest income did not occur and in addition, declining market conditions resulted in an even greater drop in interest income.

Significant amendments made during fiscal year 2010 included;

Revenues

- Increase of \$592,290 in sales tax revenue. In the original FY10 budget, which anticipated declining economic conditions an 8% decrease in sales tax from the previous year was budgeted. A mid-year adjustment to sales tax revenue budget was made reflecting the stabilizing of the economic conditions. FY10 actuals were 4.6% over final budget
- Decrease of \$5.3 million in Transit System Operating Assistance grants was due to the delay in construction of the Bus Operations & Maintenance Facility project to 2015, which accounts for \$2.2 million; delivery of the Gillig buses was re-scheduled to January 2011 and accounts for \$1.7 million; and \$445,000 for bus fare boxes which will be procured at a later time. Decrease in capital grants of \$16,911,881 is due to the RTRFI funds which reflected the RTRFI funding for the A-train project—this amendment revised expenditure projects to try to more accurately reflect the construction schedule of the rail project which became more available as the project progressed.
- Decrease of \$295,882 in investment income. In the FY10 budget, investment income was calculated at a rate of .8% and also assumed the issuance of \$7 million to finance the Bus Operations & Maintenance Facility. The Bus O&M Facility construction was delayed until 2015 so bonds funds would not be available for investment during construction phase. In addition, market conditions continued to decline. The rate on investments was revised to .1%.

**Denton County Transportation Authority
Management's Discussion and Analysis
For the Year Ended September 30, 2010
(Unaudited)**

Expenses

- Decrease of \$1,725,349 in Services primarily due to the delay of purchased transportation services contract for the operation and maintenance of the rail service. Expenses were reduced by \$1,763,049 due to the revised project timeline. Phased in service was originally anticipated to begin in December of 2010 and was revised to being full service in mid-2011.
- Decrease of \$483,246 in Materials & Supplies is due to fuel costs being less than budgeted.
- Decrease of \$1,336,020 in Facility and Equipment rent due to RDC rail vehicle lease payment was originally anticipated to occur in FY10 but due to the revised project timeline moved to FY11.

Condensed Statement of Net Assets

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Assets			
Current assets	\$ 150,683,380	\$ 240,384,789	\$ 53,029,472
Non-current assets	218,896,083	99,782,412	13,538,767
Total Assets	<u>\$ 369,579,463</u>	<u>\$ 340,167,201</u>	<u>\$ 66,568,239</u>
 Liabilities and Net Assets			
Current liabilities	\$ 116,894,489	\$ 202,936,206	\$ 2,533,212
Non-current liabilities	20,890,000	20,000,000	20,000,000
Total Liabilities	137,784,489	222,936,206	22,533,212
 Net Assets			
Invested in capital assets	192,287,389	79,699,180	3,277,402
Unrestricted	39,507,585	37,531,815	40,757,626
Total Net Assets	<u>231,794,974</u>	<u>117,230,995</u>	<u>44,035,027</u>
Total Liabilities and Net Assets	<u>\$ 369,579,463</u>	<u>\$ 340,167,201</u>	<u>\$ 66,568,239</u>

DCTA Fiscal Year 2011 Budget

Operating revenues show an increase of 17% or \$517,549 over 2010 actual results. This increase is due primarily to an anticipated increase in ridership from the start of revenue rail service when the A-train begins operation in mid-2011. Additionally, this reflects a scheduled increase under the UNT contract along with increase in budgeted fuel revenue. The UNT contract, as well as the NCTC contract, provides bus service for students, staff, and faculty.

**Denton County Transportation Authority
Management's Discussion and Analysis
For the Year Ended September 30, 2010
(Unaudited)**

The fiscal year 2011 operating expenses (excluding depreciation) are projected to increase \$8,945,357 over 2010 actual results. Approximately 83% or \$7.4 million of the increase is due to the start up of new passenger rail service: \$7.2 million for mobilization, operating and maintenance costs. Also included in the overall increase is \$603,000 for the lease of diesel rail cars from DART pending delivery of DCTA's new rail vehicles in 2012. The FY2011 budget anticipates fuel increases and diesel fuel is budgeted at \$3.25 per gallon and accounts for the majority of the increase in Materials & Supplies. Actual FY09 reflected an average of \$2.51 per gallon with the most recent price at \$2.81 per gallon. The FY2011 budget also anticipates a 10% increase in employee medical benefits over FY10, resulting in an increase of \$90,000. Only two additional positions were added to support the Downtown Denton Transit Center when it comes on line in early 2011.

Non-operating revenue, net of expenses, is projected to decrease 33% or \$40,970,840 over 2010 actual results. The decrease in non-operating revenue is due to the planned completion of the rail line construction project. A decrease in revenue of \$42,262,013 is budgeted to reflect the reduced amount that will be drawn down from RTRFI funds as the rail project approaches completion in mid-2011. RTRFI funding was received by DCTA to fund 80% of the DCTA A-train regional rail project. This is offset in part by \$1.8 million increase in Transit System Operating grants to fund various bus operating and capital needs.

The passenger rail capital project represents a significant investment by DCTA and its stakeholders. Based on current construction schedules, DCTA is projecting to spend \$96 million for completion of the A-train project in FY11.

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, 2010 and 2009

	2010	2009
ASSETS		
Current assets		
Cash and cash equivalents	\$ 61,382,373	\$ 47,081,371
Receivables	4,125,382	5,657,704
Prepaid expenses	254,336	296,851
Restricted assets - cash and cash equivalents	84,921,289	187,348,863
Total current assets	150,683,380	240,384,789
Investments	4,999,306	-
Bond issuance costs, net of accumulated amortization	719,388	83,233
Capital assets		
Land and other non-depreciable assets	201,562,495	94,780,403
Other capital assets, net of accumulated depreciation/amortization	11,614,894	4,918,776
Total assets	\$ 369,579,463	\$ 340,167,201
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable and accrued expenses	\$ 1,204,440	\$ 843,868
Construction contracts payable	19,471,879	10,118,105
Retainage payable	11,264,688	4,603,703
Deferred revenue	84,953,482	187,370,530
Total current liabilities	116,894,489	202,936,206
Bonds Payable	20,890,000	20,000,000
Total liabilities	137,784,489	222,936,206
Commitments and Contingencies - Note 9		
Net Assets		
Invested in capital assets, net of related debt	192,287,389	79,699,180
Unrestricted	39,507,585	37,531,815
Total net assets	231,794,974	117,230,995
Total liabilities and net assets	\$ 369,579,463	\$ 340,167,201

See notes to financial statements.

DENTON COUNTY TRANSPORTATION AUTHORITY

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

Years Ended September 30, 2010 and 2009

	2010	2009
Operating Revenues		
Passenger revenue	\$ 539,938	\$ 514,944
Contract services	2,368,908	2,086,401
Other	129,311	112,834
Total operating revenues	3,038,157	2,714,179
Operating Expenses		
Salaries, wages, and fringe benefits	5,890,580	5,377,646
Services	1,547,574	1,113,057
Materials and supplies	1,674,511	1,383,676
Utilities	74,165	72,712
Insurance	328,109	403,328
Facility and equipment rents	322,041	323,369
Other - miscellaneous	143,697	145,078
	9,980,677	8,818,866
Depreciation	1,093,469	1,039,436
Total operating expenses	11,074,146	9,858,302
Operating loss	(8,035,989)	(7,144,123)
Non-Operating Revenues (Expenses)		
Sales tax revenue	16,188,072	15,666,457
Capital grants	102,970,259	63,543,494
Transit system operating assistance grants	3,432,290	1,756,241
Investment income	105,503	335,979
Interest expense	(162,284)	-
Amortization of bond issuance costs	(89,696)	(22,700)
Unreimbursed prior year grant expenses	-	(504,959)
Trinity Mills design and construction	194,099	(439,011)
Gain (loss) on disposal of assets	(38,275)	4,590
Total non-operating revenue	122,599,968	80,340,091
Change in net assets	114,563,979	73,195,968
Net assets, beginning of year	117,230,995	44,035,027
Net assets, end of year	\$ 231,794,974	\$ 117,230,995

See notes to financial statements.

DENTON COUNTY TRANSPORTATION AUTHORITY

STATEMENTS OF CASH FLOWS

Years Ended September 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Cash Flows from Operating Activities		
Receipts from customers and users	\$ 2,934,205	\$ 2,633,848
Payment to suppliers	(4,484,751)	(4,287,407)
Payments to employees	<u>(5,841,725)</u>	<u>(5,376,839)</u>
Net cash used by operating activities	<u>(7,392,271)</u>	<u>(7,030,398)</u>
Cash Flows from Non-capital Financing Activities		
Sales tax received	15,693,726	15,953,036
Operating grant reimbursements	<u>5,573,444</u>	<u>330,484</u>
Net cash provided by non-capital financing activities	<u>21,267,170</u>	<u>16,283,520</u>
Cash Flows from Capital and Related Financing Activities		
Contributions and grants for capital improvements	542,677	250,914,024
Acquisition and construction of capital assets	(96,491,236)	(73,261,180)
Proceeds from sale of fixed assets	-	14,578
Interest paid on bonds	<u>(913,503)</u>	<u>(571,350)</u>
Net cash provided (used) by capital and related financing activities	<u>(96,862,062)</u>	<u>177,096,072</u>
Cash Flows from Investing Activities		
Purchase of investments	(5,000,000)	-
Interest received on investments	105,503	335,979
Trinity Mills design and construction	<u>(244,912)</u>	<u>-</u>
Net cash provided (used) by investing activities	<u>(5,139,409)</u>	<u>335,979</u>
Net increase (decrease) in cash and cash equivalents	(88,126,572)	186,685,173
Cash and cash equivalents, beginning of year	<u>234,430,234</u>	<u>47,745,061</u>
Cash and cash equivalents, end of year	<u><u>\$ 146,303,662</u></u>	<u><u>\$ 234,430,234</u></u>

See notes to financial statements.

DENTON COUNTY TRANSPORTATION AUTHORITY

STATEMENTS OF CASH FLOWS (Continued)

Years Ended September 30, 2010 and 2009

	2010	2009
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	\$ (8,035,989)	\$ (7,144,123)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation expense	1,093,469	1,039,436
Change in operating assets and liabilities		
Operating accounts receivable	(114,486)	(80,331)
Prepaid expenses	42,515	44,406
Operating accounts payable	60,703	(1,001,144)
Accrued payroll and payroll related taxes	48,854	807
Other accrued operating liabilities	(497,871)	110,551
Deferred revenue for operations	10,534	-
Total adjustments	643,718	113,725
Net cash used by operating activities	\$ (7,392,271)	\$ (7,030,398)
Non cash financing activity:		
Bond issuance costs	\$ 163,000	\$ -
Prepayment penalty on bond repurchase	\$ 727,000	\$ -
Reconciliation of cash and cash equivalents	\$ 61,382,373	\$ 47,081,371
Cash and cash equivalents	84,921,289	187,348,863
Restricted assets - cash and cash equivalents	\$ 146,303,662	\$ 234,430,234

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 Denton County Transportation Authority (“DCTA”), as reflected in the accompanying financial statements for the fiscal years ended September 30, 2010 and 2009, 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 DCTA 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, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as non-operating revenues and expenses.

DENTON COUNTY TRANSPORTATION AUTHORITY

NOTES TO FINANCIAL STATEMENTS

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

Basis of Accounting (Continued)

All dollar amounts, unless otherwise noted, are in whole dollars. References to years 2010 and 2009 are for fiscal years ended September 30, 2010 and 2009.

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

When both restricted and unrestricted resources are available for use, it is DCTA's policy to use restricted resources first. The unrestricted resources are used as they are needed.

Cash and Cash Equivalents

Cash and cash equivalents consists of cash on hand, 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.

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 proceeds from capital grants and are held as cash and cash equivalents.

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 consist of bonds and are stated at fair value. Realized and unrealized gains and losses are reflected in the statement of revenues, expenses, and changes in net assets.

DENTON COUNTY TRANSPORTATION AUTHORITY

NOTES TO FINANCIAL STATEMENTS

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

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.

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:

	<u>Years</u>
Transportation vehicles:	
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.

Intangible assets are stated at historical cost net of accumulated amortization. The intangible asset consists of a rail operating easement for the purpose of constructing, installing, maintaining, and operating a modern rail passenger system.

DENTON COUNTY TRANSPORTATION AUTHORITY

NOTES TO FINANCIAL STATEMENTS

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

Current Liabilities

DCTA has not formally restricted cash funds to pay current operating liabilities, but has adequate cash and investments to satisfy these obligations. Construction contracts payable will be satisfied with restricted assets received from the Texas Department of Transportation for the use of the passenger rail system and to purchase rail vehicles.

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.

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. At September 30, 2010 and 2009, DCTA has received \$32,201 and \$21,667 in advance payments respectively.

In addition, during 2009, DCTA received a grant and advanced funding in the amount of \$250,360,000 from the Texas Department of Transportation for the development of the passenger rail system and to purchase rail vehicles. DCTA recognizes revenue as the funds are spent. At September 30, 2010 and 2009, unspent grant funds plus interest amounted to \$84,921,289 and \$187,348,863, respectively, and are reflected as restricted assets – cash and cash equivalents in the statement of net assets.

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/amortization and related debt.

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

DENTON COUNTY TRANSPORTATION AUTHORITY

NOTES TO FINANCIAL STATEMENTS

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

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

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 bad debt expense, interest expense, 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.

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.

Reclassification

Certain 2009 amounts have been reclassified to conform to the 2010 presentation.

DENTON COUNTY TRANSPORTATION AUTHORITY

NOTES TO FINANCIAL STATEMENTS

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.

NOTE 3. SERVICE AGREEMENT

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.

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.

DENTON COUNTY TRANSPORTATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS

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

At year-end, cash, cash equivalents and investments consist of the following:

	September 30, 2010	September 30, 2009
Cash and cash equivalents		
Demand deposits	\$ 85,696	\$ (187,624)
Sweep repurchase agreements	501,891	5,648,838
Money market account	2,506,527	2,500,579
Certificates of deposit	46,339,126	-
TexSTAR	96,870,422	226,468,441
Investments		
FNMA Bonds	4,999,306	-
	<u>\$ 151,302,968</u>	<u>\$ 234,430,234</u>
Reconciliation:		
Cash and cash equivalents	\$ 61,382,373	\$ 47,081,371
Restricted cash and cash equivalents	84,921,289	187,348,863
Investments	4,999,306	-
	<u>\$ 151,302,968</u>	<u>\$ 234,430,234</u>

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.

Bonds held by DCTA are invested in the Federal National Mortgage Association and have a maturity of September 2012. DCTA investments are reported at fair value, and all investments are insured or registered, or the securities are held by DCTA's agent in DCTA's name.

DENTON COUNTY TRANSPORTATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS

NOTE 5. CAPITAL ASSETS

Changes in capital assets for the fiscal years ended September 30, 2010 and 2009 follow:

	Balance September 30, 2009	Increases	Decreases	Balance September 30, 2010
Capital assets, not being depreciated:				
Land	\$ 14,457,050	\$ 2,121,268	\$ -	\$ 16,578,318
Construction in progress	80,323,353	104,660,824	-	184,984,177
Capital assets, not being depreciated	94,780,403	106,782,092	-	201,562,495
Capital assets, being depreciated/amortized:				
Vehicles and operating equipment	9,998,586	339,257	(1,139,627)	9,198,216
Leasehold improvements	55,506	-	-	55,506
Office furniture and equipment	142,434	7,105	(1,778)	147,761
Easement	-	7,500,000	-	7,500,000
Total capital assets, being depreciated/amortized	10,196,526	7,846,362	(1,141,405)	16,901,483
Less accumulated depreciation/amortization for:				
Vehicles and operating equipment	5,106,277	945,882	(1,084,627)	4,967,532
Leasehold improvements	42,877	12,629	-	55,506
Office furniture and equipment	128,596	9,955	-	138,551
Easement	-	125,000	-	125,000
Accumulated depreciation	5,277,750	1,093,466	(1,084,627)	5,286,589
Capital assets, being depreciated/amortized, net	4,918,776	6,752,896	(56,778)	11,614,894
Total capital assets, net	\$ 99,699,179	\$ 113,534,988	\$ (56,778)	\$ 213,177,389

DENTON COUNTY TRANSPORTATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS

NOTE 5. CAPITAL ASSETS (CONTINUED)

	Balance September 30, 2008	Increases	Decreases	Balance September 30, 2009
Capital assets, not being depreciated:				
Land	\$ 24,357	\$ 14,432,693	\$ -	\$ 14,457,050
Construction in progress	7,558,260	72,765,093	-	80,323,353
Total capital assets, not being depreciated	7,582,617	87,197,786	-	94,780,403
Capital assets being depreciated				
Vehicles and operating equipment	9,993,781	93,122	(88,317)	9,998,586
Leasehold improvements	39,720	15,786	-	55,506
Office furniture and equipment	133,360	9,074	-	142,434
Total capital assets, being depreciated	10,166,861	117,982	(88,317)	10,196,526
Less accumulated depreciation for:				
Vehicles and operating equipment	4,168,141	1,016,465	(78,329)	5,106,277
Leasehold improvements	39,720	3,157	-	42,877
Office furniture and equipment	108,783	19,813	-	128,596
Accumulated depreciation	4,316,644	1,039,435	(78,329)	5,277,750
Capital assets, being depreciated, net	5,850,217	(921,453)	(9,988)	4,918,776
Total capital assets, net	\$ 13,432,834	\$ 86,276,333	\$ (9,988)	\$ 99,699,179

Primary capital asset expenditures in 2010 and 2009 relate to the design of the 21-mile rail corridor. See related commitment disclosure in Note 9.

NOTE 6. INTANGIBLE ASSETS

As of October 1, 2009, DCTA adopted GASB statement 51 *Accounting and Financial Reporting for Intangible Assets*. This Statement provides guidance regarding how to identify, account for, and report intangible assets. The new standard characterizes an intangible asset as an asset that lacks physical substance, is nonfinancial in nature, and has an initial useful life extending beyond a single reporting period.

DENTON COUNTY TRANSPORTATION AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOTE 6. INTANGIBLE ASSETS (CONTINUED)

In June 2010, DCTA acquired a rail operating easement for the purpose of constructing, installing, maintaining, and operating a modern passenger rail system for a cash payment of \$7,500,000. DCTA's right under the contract will expire in June 2030, which is 20 years after the execution of the contract. Amortization of this asset is being recognized over the 20 year useful life on a straight-line basis and was \$125,000 for the year ended September 30, 2010 (see Note 5).

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 years 2010 and 2009, employee contributions were \$35,122, or 3% of the total payroll, and \$47,559, or 4% of the total payroll, respectively. DCTA contributions were \$32,106 in 2010 and \$14,803 in 2009, or 3% and 2% of the total payroll for each year, respectively.

NOTE 8. BONDS PAYABLE

In June of 2008, DCTA issued privately held revenue bonds for \$20,000,000. The proceeds from the bonds were used for the construction of the railway that is connecting Denton and Dallas counties. As of September 30, 2009, DCTA had drawn down \$20,000,000 for construction. In December 2009, DCTA issued Sales Tax Revenue Refunding Bonds for \$20,890,000. This bond issuance refunds the \$20 million privately held bonds that were issued in 2008 and will allow DCTA to repay the bonds over 20 years versus a five-year repayment under the original issuance. Because of the early repayment, a \$727,000 interest penalty was incurred. The penalty is being amortized over the remaining life of the 2008 issuance. This amount was financed through the refunding bonds. DCTA has pledged the sales tax revenues towards the repayment of the bonds. Beginning September 15, 2013, principal payments are due in annual installments and continue through September 2029. The annual debt service requirements follow:

Fiscal Year ending September 30,	Principal	Interest
2011	\$ -	\$ 833,511
2012	-	833,511
2013	885,000	833,511
2014	920,000	798,200
2015	955,000	761,492
2016-2020	5,375,000	3,204,569
2021-2025	6,530,000	2,043,878
2026-2029	6,225,000	633,213
Total requirements	<u>\$ 20,890,000</u>	<u>\$ 9,941,885</u>

DENTON COUNTY TRANSPORTATION AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOTE 8. BONDS PAYABLE (CONTINUED)

The following is a summary of changes in bonds payable of DCTA for the year ended September 30, 2010:

Balance at October 1, 2009	\$ 20,000,000
Additions	20,890,000
Reductions	<u>(20,000,000)</u>
Balance at September 30, 2010	<u>\$ 20,890,000</u>

Interest is due semi-annually in March and September with the first payment paid on March 15, 2010. The bonds bear interest of 3.99%.

Total interest capitalized during the years ended September 30, 2010 and 2009 was \$742,586 and \$586,000, respectively.

Amortization of bond issuance costs in the amount of \$89,696 and \$22,700 were recognized for the years ended September 30, 2010 and 2009, respectively.

Amortization expense relating to the early repayment penalty was \$162,284 for the year ended September 30, 2010.

The bond agreement requires DCTA to establish and maintain a pledged revenue account and a bond fund account at a depository institution and segregate these accounts in the general ledger for the purpose of accumulating principal and interest when it becomes due and payable. At September 30, 2010, DCTA was in compliance with this requirement.

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 2010 based on premiums charged so that total contributions plus earnings on the contributions will be sufficient to satisfy claims and liabilities.

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.

DENTON COUNTY TRANSPORTATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS

NOTE 9. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Risk Management (Continued)

DCTA has a government crime policy with Fidelity and Deposit Company of Maryland insuring against employee theft up to \$1,000,000 per loss. For the year ended September 30, 2010, DCTA has not incurred any losses under these plans.

Litigation

DCTA has two pending lawsuits. In the opinion of management, after consultation with legal counsel, potential losses will not materially affect financial position, operations or cash flows.

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. Costs 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

At September 30, 2010, DCTA has the following outstanding commitments:

Design and construction of Mid-Park extension	\$	1,000,000
Design and construction of rail line and rail facilities		66,781,000
Purchase of rail cars		49,445,000
Purchase of transit buses		1,688,500
Purchase of easement for rail line		9,450,000
Construction of Trinity Mills Station platform		440,000
Engineering and construction of support services for rail and bus		4,213,000
	<u>\$</u>	<u>133,017,500</u>

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 was \$312,888 for 2010 and \$313,283 for 2009. The lease payments by year follow:

Lease Commitments	<u>2011</u>	<u>2012</u>	<u>Total</u>
Service bay building	\$ 18,280	\$ -	\$ 18,280
Denton operating facility	194,869	103,510	298,379
Denton Park and Ride	12,752	-	12,752
Highland Village Park and Ride	7,438	-	7,438
Lewisville Park and Ride	2,124	-	2,124
Total lease commitments	<u>\$ 235,463</u>	<u>\$ 103,510</u>	<u>\$ 338,973</u>

DENTON COUNTY TRANSPORTATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS

NOTE 9. COMMITMENTS AND CONTINGENCIES (CONTINUED)

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. IMPLEMENTATION OF GASB STATEMENTS

There are no subsequently effective GASB statements that are currently applicable to DCTA.

SUPPLEMENTARY INFORMATION

DENTON COUNTY TRANSPORTATION AUTHORITY

SCHEDULE OF REVENUES AND EXPENSES – BUDGET AND ACTUAL

Year Ended September 30, 2010

with Comparative Actual for 2009

	2010				2009 Actual
	Original Budget	Final Budget	Actual	Variance	
Operating Revenues					
Passenger revenues	\$ 544,073	\$ 528,652	\$ 539,938	\$ 11,286	\$ 514,944
Contract service revenues	2,444,862	2,424,422	2,368,908	(55,514)	2,086,401
Other revenues	-	14,877	129,311	114,434	112,834
Total operating revenues	<u>2,988,935</u>	<u>2,967,951</u>	<u>3,038,157</u>	<u>70,206</u>	<u>2,714,179</u>
Operating Expenses					
Salaries, wages, and fringe benefits	6,349,144	6,249,142	5,890,580	358,562	5,377,646
Services	3,658,577	1,933,228	1,547,574	385,654	1,113,057
Materials and supplies	2,357,862	1,874,616	1,674,511	200,105	1,383,676
Utilities	77,820	77,820	74,165	3,655	72,712
Insurance	360,877	360,877	328,109	32,768	403,328
Facility and equipment rent	1,661,820	325,800	322,041	3,759	323,369
Miscellaneous	183,960	185,262	143,697	41,565	145,078
Depreciation	933,232	933,232	1,093,469	(160,237)	1,039,436
Total operating expenses	<u>15,583,292</u>	<u>11,939,977</u>	<u>11,074,146</u>	<u>865,831</u>	<u>9,858,302</u>
Operating loss	<u>(12,594,357)</u>	<u>(8,972,026)</u>	<u>(8,035,989)</u>	<u>936,037</u>	<u>(7,144,123)</u>
Non-Operating Revenues (Expenses)					
Sales tax revenue	14,882,361	15,474,651	16,188,072	713,421	15,666,457
Capital grants	137,931,622	121,019,741	102,970,259	(18,049,482)	63,543,494
Transit system operating assistance grants	10,037,627	4,717,181	3,432,290	(1,284,891)	1,756,241
Net investment income	393,173	97,291	105,503	8,212	335,979
Interest expense	(1,250,286)	(904,870)	(162,284)	742,586	-
Amortization of bond issuance costs	(87,483)	(89,767)	(89,696)	71	(22,700)
Unreimbursed prior-year grant expenses	-	-	-	-	(504,959)
Trinity Mills design and construction	-	-	194,099	194,099	(439,011)
Gain (loss) on disposal of assets	-	-	(38,275)	(38,275)	4,590
Total non-operating revenues	<u>161,907,014</u>	<u>140,314,227</u>	<u>122,599,968</u>	<u>(17,714,259)</u>	<u>80,340,091</u>
Change in net assets	<u>\$ 149,312,657</u>	<u>\$ 131,342,201</u>	<u>\$ 114,563,979</u>	<u>\$ (16,778,222)</u>	<u>\$ 73,195,968</u>

DENTON COUNTY TRANSPORTATION AUTHORITY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended September 30, 2010

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 Cluster:</u>			
FTA/Formula (and flex funds)	TX-90-X724-00	20.507	\$ 110,288
FTA/Formula (and flex funds)	TX-90-X884-00	20.507	145,361
FTA/Formula (and flex funds)	TX-90-X912-00	20.507	429,785
FTA/Formula (and flex funds)	TX-95-X022-00	20.507	701,028
FTA/Formula (and flex funds)	TX-90-X878-00	20.507	647,069
FTA/Formula (and flex funds) - ARRA	TX-96-X033-00	20.507	986,910
FTA Capital Investment	TX-03-0302-00	20.500	9,759
FTA Capital Investment	TX-04-0051-00	20.500	222,764
Total Federal Transit Cluster			3,252,964
<u>Transit Services Programs Cluster:</u>			
Job Access-Reverse Commute (JARC)	TX-37-X020-00	20.516	87,683
Transition, Travel, Training Program	TX-57-X026-00	20.521	11,565
New Freedom Program	TX-57-X008-01	20.521	28,692
Total Transit Services Programs Cluster			127,940
North Central Texas Council of Governments/ Ozone grant	n/a	20.219	78,361
Total U.S. Department of Transportation			3,459,265
Total Federal Expenditures			\$ 3,459,265

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, 2010

NOTE 1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of DCTA 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, DCTA provided no federal awards to subrecipients.

NOTE 3. NON-CASH ASSISTANCE

DCTA did not receive any non-cash assistance from federal awards for the year ended September 30, 2010.

NOTE 4. LOANS

At year-end, the DCTA had no loans or loan guarantees outstanding with federal awarding agencies.

NOTE 5. PRIOR PERIOD EXPENDITURES

For the year ended September 30, 2010, DCTA became aware of prior period costs that were eligible to be reimbursed by federal granting agencies. As a result, \$901,770 of the federal expenditures reported in the Schedule of Expenditures of Federal Awards were incurred in fiscal years prior to the year ended September 30, 2010.



**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 ("DCTA") as of and for the year ended September 30, 2010 and have issued our report thereon dated January 18, 2011. 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 DCTA'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 DCTA's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of DCTA's internal control over financial reporting.

A *deficiency in internal control* 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 and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

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. However, we identified certain deficiencies in internal control over financial reporting, as items 2010-01 through 2010-03, in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies in internal control over financial reporting. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether DCTA'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*.

DCTA's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit DCTA's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Board of Directors, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Rylander, Clay & Opitz, LLP

January 18, 2011





**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH
REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Board of Directors
Denton County Transportation Authority

Compliance

We have audited Denton County Transportation Authority's ("DCTA") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on DCTA's major federal program for the year ended September 30, 2010. DCTA'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 DCTA's management. Our responsibility is to express an opinion on DCTA'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 DCTA'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 DCTA's compliance with those requirements.

In our opinion, DCTA complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended September 30, 2010.

Internal Control Over Compliance

The management of DCTA 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 DCTA's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 DCTA's internal control over compliance.

A deficiency in an entity's internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, 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, federal awarding agencies, pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

Rylander, Clay & Opitz, LLP

January 18, 2011



DENTON COUNTY TRANSPORTATION AUTHORITY

**SUMMARY SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
For the Year Ended September 30, 2010**

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	<u> </u> no
• Significant deficiencies identified that are not considered to be material weaknesses?	<u> </u> X yes	<u> </u>	<u> </u>
Noncompliance material to financial statements noted?	<u> </u> yes	<u> </u> X	<u> </u> no

Federal Awards

Internal control over major programs:			
• Material weakness(es) identified?	<u> </u> yes	<u> </u> X	<u> </u> no
• Significant deficiencies identified that are not considered to be material weaknesses?	<u> </u> yes	<u> </u> X	<u> </u> none reported
Type of auditor's report issued on compliance for major programs:	<u>Unqualified</u>		
Any audit findings disclosed that are required to be Reported in accordance with section 510(a) of Circular A-133?	<u> </u> yes	<u> </u> X	<u> </u> no

Identification of major program:

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

Dollar threshold used to distinguish between

type A and type B programs:	<u>\$ 300,000</u>
Auditee qualified as low-risk auditee?	<u> </u> X yes <u> </u> no

DENTON COUNTY TRANSPORTATION AUTHORITY

SUMMARY SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS (CONTINUED) For the Year Ended September 30, 2010

Section II - Financial Statement Findings

Finding No. 2010-01

Specific requirement: Generally accepted accounting principles require that expenses be reported in the period in which they were incurred.

Condition: Accruals used to estimate the dollar value of construction expenditures for two major vendors incurred prior to year end was inadequate and resulted in accrued liabilities and expenditures being significantly understated for the period.

Context: This instance affected the accruals for two major vendors of DCTA.

Effect: Accrued liabilities and expenses associated with these vendors were understated during the year by approximately \$2.7 million.

Cause: The estimate provided by the vendors was not compared to what was actually billed subsequent to year end and adjusted accordingly.

Recommendation: Estimates should be compared to invoices once received and then adjusted accordingly.

Views of responsible official and planned corrective action: Management agrees with the finding. As a matter of practice, accruals for construction projects are initially based on engineers' estimates, and subsequent invoices are reviewed and the accrual is adjusted monthly. However, due to the number of accruals that DCTA records and adjusts monthly, this was missed in the year-end review. In order to insure proper emphasis and focus of year-end accruals, staff will discontinue the practice of the month-to-month accruals and adjustments based on estimates. This will be effective for period ending January 31, 2011.

Finding No. 2010-02

Specific requirement: Generally accepted accounting principles require that interest costs incurred on related debt during the construction phase should be capitalized as a part of the cost of the asset.

Condition: Interest incurred during the period that related to the debt associated with construction was not capitalized.

Context: Construction-in-progress was understated by approximately \$740,000, and expenses were overstated by this same amount.

Effect: The interest expense was overstated by approximately \$740,000, and assets were understated by this same amount.

Cause: The amount was overlooked at year end.

Recommendation: Interest payments made during the construction phase should be tracked and routinely capitalized during the year to decrease the likelihood the process will be overlooked at year end.

DENTON COUNTY TRANSPORTATION AUTHORITY

SUMMARY SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS (CONTINUED) For the Year Ended September 30, 2010

Section II - Financial Statement Findings (Continued)

Finding No. 2010-02 (Continued)

Views of responsible official and planned corrective action: Management agrees with the finding. A procedure will be incorporated in the monthly accounting closing process to capitalize these interest costs during the construction phase in the month the interest is incurred. Interest payments are generally paid semi-annually. Because this procedure will be incorporated as part of the monthly close, we will reduce the possibility that it will be overlooked in year-end close activity.

Finding No. 2010-03

Specific requirement: Generally accepted accounting principles require that only the transactions that represent the rights and obligations of an organization be reported as assets or liabilities at year end.

Condition: An existing construction was expanded at the request of another organization with the agreement that the organization would offset the additional cost incurred by DCTA. The portion of the asset constructed on behalf of the outside organization as well as the proceeds derived by their payment were recorded as an asset and revenue of DCTA, respectively.

Context: The portion of the asset that was not the property of DCTA should not have been capitalized. The reimbursement of expenses incurred by DCTA for that asset should not have been recognized as revenue.

Effect: Construction-in-progress and revenue were overstated by approximately \$750,000.

Cause: The rarity and unusual nature of the transaction caused it to be recorded incorrectly.

Recommendation: When unusual transactions occur, DCTA should research the issue to determine proper recognition.

Views of responsible official and planned corrective action: Management agrees with the finding. Accounting will monitor these agreements to ensure the transactions are appropriately recorded.

Section III - Federal Award Findings and Questioned Costs

No matters were reported.

DENTON COUNTY TRANSPORTATION AUTHORITY

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

For the Year Ended September 30, 2010

Financial Statement Findings

No matters were reported.

Federal Award Findings and Questioned Costs

No matters were reported.