

DENTON COUNTY TRANSPORTATION AUTHORITY

Financial Statements and Supplementary Information

(With Independent Auditors' Report Thereon)

Fiscal Years Ended September 30, 2006 and 2005



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Denton County Transportation Authority
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Letter of Transmittal

January 25, 2007

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, 2006. This document, prepared by the finance department, is the third set of financial statements developed by DCTA and 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 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 2006 financial statements were audited by Rylander, Clay & Opitz, LLP, a firm of licensed Certified Public Accountants. The 2005 financial statements were audited by John E. Baines, P.C. The goal of the independent audit is to provide reasonable assurance that the financial statements of DCTA for the fiscal years ended September 30, 2006 and 2005 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, 2006 are fairly presented in conformity with GAAP. The independent auditor’s report is presented as the first component of this report. DCTA received an unqualified opinion (page 1), the highest obtainable.

The financial statements are presented in three sections:

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

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 3 to 8) which serves as an audited executive summary of the financial statements, the Financial Statements (pages 9 to 11), and the Notes to the Financial Statements (pages 12 to 23) which provide various disclosures to ensure that a complete picture is presented in the financial statements;
3. The Supplemental Information (pages 24 to 33) provides the fiscal year 2006 original budget, final budget, and 2006 and 2005 actual financial data; Schedule of FTA Expenditures, related notes and auditors reports.

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

Sincerely,



John O. Hedrick
President

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. The DCTA Service Plan, 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 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.

A central element of DCTA’s Service Plan is regional rail service between Denton and Dallas through a convenient connection to the Dallas Area Rapid Transit light rail services in Carrollton, Texas. At a minimum, it is DCTA’s intent to partner with the Dallas Area Rapid Transit (“DART”) to develop 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 appointed by the Denton County Commissioners Court and three members designated by the municipalities with a population of more than 500 and less than 17,000. Each Board member serves a term of two years, with a maximum of three consecutive terms. 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
Joe Roy	Vice – Chairman	Denton
Dorothy Palumbo	Secretary	Highland Village
Charles Correll	Treasurer	Denton County Unincorporated
Larry L’Heureux	Member	Denton County Unincorporated
Skip Kalb	Member	Small Cities
John Lugenheim	Member	Corinth
Doug Peach	Member	Little Elm
Jason Pierce	Member	Denton County At Large
Jim Robertson	Member	Flower Mound
Jeff Snowden	Member	Frisco
Tom Spencer	Member	Small Cities
Fernando Villarreal	Member	The Colony
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, paratransit vehicles, and other 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. Four new paratransit vehicles were put into service in Lewisville. In addition, two paratransit vehicles were ordered for Denton and twelve fixed route buses were ordered and scheduled for manufacturing and delivery in 2006.

The Present

Fiscal year 2006 will be remembered as the year DCTA completed the bus service branding campaign and implemented the bus operations portion of the Service Plan. We continue to advance our efforts to achieve our goals with a focus on quality transportation services for Denton County’s residents and other customers. We continue our commitment to respond to customers’ needs with quality service while recognizing the changing economy. 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 bettering the quality of life in Denton County.

On October 1, 2006, DCTA entered into new management service contract for our bus operations. Under the terms of the contract, the service provider will employ a general manager to manage the bus operations and DCTA will fund the operating subsidiary company where the drivers and operations staff is employed. The operations service provider will continue to focus on superior customer service, vehicle maintenance, bus cleanliness, and reliability, while delivering consistent on-time performance for our bus routes. All of these initiatives will focus on improving our customers’ experience.

Major accomplishments in fiscal year 2006 included:

1. Implemented Commuter Express Service

On May 30, 2006, DCTA launched our first regional service - Commuter Express. 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 buses to provide this service at a cost of \$1,618,000.

2. DCTA Connect – Fixed Route and UNT Bus Service

Our efforts this year focused on providing quality service to our customers. DCTA purchased twelve thirty five foot heavy duty transit buses for UNT and Denton Connect service in 2006.

In addition, DCTA added a new Connect Service in Lewisville in November 2006. In order to achieve the Lewisville expansion, DCTA purchased seven thirty foot revenue service vehicles.

3. DCTA Access – Demand Response and Paratransit Service

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, DCTA purchased five thirty foot replacement vehicles for this service. Also in fiscal year 2006, DCTA installed a RouteMatch scheduling system and centralized dispatching operation at the Denton operations facility. DCTA continues to focus on efficient system ride scheduling and an improved reservation process for Access' customers.

The Future

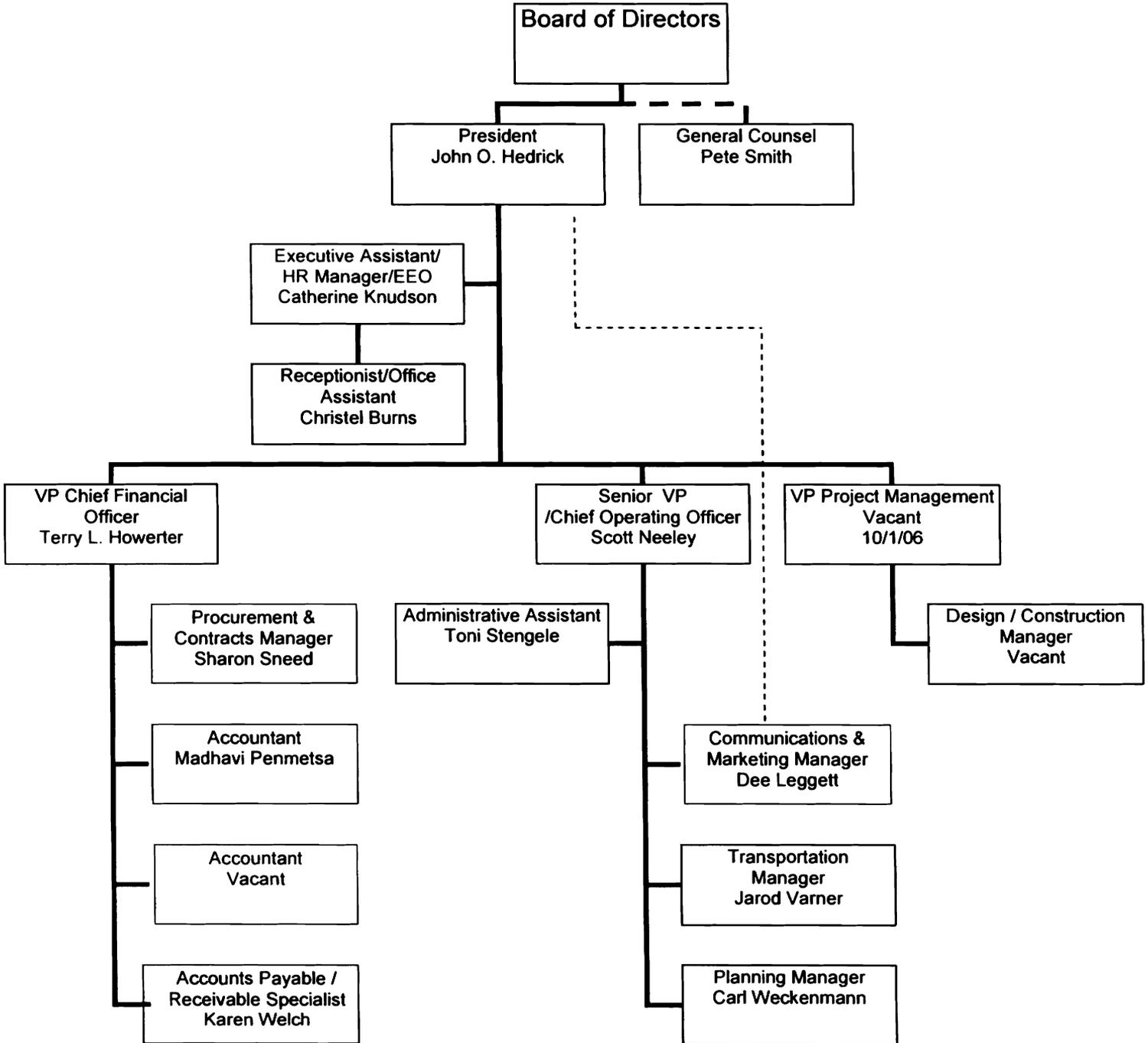
Regional Rail – Building for the Future

In 2005, DCTA's Board of Directors adopted the consultant's recommendation that the former Missouri-Kansas-Texas Railroad (MKT) right of way be selected as the Locally Preferred Alternative. DCTA continues to advance this project in 2007 for the Environmental Impact Study and National Environmental Policy Act compliance documentation required to advance the rail project.

The regional rail project, planned to be operational late in 2010, is anticipated to provide a rail service connection to DART's light rail service in Carrollton. The total project will cover approximately 20 miles between the City of Denton and the DART connection.

As fuel and energy costs continue increasing, DCTA will continue providing cost effective transportation alternatives to our customers, reducing congestion, improving air quality and bettering the quality of life in Denton County.

Organizational Chart



Denton County Transportation Authority

Our Vision

Be a leader in advancing public transportation alternatives

Our Mission

As a regional partner, the Denton County Transportation Authority is committed to provide safe, customer focused, and efficient mobility solutions for Denton County



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 year ending September 30, 2006. These basic financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits. The financial statements of Denton County Transportation Authority for the year ended September 30, 2005 were audited by other auditors whose report, dated December 28, 2005, expressed an unqualified opinion on those financial statements.

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 significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides 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, 2006, and the results of its operations and its cash flows for the year 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 November 29, 2006, 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, 2006, 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 audit was 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 basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

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

November 29, 2006



**Denton County Transportation Authority
Management Discussion and Analysis
For the Year Ended September 30, 2006**

The management of the Denton County Transportation Authority (“DCTA”) prepared this narrative overview and analysis of its financial activities for the fiscal year ended September 30, 2005 and 2006. The information presented should be read in conjunction with the accompanying financial statements and notes thereto, which can be found on pages 9 – 23 of this report, and the additional information furnished in the letter of transmittal.

Financial Highlights for 2006

Total assets of DCTA exceeded total liabilities by \$22,805,705 as of September 30, 2006. Of this amount approximately \$16,622,199 is unrestricted and may be used to meet DCTA’s ongoing obligations in accordance with the fiscal policies.

Net assets increased \$7,901,138 in 2006, which compares to an increase of \$8,943,144 in 2005.

Net capital assets were \$6,183,506 as of September 30, 2006 compared to \$2,264,339 as of September 30, 2005. The increase of \$3,919,167 is primarily due to the purchase of seven coach buses for the Commuter Express service for \$1,617,656 and twelve thirty five foot Connect service replacement buses for \$3,172,320 less depreciation of \$887,623.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the DCTA’s accompanying financial statements and notes. The basic financial statements consist of 1) the 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 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 Discussion and Analysis - continued
For the Year Ended September 30, 2006

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 the 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 the change in net assets.

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. This statement also portrays the health of DCTA in that the current cash flows are sufficient to pay current liabilities.

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 Discussion and Analysis - continued
For the Year Ended September 30, 2006

Financial Analysis of the DCTA Statement of Net Assets

Denton County Transportation Authority
Condensed Statements of Net Assets
September 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Assets		
Current Assets	\$ 24,135,216	\$ 18,200,620
Capital Assets	6,183,506	2,264,339
Total Assets	<u>\$ 30,318,722</u>	<u>\$ 20,464,959</u>
Liabilities and Net Assets		
Current Liabilities	\$ 5,387,653	\$ 4,379,058
Non-current Liabilities	2,125,364	1,181,334
Total Liabilities	<u>7,513,017</u>	<u>5,560,392</u>
Net Assets		
Invested in Capital Assets	6,183,506	2,264,339
Unrestricted	16,622,199	12,640,228
Total Net Assets	<u>22,805,705</u>	<u>14,904,567</u>
Total Liabilities and Net Assets	<u>\$ 30,318,722</u>	<u>\$ 20,464,959</u>

Assets: During fiscal year 2006, DCTA current assets increased \$5,934,596 or 33% over 2005. The increase is primarily due to a \$5,002,994 increase in the DCTA cash and cash equivalents.

Capital Assets, net of depreciation, increased \$3,902,113 primarily due to the acquisition of seven coach buses for the Commuter Express service for \$1,617,656 and twelve thirty five foot Connect service buses for \$3,172,320 less depreciation of \$887,623 and an increase in equipment net of depreciation of \$17,054 for an operations phone system and a server to host the DCTA web site.

Liabilities: Current liabilities increased \$1,008,595 or 23% primarily due to retainage held on contracts, operating activities, and current liabilities related to Enhanced Local Assistance Program ("ELAP") liabilities. The DCTA current ratio, current assets of \$24,135,216 over current liabilities of \$5,387,653, was 4.5:1 as of September 30, 2006 compared to 4.2:1 as of September 30, 2005. 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 \$944,030 due to the accrual of ELAP funds available to the participating member cities in future years. As the participating cities submit projects for reimbursement under this program, the amounts approved are classified as current liabilities.

Denton County Transportation Authority

Management Discussion and Analysis - continued
For the Year Ended September 30, 2006

Financial Analysis of DCTA's Statement of Revenues, Expenses, and Changes in Net Assets

Denton County Transportation Authority
Condensed Statements of Revenues, Expenses and Changes in Net Assets
Years Ended September 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Operating Revenues	\$ 1,846,346	\$ 1,612,605
Operating Expenses	8,603,440	5,945,917
Operating Loss	<u>(6,757,094)</u>	<u>(4,333,312)</u>
Non-Operating Revenues	<u>14,658,232</u>	<u>12,905,139</u>
Change in Net Assets before Capital Contributions	7,901,138	8,571,827
Capital Contributions	<u>-</u>	<u>371,317</u>
Change in Net Assets	7,901,138	8,943,144
Net Assets, Beginning of Year	<u>14,904,567</u>	<u>5,961,423</u>
Net Assets, End of Year	<u>\$ 22,805,705</u>	<u>\$ 14,904,567</u>

Operating Revenues: DCTA operating revenues for fiscal year 2006 increased \$233,741 or 14% over 2005 primarily due to the University of North Texas ("UNT") contract to provide bus service for students and faculty. DCTA operating revenues for 2006 was derived from contract services provided to UNT and passenger fare box revenues.

Operating Expenses: Operating expenses increased \$2,657,523 in 2006 or 45% over 2005. The increased expense was primarily due to the following increases: salary and wages for the increased staff, \$458,831; service expense for the Environmental Impact Study ("EIS") and various operating and developmental consulting cost, \$1,201,056; purchased transportation services for contracted transit operations, \$368,016; and in depreciation, \$294,860. The increased operating expense is a result of the increased services provided and consulting cost for the EIS as we prepare to deliver the regional rail service in Denton County.

Non-operating Revenue and Expenses: Non-operating revenue and expenses increased \$1,753,093 in 2006 or 14% over 2005. The increase in non-operating revenue was primarily due to the increase in grant revenue \$468,319, investment income \$448,805 and sales tax revenue net of ELAP expense of \$833,513.

2005 Capital Contributions: DCTA received 15 buses in the acquisition of assets from the City of Denton, for which the local share related to the purchase of the assets was conveyed to DCTA. The local share for the original purchase of these assets was

Denton County Transportation Authority

Management Discussion and Analysis - continued
For the Year Ended September 30, 2006

contributed to the city of Denton by the University of North Texas. The value of the unamortized local share conveyed to DCTA was \$371,317, which is included in net assets, and the related federal grant obligation, included in Transit System Operating Grants on the Statements of Revenues, Expenses and Changes in Net Assets, assumed by DCTA was \$1,292,992.

Debt Administration

As of September 30, 2006, DCTA had not incurred any debt.

DCTA Fiscal Year 2006 Budget

During fiscal year 2006 the DCTA budget, adopted August 25, 2005 was amended to reflect a decrease in Services for consulting cost that were not incurred under the EIS contract for \$2,486,123 and an additional \$560,000 for general consulting cost that were not contracted. The Purchased Transportation Service budget was reduced, through amendment, \$706,002 for Denton expansion and new Lewisville Connect services that were budgeted to start in 2006. The Transit System Operating Assistance Grant Income budget was reduced \$2,427,382 as DCTA and the Federal Transit Administration completed the grant transfer process to transfer the Section 5307 Urbanized Area Formula program grants from the cities of Denton and Lewisville to DCTA. These funds will be available to DCTA in 2007 and are included in the fiscal year 20007 budget.

The operating budget for 2007 continues to recognize the importance of providing quality transportation services for Denton County's residents and other customers. As fuel and energy costs continue increasing, DCTA will continue providing cost effective transportation alternatives to our customers, reducing congestion, improving air quality and bettering the quality of life in Denton County.

Denton County Transportation Authority Comparative Condensed Statements of Revenues, Expenses and Changes in Net Assets Budget Year Ended September 30, 2007 and Financial Year Ended 2006

	<u>2007 Budget</u>	<u>2006 Actual</u>	<u>Increase (Decrease) from 2006</u>	<u>Percent Increase Decrease</u>
Operating Revenues	\$ 2,358,314	\$ 1,846,346	\$ 511,968	28%
Operating Expenses	14,086,245	8,603,440	5,482,805	64%
Operating Loss	(11,727,931)	(6,757,094)	(4,970,837)	74%
Non-Operating Revenues	19,420,527	14,658,232	4,762,295	32%
Change in Net Assets	7,692,596	7,901,138	(208,542)	-3%
Net Assets, Beginning of Year	22,805,705	14,904,567	7,901,138	53%
Net Assets, End of Year	<u>\$ 30,498,301</u>	<u>\$ 22,805,705</u>	<u>\$ 7,692,596</u>	<u>34%</u>

Denton County Transportation Authority

Management Discussion and Analysis - continued
For the Year Ended September 30, 2006

DCTA Fiscal Year 2007 Budget

The DCTA adopted fiscal year 2007 budget for operating revenues projects an increase of \$511,968 or 28% over 2006 actual results. This increase is primarily due to new services for the Lewisville Connect service and increased revenue for a full year of operation for the Commuter Express service and increased service required for the University of North Texas (“UNT”) contract to provide bus service for students and faculty.

Operating expenses are projected to increase \$5,182,805 in 2007 or 64% over 2006 actual results. The increased 2007 expense is primarily due to an increase in the bus operations department budget of approximately \$2,100,000 for the new Lewisville Connect service, increase in depreciation expense for new assets, and a full year of Commuter Express operations; and Services increased \$2,729,000 for increased cost of the EIS to advance the regional rail project.

Non-operating revenue, net of expenses, is projected to increase \$4,762,295 in 2007 or 32% over 2006 actual results. The increase in non-operating revenue is primarily due to the increase in grant revenue \$3,878,655, investment income \$529,877, and sales tax revenue net of ELAP expense of \$353,763.

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 the 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, 2006 and 2005

	2006	2005
Assets		
Current Assets		
Cash and Cash Equivalents	\$ 7,190,474	\$ 2,187,480
Investments	13,781,640	13,175,253
Receivables	3,051,981	2,776,428
Prepaid Expenses	111,121	61,459
Total Current Assets	24,135,216	18,200,620
Property, Plant, and Equipment, Net of Accumulated Depreciation	6,183,506	2,264,339
Total Assets	\$ 30,318,722	\$ 20,464,959
Liabilities and Net Assets		
Current Liabilities		
Accounts Payable	\$ 352,530	\$ 518,521
Accrued Payroll and Payroll Related Taxes	33,840	9,782
Other Accrued Liabilities	769,277	298,280
Enhanced Local Assistance Program - Current	4,210,339	3,530,808
Deferred Contract Revenue	21,667	21,667
Total Current Liabilities	5,387,653	4,379,058
 Non-current Liabilities		
Enhanced Local Assistance Program - Non-current	2,125,364	1,181,334
Total Non-current Liabilities	2,125,364	1,181,334
 Net Assets		
Invested in Capital Assets	6,183,506	2,264,339
Unrestricted	16,622,199	12,640,228
Total Net Assets	22,805,705	14,904,567
Total Liabilities and Net Assets	\$ 30,318,722	\$ 20,464,959

See accompanying notes to financial statements.



Denton County Transportation Authority
Statements of Revenues, Expenses and Changes in Net Assets
Years Ended September 30, 2006 and 2005

	2006	2005
Operating Revenues		
Passenger Revenue	\$ 199,627	\$ 198,391
Contract Services	1,644,794	1,408,917
Other	1,925	5,297
Total Operating Revenues	1,846,346	1,612,605
Operating Expenses		
Salaries, Wages and Fringe Benefits	755,780	296,949
Services	2,361,773	1,160,717
Materials and Supplies	73,340	22,585
Utilities	10,471	6,865
Insurance	135,434	2,552
Purchased Transportation Services	4,075,845	3,707,829
Facility and Equipment Rents	194,116	74,717
Other - Miscellaneous	81,851	53,733
Depreciation	914,830	619,970
Total Operating Expenses	8,603,440	5,945,917
 Operating Loss	 (6,757,094)	 (4,333,312)
 Non-Operating Revenues (Expenses)		
Sales Tax Revenue	14,796,379	13,685,028
Enhanced Local Assistance	(3,699,095)	(3,421,257)
Transit System Operating Assistance Grants	2,808,151	2,339,832
Investment Income	752,797	303,992
Gain (Loss) on Disposal of Assets	-	(2,456)
Total Non-Operating Revenue	14,658,232	12,905,139
 Change in Net Assets before Capital Contributions	 7,901,138	 8,571,827
 Capital Contributions	 -	 371,317
 Change in Net Assets	 7,901,138	 8,943,144
Net Assets, Beginning of Year	14,904,567	5,961,423
Net Assets, End of Year	\$ 22,805,705	\$ 14,904,567

See accompanying notes to financial statements.



Denton County Transportation Authority
Statements of Cash Flows
Years Ended September 30, 2006 and 2005

	2006	2005
Cash Flows from / (used) for Operating Activities		
Receipts from Customers and Users	\$ 1,643,386	\$ 1,207,350
Payments to Suppliers	(1,015,075)	(1,197,619)
Payments to EIS Consultants	(1,456,825)	-
Payments to Employees and Benefit Providers	(750,802)	(290,507)
Payments to Purchased Transportation	(3,904,436)	(3,186,785)
Net Cash used by Operating Activities	(5,483,752)	(3,467,561)
Cash Flows from / (used) for Non-Capital Financing Activities		
Sales Tax Received	14,594,620	13,498,143
Enhanced Local Assistance	(2,075,533)	(739,290)
Operating Grant Reimbursements	2,638,436	311,659
Net Cash Provided by Non-Capital Financing Activities	15,157,523	13,070,512
Cash Flows from / (used) for Capital and Related Financing Activities		
Acquisition and Construction of Capital Assets	(4,814,196)	(406,609)
Net Cash used by Capital and Related Financing Activities	(4,814,196)	(406,609)
Cash Flows from / (used) for Investing Activities		
Interest received on investments	519,706	80,306
Proceeds from the sale of investments	13,975,000	9,095,000
Purchase of investments	(14,351,287)	(20,484,360)
Net Cash provided (used) by Investing Activities	143,419	(11,309,054)
Net Increase (Decrease) in Cash and Cash Equivalents	5,002,994	(2,112,712)
Cash and Cash Equivalents, Beginning of Year	2,187,480	4,300,192
Cash and Cash Equivalents, End of Year	\$ 7,190,474	\$ 2,187,480
Reconciliation of Operating Income to Net Cash provided (used) by Operating Activities:		
Operating Loss	\$ (6,757,094)	\$ (4,333,312)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation Expense	914,830	619,970
Change in Operating Assets and Liabilities		
Prepaid Expenses	(49,662)	(57,497)
Operating Accounts Receivable, Net	97,455	(396,755)
Operating Accounts Payable, Net	(160,336)	422,760
Accrued Payroll and Payroll Related Taxes	24,058	1,698
Other accrued liabilities	446,997	253,908
Deferred revenue	-	21,667
Total Adjustments	1,273,342	865,751
Net Cash Used by Operating Activities	\$ (5,483,752)	\$ (3,467,561)
Supplemental cash flow information:		
Non-cash transactions:		
Capital contribution conveyed to DCTA	\$ -	\$ 371,317



Denton County Transportation Authority

Notes to Financial Statements
For the Year Ended September 30, 2006

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, 2006 and 2005, 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 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 the current eight municipalities with a population of 12,000 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 12,000 located in Denton County.

On October 26, 2006 the DCTA Board of Directors approved a Resolution to increase the municipality population requirement amount stated in Section 460.045(b) of the Texas Transportation Code for appointment to the DCTA Board from 12,000 to 17,000 and to amend the Bylaws accordingly.



Summary of Significant Accounting Policies

(a) 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.

All dollar amounts, unless otherwise noted, are in whole dollars. Reference to Year 2006 is a fiscal year ending September 30, 2006.

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

(b) 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.

(c) 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.

(d) 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.

(e) Prepaid Expenses

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



Denton County Transportation Authority

Notes to Financial Statements - Continued
For the Year Ended September 30, 2006

(f) Capital Assets

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

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

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

	<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.

(g) 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 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.



Denton County Transportation Authority

Notes to Financial Statements - Continued
For the Year Ended September 30, 2006

(h) Enhanced Local Assistance Program

The Enhanced Local Assistance Program (“ELAP”) is a mobility improvement program for participating member cities. The ELAP provides financial assistance for mobility projects approved by DCTA for a maximum period of four years. Funding is available to participating cities at an amount equal to twenty-five percent of the DCTA sales and use tax collections from the respective city. DCTA recognized ELAP expenses of \$3,699,095 and \$3,421,257 in fiscal years 2006 and 2005 with a related current and non-current liability of \$4,041,274 and \$2,125,364, respectively. Payments to participating cities in 2006 and 2005 were \$2,075,533 and \$739,291, respectively.

(i) Deferred Revenue

The University of North Texas and Texas Woman’s University 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.

(j) Net Assets

Equity is displayed in two components as follows:

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

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

(k) 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, Corinth, and Hickory Creek.

(l) 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.



Denton County Transportation Authority

Notes to Financial Statements - Continued
For the Year Ended September 30, 2006

(m) 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.

(n) 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.

(o) Going Concern

DCTA has no going concern issues.

(p) Reclassifications

Certain amounts from the prior year have been reclassified to conform to the current year presentation.

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 material variance explanations.



Denton County Transportation Authority

Notes to Financial Statements - Continued
For the Year Ended September 30, 2006

The original and amended budgets are presented in the accompanying financial statements. Significant amendments made during the fiscal year 2006 included a decrease in operating expenses of 30%, primarily for consulting services under the Environmental Impact Study and purchased transportation services for services that were launched later than anticipated, and non-operating revenues and expenses were decreased 15% for transit system grant revenue.

Note 3. Service and Facility Agreements

In fiscal years 2006 and 2005, DCTA contracted with McDonald Transit Associates, Inc. ("McDT"), under separate operating agreements in Lewisville and Denton, to provide management services for the bus operations. McDT provided management services through their subsidiaries, Lewisville Transit Management, Inc. and Denton Transit Management, Inc. bus and paratransit services. McDT employs the personnel required to operate the services and is reimbursed for operating costs and a fixed fee. In addition, DCTA contracted with the City of Lewisville to provide maintenance service on the paratransit fleet in Lewisville. DCTA incurred purchased transportation expense of \$4,075,845 and \$3,707,829 for services in 2006 and 2005, respectively.

DCTA has entered into inter-local 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 also provides for vehicle maintenance at scheduled rates.

Note 4. Cash, Cash Equivalents, and Investments

(a) Cash and Cash Equivalents

DCTA adopted the Governmental Accounting Standards Board Statement No. 40, "Deposit and Investment Risk Disclosures" in fiscal year 2005. The standard requires that entities disclose essential risk information about deposit and investment requirements addressing common risks of investments.

<u>Cash and Cash Equivalents</u>	<u>September 30, 2006</u>	<u>September 30, 2005</u>
Demand Deposits	\$ (38,053)	\$ 518,367
Sweep Repurchase Agreements	146,028	-
Money Market Account	2,022,235	-
TexSTAR	5,060,264	1,669,114
Total Cash and Cash Equivalents	\$ 7,190,474	\$ 2,187,481

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 - Continued
For the Year Ended September 30, 2006

(b) 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 may not exceed 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 Bills 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 AAA 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 amortized value, and all investments are insured or registered, or the securities are held by the DCTA or its agent in DCTA's name.

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

Investments	September 30, 2006			September 30, 2005		
	Fair Value	% of Portfolio	Weighted Average Days to Maturity	Fair Value	% of Portfolio	Weighted Average Days to Maturity
FNMA (Fannie Mae)	\$ 5,471,190	40%	296	\$ 3,977,772	30%	315
FHLB	1,980,069	15%	258	499,732	4%	609
FHLMC (Feddie Mac)	2,477,499	18%	217	2,967,790	23%	107
U.S. Treasury Bills	-	0%	-	2,459,222	19%	160
U.S. Treasury Notes	3,474,255	25%	107	2,475,756	19%	328
Certificates of Deposit	250,000	2%	14	725,000	5%	177
Total Investments	13,653,013	100%	146	13,105,272	100%	206
Interest Receivable	128,627			69,981		
Total	\$ 13,781,640			\$ 13,175,253		



Denton County Transportation Authority

Notes to Financial Statements - Continued
For the Year Ended September 30, 2006

Note 5. Receivables

Due to the high quality of the receivables, DCTA has not provided an allowance of doubtful accounts. DCTA receivables at September 30, 2006 and 2005 consisted of the following:

Accounts Receivables	<u>September 30, 2006</u>	<u>September 30, 2005</u>
FTA Grant Funds	\$ 168,258	\$ -
City of Denton LINK	-	9,651
UNT and Other Contract Services	299,300	255,967
McDonald Transit	-	131,137
Interest Repurchase Agreement	2,990	-
Sales tax	2,581,433	2,379,673
Total	<u>\$ 3,051,981</u>	<u>\$ 2,776,428</u>

Note 6. Property, Plant, and Equipment

Changes in capital assets for the fiscal year ended September 30, 2006 are as follows:

	<u>Beginning Balance September 30, 2005</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance September 30, 2006</u>
Capital assets, being depreciated:				
Vehicles and operating equipment	\$ 2,810,624	\$ 4,789,736	\$ -	\$ 7,600,360
Office furniture and equipment	76,600	44,260	-	120,860
Capital Assets	<u>2,887,224</u>	<u>4,833,996</u>	<u>-</u>	<u>7,721,220</u>
Less accumulated depreciation for:				
Vehicles and operating equipment	605,869	887,623	-	1,493,492
Office furniture and equipment	17,016	27,206	-	44,222
Accumulated depreciation	<u>622,885</u>	<u>914,829</u>	<u>-</u>	<u>1,537,714</u>
DCTA capital assets, net	<u>\$ 2,264,339</u>	<u>\$ 3,919,167</u>	<u>\$ -</u>	<u>\$ 6,183,506</u>

Included in the 2005 beginning balance is a non-monetary transaction related to the acquisition of fifteen buses from the City of Denton. DCTA received fifteen buses in the acquisition of assets from the City of Denton, for which the local share related to the purchase of the assets was conveyed to DCTA. The local share for the original purchase of these assets was contributed to the city of Denton by the University of North Texas. The value of the unamortized local share conveyed to DCTA was \$371,317, which is included in net assets, and the related federal grant



Denton County Transportation Authority

Notes to Financial Statements - Continued
 For the Year Ended September 30, 2006

obligation, included in Transit System Operating Grants on the Statements of Revenues, Expenses and Changes in Net Assets, assumed by DCTA was \$1,292,992.

Primary capital asset expenditures in 2006 included twelve thirty five foot buses for Connect fixed route service at a cost of \$3,172,320 and seven over the road couch buses for interim Commuter Express service at a cost of \$1,617,656.

Note 7. Current Liabilities

DCTA has not formally restricted cash funds to pay current liabilities, but has adequate cash and investments to satisfy these obligations. Accounts payable and accrued liabilities at September 30, 2006 and 2005 consisted of the following:

Current Liabilities	<u>September 30, 2006</u>	<u>September 30, 2005</u>
Accounts Payable	\$ 352,530	\$ 518,521
Accrued Liabilities:		
Accrued salaries, wages, & benefits	33,840	9,782
Other accrued liabilities	589,679	246,615
Retainage	179,598	51,665
ELAP	4,210,339	3,530,808
Deferred contract revenue	21,667	21,667
Total	<u><u>\$ 5,387,653</u></u>	<u><u>\$ 4,379,058</u></u>

Note 8. Non-current Liabilities

Non-current liabilities consist of ELAP payable after one year. The amount classified as non-current ELAP payable in 2006 and 2005 was \$2,125,364 and \$1,181,334 respectively. ELAP current and non-current liabilities had the following activity in 2006:

Enhanced Local Assistance Program	Beginning Balance September 30, 2005	Accrued Payable	Payments	Transfer	Ending Balance September 30, 2006
ELAP Current Payable	\$ 3,530,808	\$ -	\$ (2,075,534)	\$ 2,755,065	\$ 4,210,339
ELAP Non-current Payable	1,181,334	3,699,095	-	(2,755,065)	2,125,364
Total ELAP Payable	<u><u>\$ 4,712,142</u></u>	<u><u>\$ 3,699,095</u></u>	<u><u>\$ (2,075,534)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 6,335,703</u></u>



Denton County Transportation Authority

Notes to Financial Statements - Continued
For the Year Ended September 30, 2006

Note 9. Net Assets

Included in the 2005 net assets is a \$371,317 capital contribution conveyed from the City of Denton related to the acquisition of fifteen buses. DCTA received fifteen buses in the acquisition of assets from the City of Denton for which the local share related to the purchase of the assets was conveyed to DCTA. The local share for the original purchase of these assets was contributed to the City of Denton by the University of North Texas.

Note 10. 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 2006 and 2005 the employee contributions were \$65,135 or 11% of the total payroll and \$32,849 or 13% of the total payroll, respectively. DCTA contributions were \$24,908 and \$11,448 or 4% and 5% of the total payroll.

Note 11. Commitments and Contingencies

(a) 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, and automobile liability and physical damage coverage. TML was self sustaining in 2006 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. 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 also participates in the Texas Political Subdivisions Joint Self-Insurance Funds ("TPS") to provide insurance for workers' compensation. TPS provides a guaranteed cost insurance plan for pooled political subdivisions in the state of Texas. The limits of liability coverage are \$500,000 per incident for workers' compensation.



Denton County Transportation Authority

Notes to Financial Statements - Continued
For the Year Ended September 30, 2006

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.

(b) *Litigation*

DCTA has no known claims or lawsuits pending against it.

(c) *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 liabilities have been recorded in the accompanying financial statements for such liabilities.

(d) *Commitments*

In fiscal year 2006, DCTA entered into an agreement to purchase twelve thirty foot 2007 Eldorado National buses for approximately \$793,000. The units are scheduled to arrive in November 2006; accordingly, the accompanying financial statements do not reflect this future obligation.

The Board has approved a Service Plan that includes design and construction of a 20-mile commuter rail line connecting Denton and Dallas counties. The Alternatives Analysis is basically complete, and a potential route for the rail line has been identified. DCTA has entered into the next phase of the project and has contracted for an Environmental Impact Study and Preliminary Engineering which started November 2005. This phase will take approximately two years and the estimated cost of the contract is \$7,600,000. DCTA has expended approximately \$1,897,000 on this contract. Under the terms of the contract DCTA can terminate the contract for cause or convenience with a thirty day notice to the contractor. Accordingly, the accompanying financial statements do not reflect this future obligation.

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



Denton County Transportation Authority

Notes to Financial Statements - Continued
For the Year Ended September 30, 2006

DCTA has entered into certain operating lease agreements. All operating leases to which DCTA is currently a party expire within the next two years. The total lease rent expense for 2006 was \$194,116, which is net of a \$63,600 reimbursement from the purchase of service contractor and \$74,717 in 2005. The lease payments by year are:

Lease Payments	2007	2008	Total
Connect Central	\$ 5,670	\$ -	\$ 5,670.00
Brookhollow office lease	98,520	57,470	155,990
Denton operating facility	113,016	113,016	226,032
Denton Park and Ride	22,100	-	22,100
Lewisville Park and Ride	11,050	-	11,050
Lewisville operating facility	14,066	-	14,066
Total Rent	\$ 264,422	\$ 170,486	\$ 434,908

(e) Subsequent Events

On October 1, 2006 DCTA entered into a 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. will provide 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. DCTA does not anticipate this management change will have an impact on the financial results.

On December 1, 2006 DCTA entered into a operating lease with Vista North Partners, Ltd., dba Brookhollow North Office Building, for a ten month lease of 1,397 square feet of office space adjacent to the current administrative offices for \$23,283. The lease includes one seven month renewal option and two annual renewals.



SUPPLEMENTARY INFORMATION



Denton County Transportation Authority
Schedule Of Revenue and Expenses - Budget and Actual
Year Ended September 30, 2006
With Comparative Actuals for 2005

	Original 2006 Budget	Amended 2006 Budget	2006 Actual	Variance	2005 Actual
Operating Revenues					
Passenger revenues	\$ 481,477	\$ 481,477	\$ 199,627	\$ (281,850)	\$ 198,391
Contract service revenue	1,555,922	1,555,922	1,644,794	88,872	1,408,917
Other revenues	-	-	1,925	1,925	5,297
Total Operating Revenues	<u>2,037,399</u>	<u>2,037,399</u>	<u>1,846,346</u>	<u>(191,053)</u>	<u>1,612,605</u>
Operating Expenses					
Salaries, wages, and fringe benefits	934,515	934,515	755,780	(178,735)	296,949
Services	5,182,720	2,136,593	2,361,773	225,180	1,160,717
Materials and supplies	126,461	126,461	73,340	(53,121)	22,585
Utilities	10,800	10,800	10,471	(329)	6,865
Insurance, casualties and losses	50,857	164,685	135,434	(29,251)	2,552
Purchased transportation service	5,035,714	4,215,885	4,075,845	(140,040)	3,707,829
Miscellaneous	132,483	132,483	194,116	61,633	53,733
Leases and rentals	208,470	208,470	81,851	(126,619)	74,717
Depreciation	933,780	933,780	914,830	(18,950)	619,970
Total Operating Expenses	<u>12,615,799</u>	<u>8,863,672</u>	<u>8,603,440</u>	<u>(260,232)</u>	<u>5,945,917</u>
Operating Income / (Loss)	<u>(10,578,400)</u>	<u>(6,826,273)</u>	<u>(6,757,094)</u>	<u>69,179</u>	<u>(4,333,312)</u>
Non-Operating Revenues / (Expenses)					
Sales tax revenue	13,746,087	13,746,087	14,796,379	1,050,292	13,685,028
Enhanced local assistance	(3,436,524)	(3,436,524)	(3,699,095)	(262,571)	(3,421,257)
Transit system operating assistance grants	5,128,733	2,701,351	2,808,151	106,800	2,711,149
Net investment income	605,135	605,135	752,797	147,662	303,992
Gain (Loss) on Disposal of Assets	-	-	-	-	(2,456)
Total Non-Operating Revenue	<u>16,043,431</u>	<u>13,616,049</u>	<u>14,658,232</u>	<u>1,042,183</u>	<u>13,276,456</u>
Net Income	<u>\$ 5,465,031</u>	<u>\$ 6,789,776</u>	<u>\$ 7,901,138</u>	<u>\$ 1,111,362</u>	<u>\$ 8,943,144</u>



DENTON COUNTY TRANSPORTATION AUTHORITY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended September 30, 2006

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-X496	20.507	\$ 58,746
FTA/Formula (and flex funds)	TX-90-X538	20.507	275,000
FTA/Formula (and flex funds)	TX-90-X576	20.507	394,177
FTA/Formula (and flex funds)	TX-90-X724	20.507	<u>1,972,003</u>
Total U.S. Department of Transportation			<u>2,699,926</u>
Total federal awards			<u>\$ 2,699,926</u>

See notes to schedule of expenditures of Federal Awards.



DENTON COUNTY TRANSPORTATION AUTHORITY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS For the Year Ended September 30, 2006

NOTE 1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Fort Worth 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, 2006.

NOTE 4. LOANS

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





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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
Denton, Texas

We have audited the basic financial statements of Denton County Transportation Authority ("the Authority") as of and for the year ended September 30, 2006, and have issued our report thereon dated November 28, 2006. 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 in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance

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

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

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

November 29, 2006



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**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
Denton, Texas

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, 2006. 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.

As described in finding 06-01 in the accompanying schedule of findings and questioned costs, the Denton County Transportation Authority did not comply with requirements regarding reporting that are applicable to its Federal Transit Transportation Cluster. Compliance with such requirements is necessary, in our opinion, for the Denton County Transportation Authority to comply with requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, Denton County Transportation Authority complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2006.

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 and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by fraud or error that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended 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, L.L.P.

November 29, 2006



DENTON COUNTY TRANSPORTATION AUTHORITY

**SUMMARY SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COST
For the Year Ended September 30, 2006**

Section I - Summary of Auditor's Results

Financial Statements

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

Federal Awards

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

Type of auditor's report issued on compliance for major programs:	<u>Unqualified</u>
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Any audit findings disclosed that are required to be Reported in accordance with section 510(a) of Circular A-133?	<u> </u> X	yes	<u> </u> no
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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:	<u>\$ 300,000</u>
Auditee qualified as low-risk auditee?	<u> </u> yes <u> </u> X no



DENTON COUNTY TRANSPORTATION AUTHORITY

SUMMARY SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COST (CONTINUED)
For the Year Ended September 30, 2006

Section II - Financial Statement Findings

A. Reportable conditions in internal control.

None

B. Compliance Findings

None

Section III - Federal Award Findings and Questioned Costs

Federal Transportation Administration

Finding 06-01 CFDA 20.507

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

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

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

Effects: DCTA is not in compliance with the grant agreement.

Question costs: None

Cause of the condition: Due to the loss of key grant personal during this time, DCTA was unaware of the reporting requirements.

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



DENTON COUNTY TRANSPORTATION AUTHORITY

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COST
For the Year Ended September 30, 2006

None

