TOLEDO AREA REGIONAL TRANSIT AUTHORITY

Financial Statements

December 31, 2004 and 2003

(With Independent Auditors' Report Thereon)

Auditor of State
Betty Montgomery

The Board of Trustees
Toledo Area Regional Transit Authority
Toledo, Ohio

We have reviewed the *Independent Auditor's Report* of the Toledo Area Regional Transit Authority, Lucas County, prepared by KPMG LLP, for the audit period January 1, 2004 through December 31, 2004. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Toledo Area Regional Transit Authority is responsible for compliance with these laws and regulations.

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

July 12, 2005

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TOLEDO AREA REGIONAL TRANSIT AUTHORITY

Table of Contents

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Independent Auditors' Report

The Board of Trustees
Toledo Area Regional Transit Authority:

and

The Honorable Betty Montgomery
Auditor of State:

We have audited the accompanying basic financial statements of the Toledo Area Regional Transit Authority (the Authority) as of and for the years ended December 31, 2004 and 2003, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of December 31, 2004 and 2003, and the changes in its financial position 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 a report dated April 29, 2005 on our consideration of the Authority's internal control over financial reporting and our test 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 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 audits.

The management's discussion and analysis on pages 3 through 7 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

KPMG LLP

Columbus, Ohio
April 29, 2005

TOLEDO AREA REGIONAL TRANSIT AUTHORITY

Management's Discussion and Analysis

December 31, 2004 and 2003

(Unaudited)

As financial management of the Toledo Area Regional Transit Authority (the Authority), we offer readers of these financial statements this narrative overview and analysis of the financial activities of the Authority for the fiscal years ended December 31, 2004 and 2003. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities and to identify any significant changes in the financial position. We encourage readers to consider the information presented here in conjunction with the financial statements as a whole.

Financial Highlights 2004

- The Authority's total net assets decreased $2.9 million, or 8.0% over the course of the year's operations. This decrease is primarily the result of depreciation expense in excess of capital asset acquisitions that were funded through capital contributions (grant revenue) during the year.

- The Authority's operating expenses, excluding depreciation, in 2004 were only $449 thousand higher than in 2003. Labor increases of $681 thousand and an increase in fringe benefit costs of $323 thousand were offset by a decrease of materials and supplies resulting from a lower cost for repair parts for revenue vehicles in the amount of $703 thousand after the "catch-up" in preventive maintenance in 2003.

- Operating revenues for the Authority were $5.1 million for the fiscal year 2004 and were comparable to the fiscal year 2003.

- Property tax revenues of $14.6 million (2.5 mils) were very comparable to 2003. This tax represents 58% of all revenues received and will vary little until a levy is replaced.

- Total funding from the State of Ohio decreased by $196 thousand, or 17%, as budgetary restraints of the State resulted in all transit properties being cut in both operating and capital funding.

- Charter service revenues decreased 68%, from 2003. The Authority no longer provides regular charter service within the district except in those instances where local private operators do not have the equipment capacity to handle large movements.

Financial Highlights 2003

- The Authority's total net assets increased $6.6 million, or 22%, over the course of the year's operations. $6.2 million of this increase was the result of the acquisition of new revenue equipment and a reduction of local funds restricted for capital projects.

- The Authority's operating expenses, excluding depreciation, in 2003 were $2.6 million higher than 2002 expenses due to a "catch up" in preventive maintenance to the Authority's revenue fleet ($1.0 million) and an increase in service miles, driver's wages, fringe benefits and fuel costs ($1.1 million).

- Operating revenues for the Authority were $5.2 million for fiscal year 2003 and was relatively consistent with fiscal year 2002.

- Property tax revenue of $14.5 million (2.5 mills) was very comparable to 2002. This tax represents 59% of all funding received and will vary little until a levy is replaced.

- Investment income decreased by $105 thousand, or 26% in 2003 due primarily to the drop in interest rates over the year.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Authority's financial statements, which is comprised of the basic financial statements and the notes to financial statements. This report contains supplementary information concerning the Authority's net assets and changes in net assets in addition to the basic financial statements themselves.

Required Financial Statements

The financial statements of the Authority are designed to provide readers with a broad overview of the Authority's finances, in a manner similar to private-sector business.

The balance sheets present information on all of the Authority's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating. Net assets increase when revenues exceed expenses. Increases to assets without a corresponding increase to liabilities, results in increased net assets, which indicate improved financial position.

The statements of revenues, expenses, and changes in net assets present information showing how the Authority's net assets changed during the fiscal year. All changes in net assets are reported as soon as the event occurs, regardless of timing of related cash flows. Thus revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., employee fringe benefits).

The final required financial statement is the statement of cash flows. This statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

Notes to Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

Financial Analysis of the Authority

One of the most important questions asked about the Authority's finances is "Is the Authority as a whole better off or worse off as a result of this year's activities?" The statement of net assets and the statement of revenues, expenses and changes in net assets report information about the Authority's activities in a way that will help answer this question. Over time, increases or decreases in the Authority's net assets are one indicator of whether its financial health is improving or deteriorating. However, one will need to consider other nonfinancial factors such as changes in economic conditions, population decline or growth and new or changed governmental legislation.

Regional Transit Authority's Net Assets

		2004	2003
Current assets	$	24,678,864	25,613,159
Restricted assets		26,690	26,690
Long-term investments		1,182,257	1,136,480
Capital assets, net		24,291,734	26,523,363
Total assets		50,179,545	53,299,692
Current liabilities		2,117,696	1,972,839
Deferred revenue – property taxes		14,250,000	14,547,000
Other liabilities		141,803	167,453
Total liabilities		16,509,499	16,687,292
Net assets:			
Invested in capital assets		24,291,734	26,523,363
Unrestricted		9,378,312	10,089,037
Total net assets	$	33,670,046	36,612,400

The largest portions of the Authority's net assets reflect investment in capital assets (e.g., diesel buses, operating facilities). The Authority uses these assets to provide public transportation service for the Cities of Toledo, Sylvania, Maumee, Perrysburg and Rossford, the Townships of Sylvania and Spencer, and the Villages of Ottawa Hills and Waterville. These capital assets are not available to liquidate liabilities or other spending.

Year Ended December 31, 2004

Investment in net capital assets decreased to $24.3 million in 2004 down from $26.5 million in 2003. The 8.4% decrease was the result of depreciation expense in excess of capital asset acquisitions that were funded through capital contributions (grant revenue) during the year.

Year Ended December 31, 2003

Investment in net capital assets increased to $26.5 million in 2003 up from $15.4 million in 2002. The 72.0% increase was principally due to the purchase of thirty-eight 35' diesel transit buses totaling $10.3 million and the construction of two transit stations at Fifth Third Field (baseball) for $2.5 million which were funded by grants.

(Continued)

Changes in Net Assets

		2004	2003
Operating revenues	$	5,082,788	5,159,210
Operating expenses excluding depreciation		(25,289,122)	(24,839,570)
Depreciation expense		(3,746,201)	(2,959,613)
Operating loss		(23,952,535)	(22,639,973)
Net nonoperating revenues (expenses):			
Property taxes		14,635,296	14,495,778
Federal operating and preventive maintenance grants		4,158,394	3,966,178
State operating and preventive maintenance grants		821,348	992,149
State special fare assistance		120,259	145,914
Investment income		292,591	296,403
Other		18,344	17,781
Nonoperating revenues and expenses, net		20,046,232	19,914,203
Capital contributions		963,949	9,281,521
Change in net assets		(2,942,354)	6,555,751
Net assets, beginning of year		36,612,400	30,056,649
Net assets, end of year	$	33,670,046	36,612,400

Year Ended December 31, 2004

The Authority's operating revenues for the two years were comparable. Ridership on line service of 4.5 million was comparable to 2003, but miles of service of 4.8 million increased 4.4% from the prior year. Revenues from contract service for the Toledo Public Schools increased 1.6%, but charter revenues decreased 68% from 2003 as previously noted. Operating expenses, excluding depreciation, increased only $449 thousand, or 1.8%, from 2003 primarily from reduced repair costs on revenue equipment.

The 2004 nonoperating revenues of $20.0 million remained relatively constant with 2003.

Capital Contribution

Capital contributions from federal agencies in 2004 were $963,949, a decrease of $8,317,572 from the 2003 amount of $9,281,521. In 2003, the Authority purchased 37 thirty-five foot air conditioned, low floor, diesel transit buses at a total cost of $10,310,362 with the federal contribution being 80% or $8,248,290.

Year Ended December 31, 2003

The Authority's operating revenues increased by 1.7% during 2003 even though total ridership was down 1.1% and miles of service decreased 1.2%. Revenues from contracted services with the Toledo Public Schools increased 2.8%. Operating expenses, excluding depreciation, increased by $2.5 million as compared to the prior year. Maintenance expenses increased $1 million due to the "catch up" on revenue vehicle preventive maintenance and repairs to shop and garage buildings. Transportation expenses increased $1.2 million primarily from fringe benefits and fuel costs being up by about 24%, or $900 thousand.

The 2003 non-operating revenues of $19.9 million remained relatively constant with 2002.

Capital Asset and Debt Administration

Capital Assets 2004: The Authority's investment in capital assets amounts to $24.3 million, net of accumulated depreciation, as of December 31, 2004, a decrease of $2.2 million (8.4%) from 2003. Capital assets include land and land improvements, revenue producing and servicing equipment, buildings and structures, shop equipment, office furnishings and computer equipment. Major capital expenditures during the year include the following:

- Purchase of ten small transit buses totaling $918 thousand.
- Addition to two transit stations at Fifth Third Field (baseball) totaling $313 thousand.
- Purchase of radios and maintenance hardware and software totaling $437 thousand.

The Authority also disposed of twenty older line service and paratransit vehicles that were fully depreciated and out of service, and transferred the Perry Station in the central business district to the City of Toledo.

Capital Assets 2003: The Authority's investment in capital assets amounts to $26.5 million, net of accumulated depreciation, as of December 31, 2003, an increase of $11.1 million (72.1%). Capital assets include land and land improvements, revenue producing and servicing equipment, buildings and structures, shop equipment, office furnishings and computer equipment. Major capital expenditures during the year include the following:

- Purchase of thirty-eight 35' diesel buses totaling $10.3 million.
- Construction of two transit stations at Fifth Third Field (baseball) totaling $2.4 million.
- Purchase of radios and security equipment for the Authority's revenue vehicles totaling $1.5 million.

Long-Term Debt

The Authority has no outstanding long-term debt obligations as of December 31, 2004 and 2003.

Requests for Information

This financial report is designed to provide a general overview of the Authority's finances for all those with an interest in its finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Secretary/Treasurer, Toledo Area Regional Transit Authority, P. O. Box 792, Toledo, Ohio 43697-0792.

TOLEDO AREA REGIONAL TRANSIT AUTHORITY

Balance Sheets

December 31, 2004 and 2003

Assets		2004	2003
Current assets:			
Cash and cash equivalents (includes approximately $1,834,578 and $2,246,228 designated by the Board of Trustees for capital acquisitions in 2004 and 2003, respectively (note 2)	$	7,759,088	8,521,938
Property taxes receivable		14,250,000	14,547,000
Accounts receivable (note 3)		1,608,079	1,775,270
Inventory, net		743,769	604,585
Prepaid expenses and deposits		317,928	164,366
Total current assets		24,678,864	25,613,159
Restricted assets:			
Restricted cash and cash equivalents for capital acquisitions (note 2)		26,690	26,690
Capital assets, net (note 4)		24,291,734	26,523,363
Long-term investments (designated by the Board of Trustees for capital acquisitions) (note 2)		1,182,257	1,136,480
Total assets	$	50,179,545	53,299,692
Liabilities and Net Assets			
Current liabilities:			
Accounts payable	$	351,831	519,643
Accrued payroll		573,134	623,251
Accrued workers' compensation insurance		230,000	188,800
Accrued employer's contribution to Public Employees Retirement System (notes 5 and 6)		258,047	233,333
Accrued claims (note 7)		517,750	322,900
Other		186,934	84,912
Total current liabilities		2,117,696	1,972,839
Other liabilities – deferred revenue:			
Property taxes (note 8)		14,250,000	14,547,000
Other		141,803	167,453
Total liabilities		16,509,499	16,687,292
Net assets:			
Invested in capital assets		24,291,734	26,523,363
Unrestricted		9,378,312	10,089,037
Total net assets		33,670,046	36,612,400
Total liabilities and net assets	$	50,179,545	53,299,692

See accompanying notes to financial statements.

TOLEDO AREA REGIONAL TRANSIT AUTHORITY

Statements of Revenues, Expenses, and Changes in Net Assets

Years ended December 31, 2004 and 2003

	2004	2003
Operating revenues:		
Passenger fares	$ 1,943,120	1,816,145
Toledo Board of Education contract	2,918,430	2,873,205
Charter service revenue	115,638	364,260
Auxiliary transportation revenue	105,600	105,600
Total revenues	5,082,788	5,159,210
Operating expenses:		
Labor	12,293,188	11,612,006
Fringe benefits	4,659,041	4,336,298
Materials and supplies	3,908,160	4,611,196
Services	3,187,570	3,100,565
Taxes	321,818	289,499
Claims and insurance	441,790	404,334
Utilities	399,252	365,279
Miscellaneous	78,303	120,393
Total operating expenses before depreciation	25,289,122	24,839,570
Operating loss before depreciation	(20,206,334)	(19,680,360)
Depreciation	3,746,201	2,959,613
Operating loss	(23,952,535)	(22,639,973)
Nonoperating revenues:		
Property taxes (note 8)	14,635,296	14,495,778
Federal operating and preventative maintenance assistance (note 9)	4,158,394	3,966,178
State operating and preventative maintenance assistance (note 9)	941,607	1,138,063
Investment income	292,591	296,403
Nontransportation revenues	18,344	17,781
Total nonoperating revenues	20,046,232	19,914,203
Net loss before capital contributions	(3,906,303)	(2,725,770)
Capital contributions	963,949	9,281,521
Increase in net assets	(2,942,354)	6,555,751
Net assets – beginning of year	36,612,400	30,056,649
Net assets – end of year	$ 33,670,046	36,612,400

See accompanying notes to financial statements.

TOLEDO AREA REGIONAL TRANSIT AUTHORITY

Statements of Cash Flows

Years ended December 31, 2004 and 2003

		2004	2003
Cash flows from operating activities:			
Receipts from fares and charters	$	5,070,292	5,156,307
Payments to suppliers		(8,189,963)	(8,420,527)
Payments for labor and employee benefits		(17,183,372)	(16,200,184)
Net cash used in operating activities		(20,303,043)	(19,464,404)
Cash flows from noncapital financing activities:			
Proceeds from:			
Property taxes		14,635,296	14,495,778
Federal operating and preventative maintenance assistance		4,138,394	3,446,178
State operating and preventative maintenance assistance		1,113,838	1,149,645
Nontransportation revenues		18,344	17,781
Net cash provided by noncapital financing activities		19,905,872	19,109,382
Cash flows from capital and related financing activities:			
Expenditures for property, buildings, and equipment		(1,578,248)	(14,091,239)
Proceeds from capital contributions		963,949	9,281,521
Net cash used in capital and related financing activities		(614,299)	(4,809,718)
Cash flows from investing activities:			
Purchase of investments		(1,182,257)	(1,136,480)
Sale/maturity of investments		1,136,480	1,155,562
Interest on investments		294,397	313,584
Net cash provided by investing activities		248,620	332,666
Net decrease in cash and cash equivalents		(762,850)	(4,832,074)
Cash and cash equivalents at beginning of year		8,548,628	13,380,702
Cash and cash equivalents at end of year	$	7,785,778	8,548,628
Reconciliation of operating loss to net cash used in operating activities:			
Operating loss	$	(23,952,535)	(22,639,973)
Adjustments to reconcile operating loss to net cash used in operating activities:			
Depreciation and amortization		3,746,201	2,959,613
Allowance for doubtful accounts		(12,981)	9,780
Loss on disposal		63,676	36,061
Changes in assets and liabilities:			
Trade and other accounts receivable		26,135	(5,404)
Materials and supplies		(139,184)	73,281
Prepaid expenses and deposits		(153,562)	(11,432)
Accounts payable		(167,812)	(14,235)
Accrued liabilities and other		312,669	135,184
Deferred revenue		(25,650)	(7,279)
Net cash used in operating activities	$	(20,303,043)	(19,464,404)

See accompanying notes to financial statements.

(1) Summary of Significant Accounting Policies

A summary of accounting policies followed in the preparation of the accompanying financial statements of the Toledo Area Regional Transit Authority (the Authority) is presented below:

(a) Reporting Entity

The Authority was created as a regional transit authority pursuant to Sections 306.30 through 306.53, inclusive, of the Ohio Revised Code (ORC) for the purpose of providing public transportation in the Toledo regional area. The Authority is not subject to federal or state income taxes.

The accompanying financial statements comply with the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*. This statement requires that financial statements of the reporting entity include all of the organizations, activities, functions, and component units for which the reporting entity is financially accountable. Financial accountability is defined as the appointment of a voting majority of the component unit's board and either (1) the reporting entity's ability to impose its will over the component unit, or (2) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the reporting entity. The Authority does not have financial accountability over any other entities.

The City of Toledo (the City) is a related organization to the Authority as the Mayor of the City, with the approval of City Council, appoints a voting majority of the Authority's Board. However, the financial statements of the Authority are not included within the City's "Reporting Entity" as the City cannot impose its will and there is no financial benefit or financial burden relationship between the City and the Authority.

(b) Basis of Accounting

The accounting policies of the Authority conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental entities. The accounts of the Authority, which are organized as an enterprise fund, are used to account for the Authority's activities that are financed and operated in a manner similar to a private business enterprise. Accordingly, the Authority maintains its records on the accrual basis of accounting. Revenues from operations, investments, and other sources are recorded when earned. Expenses (including depreciation and amortization) of providing services to the public are accrued when incurred.

Nonexchange transactions, in which the Authority receives value without directly giving equal value in return, include property taxes, grants, and entitlements. On an accrual basis, revenue from property taxes is recognized in the period for which the levy is intended to finance, which is the year after the taxes are levied. Taxes levied in 2004 that will be collected in 2005 are recorded as receivable and deferred revenue. Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Revenue from grants and entitlements is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the Authority must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Authority on a reimbursement basis.

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Pursuant to GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, the Authority follows GASB guidance as applicable to proprietary funds and Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins issued on or before November 30, 1989 that do not conflict with or contradict GASB pronouncements.

(c) Cash Equivalents

The Authority considers all investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

(d) Materials and Supplies

Materials and supplies are stated at average cost which is not in excess of market.

(e) Restricted Assets

Restricted cash and cash equivalents include funds received under various capital grants from local contributions that are restricted for capital expenditures.

(f) Investments

Investments are reported at fair value, which is based on quoted market prices. Any unrealized gains or losses are recognized as adjustments to investment income. The Authority's policy is to hold investment securities to their scheduled maturity date.

(g) Capital Assets

Capital assets, which included property, buildings and equipment, are recorded at cost. The Authority defines capital assets as assets with an initial, individual cost of more than $500 and an estimated useful life in excess of a year. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Buildings	30 – 40 years
Land improvements	5 – 10 years
Transportation equipment	10 years
Transit stations	20 years
Transit shelters	5 years
Software	3 years
Other (primarily service equipment, furniture and fixtures, and computers and computer equipment)	5 – 10 years

(h) Compensated Absences

The liability for compensated absences consists of unpaid, accumulated annual vacation pay. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

The Authority provides sick and accident pay to its full-time union employees. Employee sick and accident pay is recorded as an expense when paid and does not carry over from year to year. As of the statement end, the amount is included with accounts payable within the financial statements.

(i) Budgets and Budgetary Accounting

In accordance with Section 5705 of the ORC, an annual budget of revenues, expenses, and capital expenditures is prepared under the accrual basis of accounting, GAAP. The budget is adopted by resolution of the board of trustees. The Authority, operating as an enterprise fund, utilizes such budget and related budgetary accounting to ensure that: (1) service objectives are attained; (2) expenditures are properly controlled; and (3) adequate resources will be available to finance current operations and meet capital outlay requirements.

Because the Authority's revenues and expenses may fluctuate with changing service delivery levels, a flexible- rather than fixed-dollar budget is utilized to permit budgetary revision based upon changing fare revenue, levels of service, and cost of operations at specific service levels. Actual results of operations are compared to the final, revised budget of the Authority for the year.

The Authority had no expenditures in excess of appropriations, at the legal level of appropriation for the year ended December 31, 2004. The following accounts had expenditures in excess of appropriations, at the legal level of appropriation for the year ended December 31, 2003:

		Appropriations	Expenditures	Excess
2003:				
Maintenance	$	5,110,200	5,218,228	108,028
General and Administrative		3,349,700	3,560,184	210,484
State Unemployment		14,400	61,885	47,485

(j) Net Assets

Equity is displayed in three components as follows:

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

Restricted – This consists of net assets that are legally restricted by outside parties or by law through constitutional provisions or enabling legislation. When both restricted and unrestricted resources are available for use, generally it is the Authority's policy to use restricted resources first, and then unrestricted resources when they are needed. The Authority does not have restricted net assets at December 31, 2004 or 2003.

(Continued)

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

(k) Passenger Fares

Passenger fares are recorded as revenue at the time services are performed.

(l) Federal and State Operating and Preventative Maintenance Assistance Funds

Federal and State operating and preventative maintenance assistance funds to be received by the Authority under the Urban Mass Transportation Assistance Act of 1964, as amended, and under the Ohio Public Mass Transportation Grant Program are recorded and reflected in income in the period to which they are applicable.

(m) Capital Grants

Federal and state capital grants for the acquisition of property and equipment are recorded as the costs are incurred. Capital acquisitions for which grant funds have not been received from Federal Transit Authority (FTA) or Ohio Department of Transportation (ODOT) are recorded as capital grants receivable.

When assets acquired with capital grant funds are disposed, the Authority is required to notify the granting federal agency. A proportional amount of the proceeds or fair market value, if any, of such property may be used to acquire like-kind replacement vehicles or remitted to the granting federal agency.

(n) Classification of Revenues

The Authority has classified its revenues as either operating or nonoperating. Operating Revenue include activities that have the characteristics of exchange transactions including passenger fares and special transit fares and charter service. Nonoperating revenue includes activities that have the characteristics of nonexchange transactions, such as sales tax proceeds and most Federal, State, and local grants and contracts.

(o) Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

(p) New Accounting Pronouncements

In March 2003, the Governmental Accounting Standards Board (GASB) issued Statement No. 40, Deposit and Investment Risk Disclosures – an amendment of GASB Statement No. 3. This statement will revise the deposit and investment risks disclosed in the notes to financial statements. The Authority will implement Statement No. 40 beginning with the year ended December 31, 2005.

 (Continued)

(2) Cash and Investments

The provisions of the ORC govern the investment and deposit of the Authority monies. In accordance with these provisions, only banks located in Ohio and domestic building and loan associations are eligible to hold public deposits. The statutes also permit the Authority to invest its monies in certificates of deposit, savings accounts, money market accounts, the State Treasurer's investment pool (STAR Ohio), and obligations of the United States government or certain agencies thereof. The Authority may also enter into repurchase agreements with any eligible depository institution for a period not exceeding 30 days.

Public depositories must give security for all public funds on deposit. These institutions may either specifically collateralize individual accounts in lieu of amounts insured by the Federal Deposit Insurance Corporation (FDIC) or Savings Association Insurance Fund (SAIF), or may pledge a pool of government securities valued at least 105% of the total value of public monies on deposit with the institution.

Repurchase agreements must be secured by the specific government securities upon which the repurchase agreements are based. These securities must be obligations of or guaranteed by the United States government and mature or be redeemable within five years of the date of the related repurchase agreement. State law does not require that security for public deposits and investments be maintained in the name of the Authority.

(a) Deposits

Information regarding the Authority's deposits is as follows at December 31:

	2004	2003
Book/carrying value of deposits	$ 7,785,778	8,548,628
Bank balance:		
Covered by federal depository insurance	$ 731,000	635,862
Uncollateralized as defined by the GASB	7,518,343	7,812,652
	$ 8,249,343	8,448,514

The uncollateralized deposits at December 31, 2004 and 2003, were, however, covered by pledged collateral pools as discussed above.

(b) Investments and Other Deposits

The Authority's investments are detailed below and categorized in accordance with the criteria established by the GASB to give an indication of the level of custodial credit risk assumed as of December 31, 2004 and 2003. Category 1 includes investments that are insured or registered or for which the securities are held by the Authority or its agent in the Authority's name. Category 2 includes investments that are uninsured and unregistered for which the securities are held by the counterparty's trust department or agent in the Authority's name. Category 3 includes uninsured and unregistered investments for which securities are held by the counterparty or by its trust department or agent but not in the Authority's name. Deposits and equities in pools of funds managed by other governmental units are not categorized.

Description		Category 1	Category 2	Category 3	Carrying amount/ fair value
December 31, 2004:					
U.S. Treasuries	$	1,182,257	—	—	1,182,257
December 31, 2003:					
U.S. Treasuries	$	1,136,480	—	—	1,136,480

(3) Accounts Receivable

Accounts receivable at December 31, 2004 and 2003 was as follows:

		2004	2003
Federal operating and preventive maintenance assistance	$	540,000	520,000
State operating and preventive maintenance assistance		566,787	739,018
Trade and other		497,677	523,812
Interest		3,615	5,421
Gross receivables		1,608,079	1,788,251
Less allowance for uncollectibles		—	(12,981)
Net total receivables	$	1,608,079	1,775,270

(4) Capital Assets

Capital asset activity for the year ended December 31, 2004 was as follows:

TOLEDO AREA REGIONAL TRANSIT AUTHORITY

Notes to Financial Statements

December 31, 2004 and 2003

	Balance January 1, 2004	Additions	Deletions	Balance December 31, 2004
Capital assets not being depreciated:				
Land	$ 743,224	—	—	743,224
Construction in progress	86,595	1,449,748	1,536,343	—
Total capital assets not being depreciated	829,819	1,449,748	1,536,343	743,224
Capital assets being depreciated:				
Buildings	6,868,062	—	—	6,868,062
Land improvements	1,542,544	—	—	1,542,544
Transit stations	5,500,641	312,696	222,449	5,590,888
Transportation equipment	46,415,911	918,940	2,227,807	45,107,044
Other equipment (primarily service equipment, furniture and fixtures, computers and computer equipment, software, and transit shelters)	7,375,302	437,379	22,090	7,790,591
Total capital assets being depreciated	67,702,460	1,669,015	2,472,346	66,899,129
Less accumulated depreciation:				
Buildings	3,794,730	237,413	—	4,032,143
Land improvements	1,537,871	525	—	1,538,396
Transit stations	2,666,077	160,514	222,449	2,604,142
Transportation equipment	30,163,972	2,749,447	2,162,631	30,750,788
Other equipment	3,846,266	598,302	19,418	4,425,150
Total accumulated depreciation	42,008,916	3,746,201	2,404,498	43,350,619
Total capital assets being depreciated, net	25,693,544	(2,077,186)	67,848	23,548,510
Total capital assets, net	$ 26,523,363	(627,438)	1,604,191	24,291,734

Capital asset activity for the year ended December 31, 2003 was as follows:

TOLEDO AREA REGIONAL TRANSIT AUTHORITY

Notes to Financial Statements

December 31, 2004 and 2003

	Balance January 1, 2003	Additions	Deletions	Balance December 31, 2003
Capital assets not being depreciated:				
Land	$ 743,224	—	—	743,224
Construction in progress	729,541	10,808,345	11,451,291	86,595
Total capital assets not being depreciated	1,472,765	10,808,345	11,451,291	829,819
Capital assets being depreciated:				
Buildings	6,857,897	10,165	—	6,868,062
Land improvements	1,542,544	—	—	1,542,544
Transit stations	3,075,816	2,424,825	—	5,500,641
Transportation equipment	36,105,548	10,310,363	—	46,415,911
Other equipment (primarily service equipment, furniture and fixtures, computers and computer equipment, software, and transit shelters)	5,981,039	1,988,832	594,569	7,375,302
Total capital assets being depreciated	53,562,844	14,734,185	594,569	67,702,460
Less accumulated depreciation:				
Buildings	3,557,372	237,358	—	3,794,730
Land improvements	1,537,121	750	—	1,537,871
Transit stations	2,580,464	85,613	—	2,666,077
Transportation equipment	28,008,232	2,155,740	—	30,163,972
Other equipment	3,924,622	480,152	558,508	3,846,266
Total accumulated depreciation	39,607,811	2,959,613	558,508	42,008,916
Total capital assets being depreciated, net	13,955,033	11,774,572	36,061	25,693,544
Total capital assets, net	$ 15,427,798	22,582,917	11,487,352	26,523,363

(5) Defined Benefit Pension Plan

(a) Plan Description

The Authority contributes to the Public Employees Retirement System of Ohio (PERS), a cost-sharing multiple-employer defined benefit pension plan. PERS provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Chapter 145 of the Ohio Revised Code assigns the authority to establish and amend benefit provisions to the PERS Board of Trustees (Board). PERS issues a stand-alone financial report that includes the financial statements. That report may be obtained by writing to Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 614-466-2085 or 1-800-222-PERS (7377).

(b) Funding Policy

The Ohio Revised Code provides statutory authority for employee and employer contributions. Plan members are required to contribute 8.5% of their annual covered salary, and the Authority is required to contribute an actuarially determined rate. The employer contribution rate for 2004, 2003, and 2002 was 13.55% of annual covered payroll. The contribution requirements of plan members and the Authority are established and may be amended by the PERS Board of Trustees. The Authority's contributions to PERS for the years ending December 31, 2004, 2003, and 2002 were approximately $1,648,570, $1,564,241, and $1,513,100, respectively, equal to the required contributions for each year. Required employer contributions are equal to 100% of the dollar amount billed to each employer.

(6) Other Postemployment Benefits

PERS also provides post-retirement health care coverage to age and service retirees with 10 or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. The health care coverage provided by the retirement system is considered an Other Post-employment Benefit (OPEB) as described in GASB Statement No. 12. As required by state statute, a portion of each employer's contribution to PERS (see note 7) is set aside for the funding of post-retirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The contribution rates of 13.55% to the Plan for the years ended December 31, 2004 and 2003 included a portion (4%) that was used to fund healthcare. The Authority's contributions for post-employment benefits were approximately $486,658 and $619,439 for the years ended December 31, 2004 and 2003, respectively.

The Ohio Revised Code provides the statutory authority requiring public employers to fund postretirement health care through their contributions to PERS.

Summary of Assumptions

- *Actuarial Review* – The assumptions and calculations below were based on the System's latest Actuarial Review performed as of December 31, 2003.

- *Funding Method* – An entry age normal actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of unfunded actuarial accrued liability.

- *Assets Valuation Method* – All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach assets are adjusted annually to reflect 25% of the unrealized market appreciation or depreciation on investment assets.
- *Investment Return* – The investment assumption rate for 2003 was 8%.
- *Active Employee Total Payroll* – An annual increase of 4.0% compounded annually, is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4.0% base increase, were assumed to range from 0.5% to 6.3%.
- *Health Care* – Health care costs were assumed to increase 4.0% annually.

OPEBs are advanced funded on an actuarially determined basis. The number of active participating participants at December 31, 2004 was 369,885. $10.5 billion represents the actuarial value of the Retirement System's net assets available for OPEB at December 31, 2003 (the latest date information is available). The actuarially accrued liability and the unfunded actuarial accrued liability at December 31, 2003 (the latest date information is available), based on the actuarial cost method used, were $26.9 billion and $16.4 billion, respectively.

(7) Risk Management

The Authority is exposed to various risks of loss related to torts, theft or destruction of assets, errors or omissions, injuries to employees, and natural disasters. The Authority participates in the Ohio Transit Risk Pool, Inc. (OTRP) formerly the Ohio Transit Insurance Pool (OTIP) related to its general liability risk. A provision with respect to claims on either side of this range is accrued in the period in which accidents occur or the incidence of loss is determined, based upon management's estimate of the ultimate liability.

Any underfunding of the plan's liabilities is shared by the members on a pro rata basis based on pool contribution factors comprised of: population, full-time employees, vehicles, property values, budget, net operating expenses and claims history (double weighted). This can result in future refund or return of prior years surplus.

As required by state law, the Authority is registered and insured through the State of Ohio Bureau of Workers' Compensation for injuries to its employees.

The Authority provides hospitalization and medical benefits coverage to all of its full-time employees either under professionally administered self-insured plan or HMO provider contracts. Expenses associated with these benefits totaled approximately $2.6 million in 2004 and $2.4 million 2003. In addition, the Authority provides life insurance coverage to all full-time employees. Expense associated with this benefit totaled approximately $29,000 in 2004 and $26,000 in 2003. The self-insurance plan has a stop loss of $75,000 per individual.

(Continued)

The hospitalization medical claims liability was calculated by reviewing claim lag reports and consulting with the Authority's attorneys. Changes in the accrued claims liability in 2004 and 2003 are as follows:

		Beginning of year liability	Current year claims and changes in estimates	Claim payments	End of year liability
2004	$	322,900	2,710,870	2,516,020	517,750
2003		334,600	2,507,669	2,519,369	322,900

(8) Property Tax Revenues

The Authority is subsidized by two annual property tax levies consisting of a 1.0 mill levy in effect through 2011 and a 1.5 mill levy in effect through 2008. Revenues generated from the 1.0 mill and 1.5 mill levies are based on property valuations conducted in 2001 and 1997, respectively, for property located within the Authority's operating district. Property tax revenue may be used for operating or capital purposes.

Property taxes include amounts levied against all real, public utility, and tangible (used in business) property located in the Authority's operating district. Lucas and Wood Counties collect all property taxes on behalf of the Authority. Due and collection dates for the 2003 levy, as established by Lucas and Wood Counties, were February 2004 and July 2004, for those taxes due during 2004.

Real property and tangible personal property taxes collected during fiscal year 2004 had a lien and levy date of December 2003.

(9) Grants, Reimbursements, and Special Fare Assistance – Detail

Federal operating grants and reimbursements consist of the following for the year ended December 31:

		2004	2003
FTA operating assistance	$	540,000	520,000
FTA short-range planning and marketing		230,254	246,178
FTA noncapital improvement assistance		3,388,140	3,200,000
Total	$	4,158,394	3,966,178

State operating grants, reimbursements, and special fare assistance consist of the following for the year ended December 31:

		2004	2003
ODOT operating assistance	$	512,166	715,200
State fuel tax reimbursement		309,182	276,949
State elderly and handicapped		120,259	145,914
Total	$	941,607	1,138,063

(10) Commitments and Contingencies

(a) Operating leases

The Authority has cancelable operating leases executed in one-year intervals for revenue vehicle tire utilization. Total rental expense for all operating leases amounted to approximately $148,000 and $133,000 for the years ended December 31, 2004 and 2003, respectively.

(b) Litigation

The Authority has been named in various public liability and property damage claims and suits. The ultimate outcome of these claims and suits cannot be determined; however, it is the opinion of management that any resulting liability to the Authority in excess of that provided in the accompanying balance sheets, and which is not covered by insurance, would not be material to the financial statements.

(c) Grants

Under the terms of the Authority's various capital and operating grants, periodic audits are required where certain costs could be questioned as not being an eligible expenditure under the terms of the grants. At December 31, 2004, there were no material questioned costs that had not been resolved with the FTA or ODOT. Questioned costs could still be identified during audits to be conducted in the future. Management of the Authority believes there will be no material adjustments to the grants and, accordingly, has not recorded a provision for possible repayments under the above grants.

TOLEDO AREA REGIONAL TRANSIT AUTHORITY

OMB Circular A-133 Report

Year ended December 31, 2004

(With Independent Auditor's Report Thereon)

TOLEDO AREA REGIONAL TRANSIT AUTHORITY

Table of Contents

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191 West Nationwide Boulevard
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Independent Auditors' 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*

The Board of Trustees
Toledo Area Regional Transit Authority:

and

The Honorable Betty Montgomery
Auditor of State:

We have audited the basic financial statements of the Toledo Area Regional Transit Authority (the Authority) as of and for the year ended December 31, 2004, and have issued our report thereon dated April 29, 2005. 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 financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control over financial reporting that, in our judgment, could adversely affect the Authority's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. A Reportable condition is described in the accompanying schedule of findings and questioned costs as finding 04-01.

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. Our consideration of internal control over financial reporting would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is not a material weakness.

Compliance and Other Matters

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

We noted certain matters that we reported to management of the Authority in a separate letter dated April 29, 2005.

This report is intended solely for the information and use of the Board of Trustees and management of the Authority, the Ohio Auditor of State, 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.

KPMG LLP

Columbus, Ohio
April 29, 2005

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Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program, Internal Control over Compliance in Accordance with OMB Circular A-133, and Schedule of Expenditures of Federal Awards

The Board of Trustees
Toledo Area Regional Transit Authority:

and

The Honorable Betty Montgomery
Auditor of State:

Compliance

We have audited the compliance of Toledo Area Regional Transit 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 December 31, 2004. The Authority's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the Authority's management. Our responsibility is to express an opinion on the Authority's compliance based on our audit.

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

In our opinion, the Authority complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2004. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and quested costs as finding 04-02.

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 weaknesses 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 error or fraud 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. However, we consider the reportable condition described above as finding 04-02 to be a material weakness.

Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of the Authority as of and for the year ended December 31, 2004, and have issued our report thereon dated April 29, 2005. Our audit was performed 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 OMB Circular A-133 and is 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 stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Trustees and management of the Authority, the Ohio Auditor of State, 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.

KPMG LLP

Columbus, Ohio
April 29, 2005

TOLEDO AREA REGIONAL TRANSIT AUTHORITY (TARTA)

Schedule of Expenditures of Federal Awards

Year ended December 31, 2004

U.S. Department of Transportation	CFDA number	Grant number	Federal grant award	Cash balance December 31, 2003	January 1 through December 31, 2004 Federal grant receipts	Local share	Total received	Federal expenditures	Local expenditures	Total expenditures	Cash balance December 31, 2004
Federal Transit Administration (FTA)											
Federal Transit Cluster:											
Received directly from FTA:											
Capital investment grants	20.500	OH-90-0183	$ 198,500	24,000	—	—	—	—	—	—	24,000
Capital investment grants	20.500	OH-90-0196	2,033,690	1	230,000	57,500	287,500	230,000	57,500	287,500	1
Total capital investment grants			2,232,190	24,001	230,000	57,500	287,500	230,000	57,500	287,500	24,001
Formula grants	20.507	OH-90-0456	4,488,000	—	3,446,694	14,640	3,461,334	3,446,694	14,640	3,461,334	—
Formula grants	20.507	OH-90-0394	4,740,656	2,689	780,107	195,023	975,130	780,107	195,023	975,130	2,689
Formula grants	20.507	OH-90-0426	4,720,000	—	798,854	69,716	868,570	798,854	69,716	868,570	—
Total formula grants			13,948,656	2,689	5,025,655	279,379	5,305,034	5,025,655	279,379	5,305,034	2,689
Total Federal Transit Cluster			$ 16,180,846	26,690	5,255,655	336,879	5,592,534	5,255,655	336,879	5,592,534	26,690

See accompanying notes to Schedule of Expenditures of Federal Awards.

See accompanying independent auditors' report.

TOLEDO AREA REGIONAL TRANSIT AUTHORITY

Notes to Schedule of Expenditures of Federal Awards

Year ended December 31, 2004

(1) General

The accompanying schedule of expenditures of federal awards presents the activity of all federal awards programs of the Toledo Area Regional Transit Authority (the Authority). The Authority's reporting entity is defined in note 1 to the Authority's financial statements.

(2) Basis of Accounting

The accompanying schedule of expenditures of federal awards is presented using the cash basis of accounting.

(3) Relationship of Federal Financial Reports

Amounts reported in the accompanying schedule of expenditures of federal awards agree with the amounts reported in the related federal financial reports.

TOLEDO AREA REGIONAL TRANSIT AUTHORITY

Schedule of Findings and Questioned Costs

Year ended December 31, 2004

(1) Summary of Auditors' Results:

a) The type of report issued on the basic financial statements: **Unqualified Opinion**

b) Reportable conditions in internal control were disclosed by the audit of the financial statements: **Yes**

Material weaknesses: **No**

c) Noncompliance which is material to the basic financial statements: **No**

d) Reportable conditions in internal control over major program: **Yes**

Material weaknesses: **Yes**

e) The type of report issued on compliance for major program: **Unqualified Opinion**

f) Any audit findings which are required to be reported under section .510(a) of OMB Circular A-133: **Yes**

g) Major program: **Federal Transit Cluster (CFDA numbers 20.500 and 20.507)**

h) Dollar threshold used to distinguish between Type A and Type B programs: **$300,000**

i) Auditee qualified as a low-risk auditee under Section 530 of OMB Circular A-133: **Yes**

(2) Findings Relating to the Financial Statements Reported in Accordance with Government Auditing Standards:

Finding 04 – 01 <u>*Accounting Information Systems*</u>

Finding

The general ledger is prepared manually and payroll is the only accounting system that is automated. The comptroller is the only individual knowledgeable in maintaining the manual general ledger. A manual general ledger limits the ability to establish controls over the recording of journal entries, and does not provide a "back-up" in the event the ledger is inadvertently lost or destroyed.

Recommendation:

We recommend the Authority implement an automated general ledger system that interfaces with other key processing systems to improve internal control and efficiency by reducing time and effort required to perform routine accounting functions.

Management's Response:

The Authority has included the computerization of the general ledger in its Business Plan for 2005.

(3) Findings and Questioned Costs Relating to Federal Awards:

Finding 04-02 Physical Inventory of Equipment

Program Name: Federal Transit Cluster

CFDA # and Program Expenditures:

20.500 and 20.507	$5,592,534

Criteria:

The Authority is required to follow the A-102 Common Rule for equipment. The rule requires:

- Equipment be used in the program which acquired it, or when approved by the cognizant agency, other federal programs;
- Equipment records shall be maintained, a physical inventory of equipment shall be taken at least once every two years and reconciled to equipment records.
- An appropriate control system shall be used to safeguard equipment.

Condition:

The authority has not performed a physical inventory of equipment within the last two years. We noted that a physical inventory was last performed for the year ended December 31, 2002.

Questioned Costs:

None.

Effect:

Failure to comply with the physical inventory requirements could result in the unknown loss of equipment.

Recommendation:

We recommend the Authority perform a physical inventory of equipment every two years.

Management's Response:

The Authority will perform an inventory as required for the year ended December 31, 2005.

Auditor of State
Betty Montgomery

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800-282-0370

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TOLEDO AREA REGIONAL TRANSIT AUTHORITY

LUCAS COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
AUGUST 4, 2005