

**TOLEDO AREA REGIONAL TRANSIT AUTHORITY**  
Toledo, Ohio

**FINANCIAL STATEMENTS**  
December 31, 2013 and 2012





# Dave Yost • Auditor of State

Board of Trustees  
Toledo Area Regional Transit Authority  
1127 West Central Avenue  
PO Box 792  
Toledo, OH 43695-0792

We have reviewed the *Independent Auditors' Report* of the Toledo Area Regional Transit Authority, Lucas County, prepared by CliftonLarsonAllen LLP, for the audit period January 1, 2013 through December 31, 2013. 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.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost  
Auditor of State

September 3, 2014

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## Independent Auditors' Report

Board of Trustees  
Toledo Area Regional Transit Authority  
Toledo, Ohio

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the Toledo Area Regional Transit Authority (the Authority), as of and for the years ended December 31, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the entity's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

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 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Authority as of December 31, 2013 and 2012, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matters**

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3-8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report thereon dated July 18, 2014, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

*CliftonLarsonAllen LLP*

Toledo, Ohio  
July 18, 2014

**TOLEDO AREA REGIONAL TRANSIT AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
December 31, 2013 and 2012**

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, 2013 and 2012. 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 in 2013**

- The Authority's total net position increased \$1,216,000, or 3%, over the course of the year's operations.
- The Authority's operating expenses, excluding depreciation, in 2013 were \$1,252,000 or 5% less than in 2012. A decrease in costs associated with maintenance expense, general expenses and lower fuel costs contributed to this decrease.
- Operating revenues for the Authority of \$4,900,000 in 2013 decreased \$106,000 compared with 2012. A decrease in the Toledo Board of Education contract contributed to the decrease.
- Property tax revenues of \$13,055,000 (2.5 mils) were down \$3,109,000 compared to 2012. This tax represents 41% of all revenues received. This decrease was due to foreclosures, property devaluation, and the withdrawal from the system of the city of Perrysburg. Property tax revenues are expected to decrease slightly in 2014 due to the withdrawal of Spencer Township.
- Total funding from the State of Ohio increased slightly and will be used for maintenance expenses.
- The Authority provided no charter services in 2013 in accordance with current federal regulations.

**Financial Highlights in 2012**

- The Authority's total net position decreased \$3,632,000, or 8%, over the course of the year's operations.
- The Authority's operating expenses, excluding depreciation, in 2012 were \$371,000 or 1% more than in 2011. An increase in costs associated with increased paratransit ridership, hospitalization expense, and higher fuel costs contributed to this increase.
- Operating revenues for the Authority of \$5,006,000 in 2012 decreased \$399,000 compared with 2011. A decrease in the Toledo Board of Education contract and related pass purchases contributed to the decrease.
- Property tax revenues of \$16,163,900 (2.5 mils) were down \$568,000 compared to 2011. This tax represents 58% of all revenues received. This decrease was due to foreclosures, property devaluation, the Homestead Act reduction.
- Total funding from the State of Ohio increased slightly and will be used for future fuel use.
- The Authority provided no charter services in 2012 in accordance with current federal regulations.



**TOLEDO AREA REGIONAL TRANSIT AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
December 31, 2013 and 2012**

**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 position and changes in net position 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 the Authority's assets, liabilities and deferred inflows of resources, with the difference between the two amounts reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating. A net position increase when revenues exceed expenses. Increases to assets without a corresponding increase to liabilities, results in increased net position, which indicate improved financial position.

The statements of revenues, expenses and changes in net position present information showing how the Authority's net position changed during the fiscal year. All changes in net position 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.

**TOLEDO AREA REGIONAL TRANSIT AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
December 31, 2013 and 2012**

**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 balance sheet and the statement of revenues, expenses and changes in net position 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 position are one indicator of whether its financial health is improving or deteriorating. However, one will need to consider other non-financial factors such as changes in economic conditions, population decline or growth and new or changed governmental legislation.

*Regional Transit Authority's Net Position*

	<u>2013</u>	<u>2012</u>	<u>2011</u>
<b>ASSETS</b>			
Current assets	\$ 27,451,881	\$ 27,253,987	\$ 35,514,263
Restricted assets	46,935	70,934	108,729
Long-term investments	-	797,521	803,841
Capital assets, net	<u>31,901,771</u>	<u>35,884,580</u>	<u>33,478,193</u>
Total assets	<u>59,400,587</u>	<u>64,007,022</u>	<u>69,905,026</u>
<b>LIABILITIES</b>			
Current liabilities	<u>2,893,547</u>	<u>8,045,944</u>	<u>7,208,546</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Property taxes	<u>12,960,000</u>	<u>13,630,000</u>	<u>16,733,000</u>
<b>NET POSITION</b>			
Invested in capital assets	31,901,771	35,884,580	33,478,193
Unrestricted	11,598,334	6,375,564	12,376,558
Restricted for capital acquisitions	<u>46,935</u>	<u>70,934</u>	<u>108,729</u>
Total net position	<u>\$ 43,547,040</u>	<u>\$ 42,331,078</u>	<u>\$ 45,963,480</u>

The largest portions of the Authority's net position 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, 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 Ending December 31, 2013*

Investment in capital assets decreased to \$31.9 million in 2013 from \$35.9 million in 2012, a reduction of 11%. This decrease was the result of the disposal of twenty seven large buses, several service vehicles as well as the sale of eleven large buses to Butler County Transit. The disposals were offset by software and equipment purchases.

**TOLEDO AREA REGIONAL TRANSIT AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
December 31, 2013 and 2012**

**Financial Analysis of the Authority, Continued**

*Year Ending December 31, 2012*

Investment in capital assets increased to \$35.9 million in 2012 from \$33.4 million in 2011, a change of 7%. This increase was the result of construction of the new TARPS facility (completed in 2012), transportation equipment vehicles and software purchases.

*Change in Net Position*

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Operating revenues	\$ 4,900,196	\$ 5,005,990	\$ 5,404,628
Operating expenses, excluding depreciation	(25,258,262)	(26,510,084)	(26,138,638)
Depreciation expense	<u>(5,089,716)</u>	<u>(5,105,473)</u>	<u>(4,134,058)</u>
Operating loss	<u>(25,447,782)</u>	<u>(26,609,567)</u>	<u>(24,868,068)</u>
Nonoperating revenues (expenses):			
Property taxes	13,054,854	16,163,857	16,732,300
Federal operating and preventive maintenance grants	6,286,897	4,884,304	5,416,035
State operating and preventive maintenance grants	843,127	263,909	958,957
State special fare assistance	-	-	89,398
Investment income (loss)	798	(654)	11,149
Gain (loss) on disposal of capital assets	36,449	77,124	(33,626)
Nontransportation revenue	<u>203,091</u>	<u>21,408</u>	<u>21,374</u>
Total nonoperating revenues	<u>20,425,216</u>	<u>21,409,948</u>	<u>23,195,587</u>
Capital contributions	<u>6,238,528</u>	<u>1,567,217</u>	<u>9,770,860</u>
Increase (decrease) in net position	1,215,962	(3,632,402)	8,098,379
Net position:			
Beginning of year	<u>42,331,078</u>	<u>45,963,480</u>	<u>37,865,101</u>
End of year	<u>\$ 43,547,040</u>	<u>\$ 42,331,078</u>	<u>\$ 45,963,480</u>

**TOLEDO AREA REGIONAL TRANSIT AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
December 31, 2013 and 2012**

**Financial Analysis of the Authority, Continued**

*Year Ended December 31, 2013*

The Authority's operating revenues for 2013 were down \$105,800 from 2012, or 2%. Ridership on line service amounted to 3.1 million in 2013, with an increase of 14,000 from 2012. In addition, miles of service of 3.3 million for fixed line service was down slightly from the prior year. Paratransit revenues for 2013 were up by \$23,500 from 2012. Revenues from contract service to the Toledo Public Schools decreased by \$126,000 or 16% in 2013. Operating expenses, excluding depreciation, decreased by \$1.3 million or 5%, from 2012 primarily from expenses related to increased decreased maintenance expense and fixed line transportation expense. The 2013 nonoperating revenues of \$20.4 million were lower than revenues in 2012 due to reductions in property tax revenue and due to the withdrawal of Perrysburg and property value reductions.

*Year Ended December 31, 2012*

The Authority's operating revenues for 2012 were down \$399,000 from 2011, or 7%. Ridership on line service amounted to 3.1 million in 2012, a decrease of 26,000 from 2011. In addition, miles of service of 3.3 million for fixed line service was down from the prior year. Paratransit revenues for 2012 were up by \$32,200 from 2011. Revenues from contract service to the Toledo Public Schools decreased by \$561,000 or 43% in 2012. Operating expenses, excluding depreciation, increased by \$371,000 or 1%, from 2011 primarily from expenses related to increased paratransit service, higher medical expense, and the increase fuel costs. The 2012 nonoperating revenues of \$21.4 million were lower than revenues in 2011 due to reductions in property tax revenue and Federal and state operating and preventive maintenance revenue.

**Capital Contributions**

*Year Ended December 31, 2013*

Capital contributions from federal and state agencies in 2013 were \$6.2 million. In 2013, the Authority placed into service two air conditioned, low floor, lift equipped hybrid buses at a total cost of approximately \$1.2 million and eight air conditioned, low floor, lift equipped fixed line buses at a total cost of approximately \$3.3 million. The Authority purchased a mobile security system at the cost of approximately \$964,000, a fluid and mileage management system at the cost of approximately \$104,800 and the AVL system at the cost of approximately \$1.1 million.

*Year Ended December 31, 2012*

Capital contributions from federal and state agencies in 2012 were \$1.6 million. In 2012, the Authority received two air conditioned, low floor, lift equipped hybrid buses at a total cost of approximately \$1.2 million and eight air conditioned, low floor, lift equipped fixed line buses at a total cost of approximately \$3.3 million. These vehicles were not in service at December 31, 2012. The TARPS facility was nearly completed at December 31, 2011 and included in construction in progress and was completed during 2012. There were also 31 buses received at December 31, 2011, but not placed in service until 2012.

**TOLEDO AREA REGIONAL TRANSIT AUTHORITY,  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
December 31, 2013 and 2012**

**Capital Asset and Debt Administration**

*Capital Assets 2013*

The Authority's investment in capital assets amounts to \$31.9 million, net of accumulated depreciation, as of December 31, 2013, a decrease of \$3.9 million or 11% compared with 2012. 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 purchase of eight fixed line vehicles for a total of \$3.3 million and two hybrid buses for a total of \$1.2, all of million which were placed into service in the beginning of 2013.

*Capital Assets 2012*

The Authority's investment in capital assets amounts to \$35.9 million, net of accumulated depreciation, as of December 31, 2012, an increase of \$2.4 million or 7% compared with 2011. 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 purchase of eight fixed line vehicles for a total of \$3.3 million and two hybrid buses for a total of \$1.2 million, all of which were placed into service in the beginning of 2013.

**Long-Term Debt**

The Authority has no outstanding long-term debt as of December 31, 2013 and 2012.

**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 information should be addressed to:

Secretary/Treasurer  
Toledo Area Regional Transit Authority  
P.O. Box 792  
Toledo, OH 43697-0792

**TOLEDO AREA REGIONAL TRANSIT AUTHORITY  
BALANCE SHEETS  
December 31, 2013 and 2012**

<b>ASSETS</b>	<b><u>2013</u></b>	<b><u>2012</u></b>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents (includes approximately \$195,564 and \$198,339 designated by the Board of Trustees for capital acquisitions in 2013 and 2012, respectively)	\$ 8,364,003	\$ 8,561,394
Property taxes receivable	12,960,000	13,630,000
Accounts receivable, net	5,118,452	3,900,432
Inventories	871,106	775,538
Prepaid expenses and deposits	<u>138,320</u>	<u>386,623</u>
Total current assets	<u>27,451,881</u>	<u>27,253,987</u>
<b>OTHER ASSETS</b>		
Restricted cash and cash equivalents for capital acquisitions	46,935	70,934
Capital assets not being depreciated	910,879	6,303,533
Capital assets being depreciated, net	30,990,892	29,581,047
Long-term investments (designated by the Board of Trustees for capital acquisitions)	<u>-</u>	<u>797,521</u>
<b>TOTAL ASSETS</b>	<b><u>\$59,400,587</u></b>	<b><u>\$64,007,022</u></b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 1,186,296	\$ 6,177,522
Accrued payroll and vacation pay	605,474	815,369
Accrued employer's contribution to Public Employees Retirement System	165,985	180,821
Accrued claims, including self-insurance	660,083	651,160
Unearned revenue	188,910	185,680
Other	<u>86,799</u>	<u>35,392</u>
Total current liabilities	<u>2,893,547</u>	<u>8,045,944</u>
<b>DEFERRED INFLOWS OF RESOURCES – property taxes</b>	<u>12,960,000</u>	<u>13,630,000</u>
<b>NET POSITION</b>		
Invested in capital assets	31,901,771	35,884,580
Unrestricted	11,598,334	6,375,564
Restricted for capital acquisitions	<u>46,935</u>	<u>70,934</u>
Total net position	<u>43,547,040</u>	<u>42,331,078</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION</b>	<b><u>\$59,400,587</u></b>	<b><u>\$64,007,022</u></b>

The accompanying notes are an integral part of the financial statements.

**TOLEDO AREA REGIONAL TRANSIT AUTHORITY**  
**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
**Years Ended December 31, 2013 and 2012**

	<u>2013</u>	<u>2012</u>
<b>OPERATING REVENUES</b>		
Passenger fares	\$ 4,163,430	\$ 4,141,166
Toledo Board of Education and other contracts	653,660	779,737
Auxiliary transportation revenue	<u>83,106</u>	<u>85,087</u>
Total operating revenues	<u>4,900,196</u>	<u>5,005,990</u>
<b>OPERATING EXPENSES</b>		
Labor	12,203,147	12,435,173
Fringe benefits	4,755,566	4,865,096
Materials and supplies	3,183,592	4,220,731
Services	794,101	623,729
Fuel	3,057,390	3,059,107
Taxes	273,199	273,704
Claims and insurance	539,341	615,568
Utilities	435,989	402,402
Miscellaneous	<u>15,937</u>	<u>14,574</u>
Total operating expenses	<u>25,258,262</u>	<u>26,510,084</u>
Operating loss before depreciation	(20,358,066)	(21,504,094)
<b>DEPRECIATION</b>	<u>5,089,716</u>	<u>5,105,473</u>
Operating loss	<u>(25,447,782)</u>	<u>(26,609,567)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Property taxes	13,054,854	16,163,857
Federal operating and preventive maintenance assistance	6,286,897	4,884,304
State operating and preventive maintenance grants and assistance	843,127	263,909
Investment income (loss)	798	(654)
Gain on disposal of capital assets	36,449	77,124
Nontransportation revenues	<u>203,091</u>	<u>21,408</u>
Total nonoperating revenues	<u>20,425,216</u>	<u>21,409,948</u>
Net loss before capital contributions	(5,022,566)	(5,199,619)
<b>CAPITAL CONTRIBUTIONS</b>	<u>6,238,528</u>	<u>1,567,217</u>
Increase (decrease) in net position	1,215,962	(3,632,402)
<b>NET POSITION</b>		
Beginning of year	<u>42,331,078</u>	<u>45,963,480</u>
End of year	<u>\$43,547,040</u>	<u>\$42,331,078</u>

The accompanying notes are an integral part of the financial statements.

**TOLEDO AREA REGIONAL TRANSIT AUTHORITY**  
**STATEMENTS OF CASH FLOWS**  
**Years Ended December 31, 2013 and 2012**

	<u>2013</u>	<u>2012</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from fares and contracts	\$ 4,360,748	\$ 6,328,056
Payments to suppliers	(13,086,633)	(7,806,213)
Payments for labor and employee benefits	<u>(17,174,521)</u>	<u>(17,594,596)</u>
Net cash used in operating activities	<u>(25,900,406)</u>	<u>(19,072,753)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Proceeds from:		
Property taxes	13,054,854	16,163,857
Federal operating and preventive maintenance assistance	6,188,294	3,505,428
State operating and preventive maintenance grants and assistance	263,441	1,414,509
Nontransportation revenues	<u>203,091</u>	<u>21,408</u>
Net cash provided by noncapital financing activities	<u>19,709,680</u>	<u>21,105,202</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Expenditures for capital assets	(1,205,648)	(7,511,860)
Proceeds from capital contributions	6,238,528	1,567,217
Proceeds from sale of capital assets	<u>135,188</u>	<u>77,124</u>
Net cash provided by (used in) capital and related financing activities	<u>5,168,068</u>	<u>(5,867,519)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of long-term investments	-	(343,362)
Sale/maturity of long-term investments	797,521	339,084
Interest on investments	<u>3,747</u>	<u>11,893</u>
Net cash provided by investing activities	<u>801,268</u>	<u>7,615</u>
Net decrease in cash and cash equivalents	(221,390)	(3,827,455)
<b>CASH AND CASH EQUIVALENTS</b>		
Beginning of year	<u>8,632,328</u>	<u>12,459,783</u>
End of year	<u>\$ 8,410,938</u>	<u>\$ 8,632,328</u>



**TOLEDO AREA REGIONAL TRANSIT AUTHORITY**  
**STATEMENTS OF CASH FLOWS**  
**Years Ended December 31, 2013 and 2012**

	<u>2013</u>	<u>2012</u>
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES</b>		
Operating loss	\$ (25,447,782)	\$ (26,609,567)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	5,089,716	5,105,473
Changes in assets and liabilities:		
Accounts receivable – trade and other	(542,678)	1,429,795
Inventories	(95,568)	426,542
Prepaid expenses and deposits	248,303	(262,394)
Accounts payable	(4,991,226)	1,275,092
Accrued liabilities and other	(164,401)	(329,963)
Unearned revenues	<u>3,230</u>	<u>(107,731)</u>
Net cash used in operating activities	<u>\$ (25,900,406)</u>	<u>\$ (19,072,753)</u>

The accompanying notes are an integral part of the financial statements.

**TOLEDO AREA REGIONAL TRANSIT AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2013 and 2012**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Toledo Area Regional Transit Authority (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* and GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*. 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 impose a financial burden on the reporting entity. The Authority does not have financial accountability over any other entities.

The City of Toledo (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 of Trustees. 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.

A summary of significant accounting policies followed in the preparation of the accompanying financial statements of the Authority is presented below.

During the year, the Authority audited GASB No. 65, *Items Previously Recognized as Assets and Liabilities*. The objective of this Statement is to establish standards that reclassify certain items that were previously reported as assets and liabilities and instead to classify them as deferred inflows of resources, deferred outflows of resources, or as outflows of resources.

**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) 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 2013 that will be collected in 2014 are recorded as a 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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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Use of Estimates in Preparing Financial Statements**

The preparation of financial statements in conformity with generally accepted accounting principles 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 each reporting period. Actual results could differ from those estimates.

**Cash Equivalents**

The Authority considers all investments (including restricted assets) with an initial maturity of three months or less at date of purchase to be cash equivalents for purposes of the statements of cash flows.

**Inventories**

Materials and supplies inventories are stated at the lower of cost or market value (net realizable value). Cost is determined using the average cost method.

**Restricted Assets**

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

**Investments**

Investments (including cash equivalents) are stated 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. All investments with a maturity beyond twelve months at date of purchase are classified as long-term.

The Authority can invest funds in STAROhio, an investment pool managed by the State Treasurer's office that allows governments within the state to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price, which is the price at which the investment could be sold.

**Capital Assets**

Capital assets, which include 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 does not add to the value of the asset or materially extend the asset's life is not capitalized.

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Capital Assets, Continued**

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

**Accounting for Impairment of Long-Lived Assets**

The Authority reviews its long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of assets held and used is measured by comparing the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets.

**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.

**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, in accordance with 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 years ended December 31, 2013 and 2012.

**TOLEDO AREA REGIONAL TRANSIT AUTHORITY**  
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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Net Position**

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.

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

**Passenger Fares**

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

**Federal and State Operating and Preventive Maintenance Assistance Funds**

Federal and state operating and preventive 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.

**Capital Contributions**

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.

**Classification of Revenues**

The Authority has classified its revenues as either operating or nonoperating. Operating revenues include activities that have the characteristics of exchange transactions, including passenger fares and special transit fares. Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as property tax proceeds and most federal, state and local grants and contracts.

**Reclassifications**

Certain reclassifications of the 2012 amounts have been made to conform to the 2013 presentation.

**TOLEDO AREA REGIONAL TRANSIT AUTHORITY**  
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**NOTE 2 - CASH AND INVESTMENTS**

The provisions of the ORC govern the investment and deposit of the Authority's 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. At the time of making an investment, the Authority's Treasurer must reasonably expect that the investment can be held until maturity. To the extent possible, the Treasurer will attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow requirement, the Treasurer will not directly invest in securities maturing more than five years from the settlement date of purchase.

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 and must mature or be redeemable within five years of the date of the related repurchase agreement. The market value of the securities subject to a repurchase agreement must exceed the value of the principal by 2% and be marked to market daily. State law does not require security for public deposits and investments to be maintained in the Authority's name.

The Authority is prohibited from investing in any financial instrument, contract, or obligation whose value or return is based upon or linked to another asset or index, or both, separate from the financial instrument, contract, or obligation itself (commonly known as a "derivative"). The Authority is also prohibited from investing in reverse repurchase agreements.

**Interest rate risk**

As a means of limiting its exposure to fair value losses arising from rising interest rates, the Authority's investment policy requires all investments must mature within five years from their original purchase date.

**Concentration of credit and custodial credit risk**

The Authority places no limit on the amount that may be invested in any one issuer. Presently, all investments are U.S. Treasury and governmental agency securities. Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. The Authority does have a deposit policy for custodial credit risk.

**TOLEDO AREA REGIONAL TRANSIT AUTHORITY**  
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**NOTE 2 - CASH AND INVESTMENTS (CONTINUED)**

**Deposits**

Information regarding the Authority's deposits at December 31, 2013 and 2012 is as follows:

	<u>2013</u>	<u>2012</u>
Book/carrying value of deposits	\$ 8,410,938	\$ 8,632,328
Bank balance:		
Covered by federal depository insurance	\$ 781,713	\$ 886,865
Uncollateralized as defined by the GASB	<u>7,992,817</u>	<u>8,224,335</u>
<b>Total bank balance</b>	<u>\$ 8,774,530</u>	<u>\$ 9,111,200</u>

The uncollateralized deposits at December 31, 2013 and 2012, were, however, covered by pledged collateral pools as discussed above.

**Long-Term Investments**

The Authority had the following long-term investments at December 31, 2012 (none at December 31, 2013):

<u>Description</u>	<u>Maturity</u>	<u>Fair value</u>
U.S. Treasury	February – August 2013	\$ 128,474
U.S. Treasury	February 2014	121,392
U.S. Treasury	January 2015	28,590
U.S. Treasury	April 2015	128,230
U.S. Treasury	August 2015	<u>390,835</u>
<b>Total</b>		<u>\$ 797,521</u>

**NOTE 3 - ACCOUNTS RECEIVABLE**

Accounts receivable at December 31, 2013 and 2012 consisted of the following:

	<u>2013</u>	<u>2012</u>
Capital grants	\$ 4,082,415	\$ 3,404,126
Trade and other	1,054,037	511,357
Interest	<u>-</u>	<u>2,949</u>
	5,136,452	3,918,432
Less allowance for doubtful receivables	<u>18,000</u>	<u>18,000</u>
<b>Total accounts receivable, net</b>	<u>\$ 5,118,452</u>	<u>\$ 3,900,432</u>

**TOLEDO AREA REGIONAL TRANSIT AUTHORITY**  
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**NOTE 4 - CAPITAL ASSETS**

Capital asset activity for the years ended December 31, 2013 and 2012 was as follows:

	<u>2013</u>			
	<u>Balance</u> <u>January 1,</u> <u>2013</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>December 31,</u> <u>2013</u>
Capital assets not being depreciated:				
Land	\$ 743,224	\$ -	\$ -	\$ 743,224
Construction in progress	<u>5,560,309</u>	<u>162,655</u>	<u>5,555,309</u>	<u>167,655</u>
Total capital assets not being depreciated	<u>6,303,533</u>	<u>162,655</u>	<u>5,555,309</u>	<u>910,879</u>
Capital assets being depreciated:				
Buildings	18,105,896	50,000	-	18,155,896
Land improvements	1,611,597	3,605	-	1,615,202
Transit stations	7,372,438	-	-	7,372,438
Transportation equipment	48,756,408	4,352,185	8,692,678	44,415,915
Other equipment (primarily service equipment, furniture and fixtures, computers and computer equipment, software and transit shelters)	<u>9,780,498</u>	<u>2,192,512</u>	<u>49,055</u>	<u>11,923,955</u>
Total capital assets being depreciated	<u>85,626,837</u>	<u>6,598,302</u>	<u>8,741,733</u>	<u>83,483,406</u>
Less accumulated depreciation:				
Buildings	6,304,870	522,155	-	6,827,025
Land improvements	1,560,276	7,106	-	1,567,382
Transit stations	3,415,149	292,857	-	3,708,006
Transportation equipment	36,163,710	3,585,040	8,593,937	31,154,813
Other equipment	<u>8,601,785</u>	<u>682,558</u>	<u>49,055</u>	<u>9,235,288</u>
Total accumulated depreciation	<u>56,045,790</u>	<u>5,089,716</u>	<u>8,642,992</u>	<u>52,492,514</u>
Total capital assets being depreciated, net	<u>29,581,047</u>	<u>1,508,586</u>	<u>98,741</u>	<u>30,990,892</u>
<b>Total capital assets, net</b>	<u>\$ 35,884,580</u>	<u>\$ 1,671,241</u>	<u>\$ 5,654,050</u>	<u>\$ 31,901,771</u>



**TOLEDO AREA REGIONAL TRANSIT AUTHORITY**  
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**NOTE 4 - CAPITAL ASSETS (CONTINUED)**

	<u>2012</u>			
	<u>Balance</u> <u>January 1,</u> <u>2012</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>December 31,</u> <u>2012</u>
Capital assets not being depreciated:				
Land	\$ 743,224	\$ -	\$ -	\$ 743,224
Construction in progress	<u>12,336,779</u>	<u>5,555,309</u>	<u>12,331,779</u>	<u>5,560,309</u>
Total capital assets not being depreciated	<u>13,080,003</u>	<u>5,555,309</u>	<u>12,331,779</u>	<u>6,303,533</u>
Capital assets being depreciated:				
Buildings	7,258,252	10,847,644	-	18,105,896
Land improvements	1,565,705	45,892	-	1,611,597
Transit stations	7,372,438	-	-	7,372,438
Transportation equipment	53,367,640	2,875,428	7,486,660	48,756,408
Other equipment (primarily service equipment, furniture and fixtures, computers and computer equipment, software and transit shelters)	<u>9,360,735</u>	<u>519,366</u>	<u>99,603</u>	<u>9,780,498</u>
Total capital assets being depreciated	<u>78,924,770</u>	<u>14,288,330</u>	<u>7,586,263</u>	<u>85,626,837</u>
Less accumulated depreciation:				
Buildings	5,807,836	497,034	-	6,304,870
Land improvements	1,555,567	4,709	-	1,560,276
Transit stations	3,122,291	292,858	-	3,415,149
Transportation equipment	40,151,380	3,498,990	7,486,660	36,163,710
Other equipment	<u>7,889,506</u>	<u>811,882</u>	<u>99,603</u>	<u>8,601,785</u>
Total accumulated depreciation	<u>58,526,580</u>	<u>5,105,473</u>	<u>7,586,263</u>	<u>56,045,790</u>
Total capital assets being depreciated, net	<u>20,398,190</u>	<u>9,182,857</u>	<u>-</u>	<u>29,581,047</u>
<b>Total capital assets, net</b>	<u>\$ 33,478,193</u>	<u>\$ 14,738,166</u>	<u>\$ 12,331,779</u>	<u>\$ 35,884,580</u>

During 2010, the Authority began construction of a new facility for the Toledo Area Regional Paratransit Service (TARPS) operation. The total cost of the facility was approximately \$10 million and the new facility opened in February 2012.

**TOLEDO AREA REGIONAL TRANSIT AUTHORITY**  
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**NOTE 5 - DEFINED BENEFIT PENSION PLAN**

***Plan Description***

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

OPERS administers three separate pension plans as described below:

- The Traditional Pension Plan ("TP") – a cost-sharing multiple-employer defined benefit pension plan.
- The Member-Directed Plan ("MD") – a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the MD Plan, members accumulate retirement assets equal to the value of member and (vested) employer contributions plus any investment earnings thereon.
- The Combined Plan ("CO") – a cost-sharing multiple-employer defined benefit pension plan. Under the CO Plan, employer contributions are invested by OPERS to provide a formula retirement benefit similar in nature to the TP Plan benefit. Member contributions, the investment of which are self-directed by the members, accumulate retirement assets in a manner similar to the MD Plan.

OPERS provides retirement, disability, survivor and death benefits and annual cost-of-living adjustments to members of the TP and CO Plans. Members of the MD Plan do not qualify for ancillary benefits, including post-employment healthcare coverage.

***Funding Policy***

The Ohio Revised Code provides statutory authority for employee and employer contributions. In 2013 and 2012, employees other than law enforcement personnel were required to contribute 10.0% of their covered payroll to OPERS. The 2013 and 2012 employer contribution rates for local government employer units were 14.0% of covered payroll including 1% and 4.0% that is used to fund postretirement health care benefits for 2013 and 2012, respectively. The Authority's total contributions to OPERS for pension benefits (excluding the amount relating to postretirement health care benefits discussed in Note 6) for the years ended December 31, 2013, 2012 and 2011 were \$1,599,000, \$1,249,000, and \$1,270,000, respectively, equal to 100% of the required contribution for each year.

**TOLEDO AREA REGIONAL TRANSIT AUTHORITY**  
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**NOTE 6 - OTHER POSTEMPLOYMENT BENEFITS**

***Benefits Provided Through OPERS***

The Authority provides health care benefits as a post-employment benefit (as defined by GASB Statement No. 45) through its contributions to OPERS. In addition to the pension benefit previously described, OPERS maintains a cost-sharing multiple employer defined benefit post-employment healthcare plan, which includes a medical plan, prescription drug program and Medicare Part B premium reimbursement, to qualifying members of both the TP and the CO Plans. Members of the MD Plan do not qualify for ancillary benefits, including post-employment health care coverage. In order to qualify for post-employment health care coverage, age-and-service retirees under the TP and CO Plans must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post-Employment Benefit (OPEB) as described in GASB Statement No. 45.

A portion of each employer's contribution to OPERS is set aside for the funding of postretirement health care. For the Authority, 1.0% and 4.0% for calendar year 2013 and 2012, respectively, of covered payroll was the portion of the 14.0% total contribution rate for 2013 and 2012 that was used to fund health care. The Ohio Revised Code provides the statutory authority requiring public employers to fund postretirement health care through their contributions to OPERS.

OPEB provided through OPERS are advance-funded on an actuarially determined basis. The Authority's total contributions to OPERS for postretirement health care benefit for the years ended December 31, 2013, 2012 and 2011 were \$123,000, \$500,000, and \$508,000, respectively, equal to 100% of the required contribution for each year.

Changes to the health care plan were adopted by the OPERS Board of Trustees on September 19, 2012, with a transition plan commencing January 1, 2014. With the recent passage of pension legislation under SB 343 and the approved health care changes, OPERS expects to be able to consistently allocate 4% of the employer contributions toward the health care fund after the end of the transition period.

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB No. 27*. This statement makes significant changes to the manner in which governments, including the Authority, must account for and report the pensions provided to their employees. Among other requirements, Statement No. 68 will require the Authority to record a liability equal to its proportionate share of the total net pension liability of all participating employers in OPERS, and it will require the Authority to record expense equal to its proportionate share of total pension expense of all participating employers in OPERS. Currently, the Authority's pension expense is equal to its required contributions to OPERS, and a liability is recorded only when actual contributions are less than the required amount. Statement No. 68 will require additional footnote disclosures as well. This statement is effective for the Authority in the year ended December 31, 2015, and as such, the Authority has not yet determined the impact that this statement will have on its financial statements.

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**NOTE 6 - OTHER POSTEMPLOYMENT BENEFITS**

***Benefits Provided Through OPERS, Continued***

In November, 2013, the GASB issued Statement No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68." This statement addresses an issue regarding application of the transition provision of GASB Statement No. 68, "Accounting and Financial Reporting for Pensions." The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. This statement will not be effective for the Authority until the year ended December 31, 2015, and as such, the Authority has not yet determined the impact that this statement will have on its financial statements.

**NOTE 7 - RISK MANAGEMENT**

***Property and Liability***

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 is accrued in the period in which accidents occur or in 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 composed 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.

***Health Insurance***

The Authority provides hospitalization and medical benefits coverage to all of its full-time employees. The Authority is self-insured, with certain stop-loss coverage, for hospitalization and medical benefits coverage and expense totalled approximately \$2.8 million in 2013, \$2.9 million in 2012, and \$2.7 million in 2011. No claims have exceeded the stop-loss coverage during the past three years. In addition, the Authority provides life insurance coverage to all full-time employees. Effective January 1, 2014, the Authority switched providers to the Ohio Transit Risk Pool.

***Workers' Compensation***

Effective January 1, 2011, the Authority has elected to take advantage of the workers' compensation plan offered by the State of Ohio. This plan, called retrospective rating, allows the Authority to pay a fraction of the premium it would pay as an experience-rated risk.

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**NOTE 7 - RISK MANAGEMENT (CONTINUED)**

***Workers' Compensation, Continued***

Retrospective rating constitutes a step closer to self-insurance. In the retrospective rating plan, the Authority agrees to assume a portion of the risk in return for a possible reduction in premiums. The greater the percentage of the risk the Authority assumes, the greater the potential reduction in the premium. If the Authority's loss experience is better than predicted by the experience-rating system, its premium obligation will be less than what it would have paid under experience rating. If its experience is worse than predicted, its premium obligation will be more than it would have been assessed under experience rating, limited to a maximum premium. The Authority has assumed the risk of individual claims up to a maximum of \$100,000.

The Authority has agreed to pay all claims up to a maximum of 150% of what the Authority would have paid had the Authority remained an experience-rated risk. Claims exceeding these limits will be paid by the State. Each year, the Authority pays the State a "minimum premium" for retaining the risk of having to pay claims which exceed the Authority's maximum claim limits. Ten years after each year the Authority elected the retrospective plan for workers' compensation, the Authority settles up for the reserve on any claims that are still open. The accrued claims liability amounted to \$223,000 and \$239,000 at December 31, 2013 and 2012, respectively.

Changes in the accrued claims liability, including general liability, medical, and workers' compensation, for the years ended December 31, 2013, 2012 and 2011 are as follows:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
<b>January 1, liability</b>	\$ 651,160	\$ 707,809	\$ 471,600
Current year claims and changes in estimates	3,002,525	3,123,025	3,173,003
Claim payments	<u>(2,993,602)</u>	<u>(3,179,674)</u>	<u>(2,936,794)</u>
<b>December 31, liability</b>	<u>\$ 660,083</u>	<u>\$ 651,160</u>	<u>\$ 707,809</u>

**NOTE 8 - PROPERTY TAX REVENUES**

The Authority is subsidized by two annual property tax levies consisting of a 1.0 mill levy in effect through 2020 and a 1.5 mill levy in effect through 2017. Revenues generated from the 1.0 mill and 1.5 mill levies are based on property valuations conducted in 2001 and 2007, respectively, for property located within the Authority's operating district. The valuation performed in 2012 affected levy proceeds beginning in 2013. Property tax revenue may be used for operating or capital purposes. In November 2007, voters in the nine community transit districts approved a 1.5 mill replacement levy which was effective January 2008. In November 2010, voters approved a ten year 1.0 mill renewal levy.

On the March 6, 2012 ballot, voters in the City of Perrysburg decided to opt out of transit services provided by the Authority. This reduced annual property tax revenue by approximately \$1.3 million beginning in calendar 2013.

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**NOTE 8 - PROPERTY TAX REVENUES (CONTINUED)**

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 collections dates as established by Lucas and Wood Counties, are February and July of the subsequent year.

Real property and tangible personal property taxes collected during fiscal year 2013 and 2012 had a lien and levy date of December 2012 and 2011, respectively.

**NOTE 9 - GRANTS, REIMBURSEMENTS AND SPECIAL FARE ASSISTANCE**

Federal operating and preventive maintenance assistance consist of the following for the years ended December 31, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
FTA preventive maintenance assistance and ADA	\$ 3,502,730	\$ 3,603,534
FTA bio fuel grant	2,691,527	1,201,579
FTA operating assistance	-	53,000
FTA short-range planning and marketing	<u>92,640</u>	<u>26,191</u>
<b>Total</b>	<b><u>\$ 6,286,897</u></b>	<b><u>\$ 4,884,304</u></b>

State operating and preventive maintenance grants and special fare assistance consist of the following for the years ended December 31, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
State fuel tax reimbursement	\$ 263,441	\$ 263,909
ODOT operating assistance	<u>579,686</u>	<u>-</u>
<b>Total</b>	<b><u>\$ 843,127</u></b>	<b><u>\$ 263,909</u></b>

**NOTE 10 - COMMITMENTS AND CONTINGENCIES**

**Operating Leases**

The Authority has cancellable operating leases executed in one-year intervals for revenue vehicle tire utilization. Total rental expense for all operating leases amounted to approximately \$290,000 and \$273,500 for the years ended December 31, 2013 and 2012, respectively.

**TOLEDO AREA REGIONAL TRANSIT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2013 and 2012**

**NOTE 10 - COMMITMENTS AND CONTINGENCIES (CONTINUED)**

**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.

**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, 2013 and 2012, there were no material questioned costs that had not been resolved with the federal or state agencies. 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.

FTA grant stipulations also require the grantee to retain assets acquired by FTA funds for the full estimated asset useful life (as determined by the FTA). If this provision is not met, the grantee must refund FTA's un-depreciated basis in assets disposed.

**Union Contracts**

The Authority's three union contracts, which cover drivers, mechanics, administrative and TARPS employees, expired in the fall of 2010. The Authority and two of the unions have reached agreement and the Authority and unions have entered into new contracts during 2011. One union and the Authority are currently in negotiations.

This information is an integral part of the accompanying financial statements.

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**TOLEDO AREA REGIONAL TRANSIT AUTHORITY**  
Toledo, Ohio

**REPORTS ISSUED PURSUANT TO  
THE OMB CIRCULAR A-133  
December 31, 2013**

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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  
Toledo, Ohio

We have audited, in accordance with the 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, the financial statements of Toledo Area Regional Transit Authority (the Authority), as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated July 18, 2014.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The Board of Trustees  
Toledo Area Regional Transit Authority

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from 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*.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*CliftonLarsonAllen LLP*

Toledo, Ohio  
July 18, 2014



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR FEDERAL PROGRAM, ON INTERNAL CONTROL OVER COMPLIANCE, AND ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS IN ACCORDANCE WITH OMB CIRCULAR A-133**

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

**Report on Compliance for Each Major Federal Program**

We have audited Toledo Area Regional Transit Authority's (the Authority) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Authority's major federal programs for the year ended December 31, 2013. The Authority's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance for each of the Authority's major federal programs based on our audit of the types of compliance requirements referred to above. 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the Authority's compliance.

### ***Opinion on Each Major Federal Program***

In our opinion, the Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2013.

### ***Other Matters***

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as Item 2013-001. Our opinion on each major federal program is not modified with respect to this matter.

The Authority's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Authority's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

### **Report on Internal Control Over Compliance**

Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Authority's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a certain deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as Item 2013-001, that we consider to be a significant deficiency.

The Board of Trustees  
Toledo Area Regional Transit Authority

The Authority's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Authority's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the result of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

### **Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133**

We have audited the financial statements of the Authority as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements. We issued our report thereon dated July 18, 2014, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the basic financial statements. 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 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

*CliftonLarsonAllen LLP*

Toledo, Ohio  
July 18, 2014

**TOLEDO AREA REGIONAL TRANSIT AUTHORITY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Year Ended December 31, 2013**

<u>Federal Grantor Agency/ Pass-Through Grantor/ Program or Cluster Title</u>	<u>Federal CFDA number</u>	<u>Grant number</u>	<u>Federal expenditures</u>
U. S. Department of Transportation:			
Federal Transit Administration (FTA)			
Federal Transit Cluster:			
Received directly from FTA:			
Capital investment grants	20.500	OH-04-0076	\$ 52,051
Capital investment grants	20.500	OH-04-0040	246,083
Capital investment grants	20.500	OH-04-0062	<u>10,125</u>
Subtotal CFDA 20.500			<u>308,259</u>
Formula grants	20.507	OH-90-X456	89,092
Formula grants	20.507	OH-90-X501	15,060
Formula grants	20.507	OH-90-X586	102,815
Formula grants	20.507	OH-90-X609	103,470
Formula grants	20.507	OH-90-X670	505,508
Formula grants	20.507	OH-90-X690	230,692
Formula grants	20.507	OH-90-X766	279,031
Formula grants	20.507	OH-90-X769	106,540
Formula grants	20.507	OH-95-X071	2,153,223
Formula grants	20.507	OH-95-X096	300,095
Formula grants	20.507	OH-95-X136	579,686
Formula grants	20.507	OH-90-X791	<u>3,502,730</u>
Subtotal CFDA 20.507			<u>7,967,942</u>
Total Federal Transit Cluster			<u>8,276,201</u>
U. S. Department of Transportation:			
Federal Transit Administration (FTA)			
Transit Services Program Cluster:			
New Freedom Program	20.521	OH-57-X009	<u>73,566</u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<b><u>\$ 8,349,767</u></b>

This schedule should be read only in connection with  
the accompanying notes to the schedule.



**TOLEDO AREA REGIONAL TRANSIT AUTHORITY**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**Year Ended December 31, 2013**

**NOTE 1 - GENERAL**

The accompanying Schedule of Expenditures of Federal Awards (Schedule) presents the activity of federal award programs of the Authority under programs financed by the U.S. Government for the year ended December 31, 2013.

**NOTE 2 - BASIS OF PRESENTATION**

The accompanying Schedule is presented on the accrual basis of accounting. The information on this Schedule is presented in accordance with the requirements of OMB Circular 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 basic financial statements.

For purposes of the Schedule, federal awards include the following:

- Direct federal awards
- Pass-through funds received from non-federal organizations made under federally sponsored programs conducted by those organizations.

There are no noncash federal awards, loans or guarantees or subrecipients.

This information is an integral part of the accompanying schedule.

**TOLEDO AREA REGIONAL TRANSIT AUTHORITY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended December 31, 2013**

**Section I – Summary of Auditor's Results**

**Financial Statements**

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

**Federal Awards**

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

Type of auditor's report issued on compliance for major programs:	<u>Unmodified</u>
-------------------------------------------------------------------	-------------------

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?	_____ <u>X</u> yes	_____ no
------------------------------------------------------------------------------------------------------------------------	--------------------	----------

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
_____ 20.500 and 20.507 _____	_____ Federal Transit Cluster _____

Dollar threshold used to distinguish between type A and type B programs: \$ 300,000

Auditee qualified as low-risk auditee?	_____ yes	_____ <u>X</u> no
----------------------------------------	-----------	-------------------

**Section II – Financial Statement Findings**

**None.**

**TOLEDO AREA REGIONAL TRANSIT AUTHORITY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, CONTINUED  
Year Ended December 31, 2013**

**Section III – Federal Award Findings and Questioned Costs**

**Reference 2013-001 – Schedule of Expenditures of Federal Awards**

Federal Agency: U.S. Department of Transportation  
Federal Program: Federal Transit Cluster  
CFDA Number: CFDA 20.500 and 20.507  
Grant Year: 2013

Type of Finding:

- Significant Deficiency in Internal Control over Compliance
- Compliance

**Criteria or Specific Requirement**

The Schedule of Expenditures of Federal Awards (SEFA) should accurately capture current year expenditures for all federal grants and awards.

**Condition**

The SEFA was completed by the Authority; however, we identified errors in the original SEFA as prepared by the Authority, that did not accurately reflect the program expenditures.

**Questioned Costs**

None

**Effect**

An accurate SEFA is essential for ensuring the Authority's compliance with federal grant requirements. In addition, the determination of major programs to be audited in the annual OMB Circular A-133 audit could be adversely effected and lead to the erroneous inclusion or exclusion of a major program.

**Recommendation**

We recommend that Authority management implement preparation and review procedures to ensure the accuracy and completeness of the SEFA. Procedures should include communication and training if necessary to the different departments to ensure proper reporting of federal expenditures. In addition, management should establish general ledger accounts to separately classify federal and non-federal matching dollars when applicable.

**Authority's Response and Planned Corrective Action**

The Authority will implement review procedures to ensure such errors do not occur in the future.

**TOLEDO AREA REGIONAL TRANSIT AUTHORITY  
SUMMARY OF PRIOR AUDIT FINDINGS  
Year Ended December 31, 2013**

**Reference 2012-001 – Segregation of Duties**

Segregation of duties is a key component of internal controls. Presently, the Comptroller reviews purchase orders (to verify availability of funds), approves disbursement vouchers, has the ability to record cash disbursements and also has check signing authority. In addition, the Comptroller has the ability and authority to receive mail (deposits), make deposits, make bank transfers, opens bank statements and reviews bank reconciliations.

**Status**

This finding has been corrected.

**Reference 2012-002 – Other**

All Federal Grants

See Finding 2012-001 above.



# Dave Yost • Auditor of State

**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  
SEPTEMBER 16, 2014**