TOLEDO AREA REGIONAL TRANSIT AUTHORITY

Financial Statements

December 31, 2003 and 2002

(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 (TARTA), Lucas County, prepared by KPMG LLP, for the audit period January 1, 2003 through December 31, 2003. 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. TARTA is responsible for compliance with these laws and regulations.

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

October 7, 2004

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TOLEDO AREA REGIONAL TRANSIT AUTHORITY

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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, 2003 and 2002, 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 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, 2003 and 2002, 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.

TARTA has not presented a management's discussion and analysis for year ended December 31, 2002 that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements.

As discussed in Note 2 to the financial statements, the Authority adopted the provisions of the Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*"; Statement No. 37, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus;* and Statement No. 38, *Certain Financial Statement Note Disclosures* during the year ended December 31, 2003.

In accordance with *Government Auditing Standards*, we have also issued a report dated July 6, 2004 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

The management's discussion and analysis on pages 3 through 6 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

July 6, 2004

TOLEDO AREA REGIONAL TRANSIT AUTHORITY

Management's Discussion and Analysis

December 31, 2003 and 2002

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 year ended December 31, 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

- 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 raters 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 the 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., earned but unused vacation leave).

(Continued)

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 the 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 non-financial factors such as changes in economic conditions, population decline or growth and new or changed governmental legislation.

Regional Transit Authority's Net Assets

	2003	2002
Current assets	$ 25,613,159	30,018,168
Restricted assets	26,690	26,743
Long-term investments	1,136,480	1,155,562
Capital assets, net	26,523,363	15,427,798
Total assets	53,299,692	46,628,271
Current liabilities	1,972,839	1,851,890
Deferred revenue – property taxes	14,547,000	14,545,000
Other liabilities	167,453	174,732
Total liabilities	16,687,292	16,571,622
Net assets:		
Invested in capital assets	26,523,362	15,427,798
Unrestricted	10,089,038	14,628,851
Total net assets	$ 36,612,400	30,056,649

As can be seen from the table above, 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)

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.

Changes in Net Assets

	2003	2002
Operating revenues	$ 5,159,210	5,072,864
Operating expenses excluding depreciation	(24,839,570)	(22,157,281)
Depreciation expense	(2,959,613)	(2,938,550)
Operating loss	(22,639,973)	(20,022,967)
Net non-operating revenues (expenses):		
Property taxes	14,495,778	14,551,915
Federal operating and preventive maintenance grants	3,966,178	3,746,748
State operating and preventive maintenance grants	992,151	940,516
State special fare assistance	145,912	182,276
Investment income	296,403	401,778
Other	17,781	131,760
Non-operating revenues and expenses, net	19,914,203	19,954,993
Capital contributions	9,281,521	1,511,549
Change in net assets	6,555,751	1,443,575
Net assets, beginning of year	30,056,649	28,613,074
Net assets end of year	$ 36,612,400	30,056,649

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: 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, 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, 2003 and 2002

Assets		**2003**	**2002**
Current assets:			
Cash and cash equivalents (includes approximately $2,246,228 and $6,539,000 designated by the Board of Trustees for capital acquisitions in 2003 and 2002, respectively (note 2)	$	8,521,938	13,353,959
Property taxes receivable		14,547,000	14,545,000
Accounts receivable (note 3)		1,775,270	1,288,409
Materials and supplies		604,585	677,866
Prepaid expenses and deposits		164,366	152,934
Total current assets		25,613,159	30,018,168
Restricted assets:			
Restricted cash and cash equivalents for capital acquisitions (note 2)		26,690	26,743
Capital assets, net (note 4)		26,523,363	15,427,798
Long-term investments (designated by the Board of Trustees for capital acquisitions) (note 2)		1,136,480	1,155,562
Total assets	$	53,299,692	46,628,271
Liabilities and Net Assets			
Current liabilities:			
Accounts payable	$	519,643	533,878
Accrued payroll		623,251	605,519
Accrued workers' compensation insurance		188,800	63,800
Accrued employer's contribution to Public Employees Retirement System (notes 5 and 6)		233,333	211,911
Accrued claims (note 7)		322,900	334,600
Other		84,912	102,182
Total current liabilities		1,972,839	1,851,890
Other liabilities – deferred revenue:			
Property taxes (note 8)		14,547,000	14,545,000
Other		167,453	174,732
Total liabilities		16,687,292	16,571,622
Net assets:			
Invested in capital assets		26,523,363	15,427,798
Unrestricted		10,089,037	14,628,851
Total net assets		36,612,400	30,056,649
Total liabilities and net assets	$	53,299,692	46,628,271

See accompanying notes to financial statements.

TOLEDO AREA REGIONAL TRANSIT AUTHORITY

Statements of Revenues, Expenses, and Changes in Net Assets

Years ended December 31, 2003 and 2002

	2003	2002
Operating revenues:		
Passenger fares	$ 1,816,145	1,815,600
Toledo Board of Education contract	2,873,205	2,769,551
Charter service revenue	364,260	390,980
Auxiliary transportation revenue	105,600	96,733
Total revenues	5,159,210	5,072,864
Operating expenses:		
Labor	11,612,006	11,217,106
Fringe benefits	4,336,298	3,521,531
Materials and supplies	4,611,196	3,544,207
Services	3,100,565	2,816,952
Taxes	289,499	269,143
Claims and insurance	404,334	362,707
Utilities	365,279	306,444
Miscellaneous	120,393	119,191
Total operating expenses before depreciation	24,839,570	22,157,281
Operating loss before depreciation	(19,680,360)	(17,084,417)
Depreciation	2,959,613	2,938,550
Operating loss	(22,639,973)	(20,022,967)
Nonoperating revenues:		
Property taxes (note 8)	14,495,778	14,551,915
Federal operating and preventative maintenance assistance (note 9)	3,966,178	3,746,748
State operating and preventative maintenance assistance (note 9)	1,138,063	1,122,792
Investment income	296,403	401,778
Nontransportation revenues	17,781	131,760
Total nonoperating revenues	19,914,203	19,954,993
Net loss before capital contributions	(2,725,770)	(67,974)
Capital contributions	9,281,521	1,511,549
Increase in net assets	6,555,751	1,443,575
Net assets – beginning of year	30,056,649	28,613,074
Net assets – end of year	$ 36,612,400	30,056,649

See accompanying notes to financial statements.

TOLEDO AREA REGIONAL TRANSIT AUTHORITY

Statements of Cash Flows

Years ended December 31, 2003 and 2002

		2003	2002
Cash flows from operating activities:			
Receipts from fares and charters	$	5,156,307	5,440,513
Payments to suppliers		(8,420,527)	(6,851,884)
Payments for labor and employee benefits		(16,200,184)	(15,239,587)
Net cash used in operating activities		(19,464,404)	(16,650,958)
Cash flows from noncapital financing activities:			
Proceeds from:			
Property taxes		14,495,778	14,551,915
Federal operating and preventative maintenance assistance		3,446,178	3,746,748
State operating and preventative maintenance assistance		1,149,645	901,693
Nontransportation revenues		17,781	131,760
Net cash provided by noncapital financing activities		19,109,382	19,332,116
Cash flows from capital and related financing activities:			
Expenditures for property, buildings, and equipment		(14,091,239)	(2,767,493)
Proceeds from state and federal capital funding		9,281,521	1,828,448
Net cash used in capital and related financing activities		(4,809,718)	(939,045)
Cash flows from investing activities:			
Purchase of investments		(1,136,480)	(1,155,562)
Sale/maturity of investments		1,155,562	1,429,357
Interest on investments		313,584	384,143
Net cash provided by investing activities		332,666	657,938
Net increase (decrease) in cash and cash equivalents		(4,832,074)	2,400,051
Cash and cash equivalents at beginning of year		13,380,702	10,980,651
Cash and cash equivalents at end of year	$	8,548,628	13,380,702
Reconciliation of operating loss to net cash used in operating activities:			
Operating loss	$	(22,639,973)	(20,022,967)
Adjustments to reconcile operating loss to net cash used in operating activities:			
Depreciation and amortization		2,959,613	2,938,550
Allowance for doubtful accounts		9,780	(24,691)
Loss on disposal		36,061	2,564
Changes in assets and liabilities:			
Trade and other accounts receivable		(5,404)	386,316
Materials and supplies		73,281	22,014
Prepaid expenses and deposits		(11,432)	(139,132)
Accounts payable		(14,235)	112,168
Accrued liabilities and other		135,184	68,196
Deferred revenue		(7,279)	6,024
Net cash used in operating activities	$	(19,464,404)	(16,650,958)

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) The 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 2002 that will be collected in 2003 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.

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 the ODOT and the FTA 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. Donated fixed assets are recorded at their estimated fair value at the date of donation. 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	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

(Continued)

(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 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
2002:				
General and Administrative	$	3,037,600	3,070,419	32,819
Fuel Taxes		11,100	11,373	273

(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, 2003 or 2002.
- **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. Non-operating revenue includes activities that have the characteristics of non-exchange 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

During the year ended December 31, 2003, the Authority adopted the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements — and Management's Discussion and Analysis — for State and Local Governments* and Statement No. 37, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus*, effective January 1, 2002. These Statements significantly changed the format and content of the Authority's financial statements including the presentation of net assets, the preparation of the statement of cash flows on the direct method, and the inclusion of management's discussion and analysis.

During the year ended December 31, 2003, the Authority adopted the provisions of Governmental Accounting Standards Board Statement No. 38, *Certain Financial Statement Note Disclosure,* effective January 1, 2002. This Statement modifies, establishes, and rescinds certain financial statement note disclosures. The financial statements have been prepared in conformance with this Statement.

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 the financial statements. The Authority will implement Statement No. 40 beginning with the year ended December 31, 2004.

(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:

	2003	2002
Book/carrying value of deposits	$ 8,548,628	13,380,702
Bank balance:		
Covered by federal depository insurance	635,862	808,008
Uncollateralized as defined by the GASB	7,812,652	12,785,026
	$ 8,448,514	13,593,034

The uncollateralized deposits at December 31, 2003 and 2002, 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, 2003 and 2002. 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, 2003:				
U.S. Treasuries	$ —	—	1,136,480	1,136,480
December 31, 2002:				
U.S. Treasuries	$ —	—	1,155,562	1,155,562

(3) Accounts Receivable

Accounts receivable at December 31, 2003 and 2002 was as follows:

		2003	2002
Federal operating and preventive maintenance assistance	$	520,000	—
State operating and preventive maintenance assistance		739,018	750,600
Trade and other		523,812	518,408
Interest		5,421	22,602
Gross receivables		1,788,251	1,291,610
Less allowance for uncollectibles		(12,981)	(3,201)
Net total receivables	$	1,775,270	1,288,409

(4) Capital Assets

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

	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

Capital asset activity for the year ended December 31, 2002 was as follows:

		January 1, 2002	Additions	Deletions	December 31, 2002
Capital assets not being depreciated:					
Land	$	743,224	—	—	743,224
Construction in progress		144,340	1,782,039	1,196,838	729,541
Total capital assets not being depreciated		887,564	1,782,039	1,196,838	1,472,765
Capital assets being depreciated:					
Buildings		6,133,460	724,437	—	6,857,897
Land Improvements		1,542,544	—	—	1,542,544
Transit stations		3,060,558	15,258	—	3,075,816
Transportation equipment		34,987,937	1,124,291	6,680	36,105,548
Other equipment (primarily service equipment, furniture and fixtures, computers and computer equipment, software, and transit shelters)		5,698,844	317,086	34,891	5,981,039
Total capital assets being depreciated		51,423,343	2,181,072	41,571	53,562,844
Less accumulated depreciation:					
Buildings		3,372,299	185,073	—	3,557,372
Land Improvements		1,531,399	5,722	—	1,537,121
Transit stations		2,469,194	111,270	—	2,580,464
Transportation equipment		25,791,118	2,222,458	5,344	28,008,232
Other equipment		3,545,489	414,026	34,893	3,924,622
Total accumulated depreciation		36,709,499	2,938,549	40,237	39,607,811
Total capital assets being depreciated, net		14,713,844	(757,477)	1,334	13,955,033
Total capital assets, net	$	15,601,408	1,024,562	1,198,172	15,427,798

Construction in progress for 2002 primarily represents bus station construction and design and the replacement of all radio equipment for the Authority and TARPS, the replacement of scheduling software used by TARPS and the purchase of automatic vehicle location hardware and software for costs incurred by December 31, 2002. The remaining costs for the design of the station will be approximately $198,300 and for the radio equipment, scheduling software and vehicle location hardware and software will be approximately $882,100. These projects are each funded by federal capital grants and are expected to be completed by mid-2003.

(Continued)

(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 2003, 2002, and 2001 was 13.55% of annual covered payroll. The contribution requirements of plan members and the Authority are established and may be amended by the Board. The contribution requirements of plan members and the Authority are established and may be amended by the Board. The Authority's contributions to PERS for the years ending December 31, 2003, 2002, and 2001 were approximately $1,564,241, $1,513,100, and $1,395,700, 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, 2003 and 2002 included a portion (5.0%) that was used to fund healthcare. The Authority's contributions for post-employment benefits were approximately $619,439 and $558,334 for the years ended December 31, 2003 and 2002, respectively.

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

(Continued)

Summary of Assumptions:

- *Actuarial Review* – The assumptions and calculations below were based on the System's latest Actuarial Review performed as of December 31, 2002.
- *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 2002 was 8.0%.
- *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, 2003 was 364,881. $10.0 billion represents the actuarial value of the Retirement System's net assets available for OPEB at December 31, 2002 (the latest date information is available). The actuarially accrued liability and the unfunded actuarial accrued liability at December 31, 2002 (the latest date information is available), based on the actuarial cost method used, were $18.7 billion and $8.7 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. Effective April 4, 2002, the Authority commenced participation in the Ohio Transit Risk Pool, Inc. (OTRP) formerly the Ohio Transit Insurance Pool, Inc. (OTIP) related to its general liability risk. The Authority had insurance for general liability claims from $250,000 per claim up to $10 million, prior to April 4, 2002. 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.

(Continued)

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 $2.4 million in 2003 and $2 million 2002. In addition, the Authority provides life insurance coverage to all full-time employees. Expense associated with this benefit totaled approximately $26,000 in 2003 and $28,000 in 2002. The self-insurance plan has a stop loss of $75,000 per individual.

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 2003 and 2002 are as follows:

		Beginning of year liability	Current year claims and changes in estimates	Claim payments	End of year liability
2003	$	334,600	2,507,669	2,519,369	322,900
2002		281,950	2,147,989	2,095,339	334,600

(8) Property Tax Revenues

The Authority is subsidized by two annual property tax levies consisting of a 1.0 mill levy in effect through 2001 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 1971 and 1997, respectively, for property located within the Authority's operating district. Property tax revenue may be used for operating or capital purposes. A 1.0 mill replacement levy was effective beginning 2001 was passed in November 2000 based on a property valuation conducted in 2000. The Authority began receiving taxes from this replacement levy in 2003. The new levy will be in effect through 2011.

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, as established by Lucas and Wood Counties, were February 2003 and July 2003, for those taxes due during 2003.

Real property and tangible personal property taxes collected during fiscal year 2003 had a lien and levy date of December 2002.

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

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

		2003	2002
FTA operating assistance	$	520,000	550,000
FTA short-range planning and marketing		246,178	196,748
FTA noncapital improvement assistance		3,200,000	3,000,000
Total	$	3,966,178	3,746,748

(Continued)

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

		2003	2002
ODOT operating assistance	$	715,200	683,605
State fuel tax reimbursement		276,949	256,911
State elderly and handicapped		145,914	182,276
Total	$	1,138,063	1,122,792

(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 $133,000 and $128,000 for the years ended December 31, 2003 and 2002, 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, 2003, 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.

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TOLEDO AREA REGIONAL TRANSIT AUTHORITY (TARTA)

OMB Circular A-133 Report

Year ended December 31, 2003

(With Independent Auditor's Report Thereon)

TOLEDO AREA REGIONAL TRANSIT AUTHORITY (TARTA)

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Independent Auditors' Report on Compliance and on Internal Control Over Financial Reporting 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 (TARTA) as of and for the year ended December 31, 2003, and have issued our report thereon dated July 6, 2004. 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.

Compliance

As part of obtaining reasonable assurance about whether TARTA's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under *Government Auditing Standards.* However, we noted certain immaterial instances of noncompliance that we have reported to management of the Authority in a separate letter dated July 6, 2004.

Internal Control over Financial Reporting

In planning and performing our audit, we considered TARTA'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 assurance on 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 TARTA'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 03-01.

A material weakness is a condition in which the design or operation of one or more internal control components does not reduce to a relatively low level the risk that misstatements 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 that the reportable condition described above is not a material weakness.

This report is intended solely for the information and use of the Board of Trustees and management of TARTA, 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

July 6, 2004

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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 (TARTA) 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, 2003. TARTA'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 TARTA's management. Our responsibility is to express an opinion on TARTA'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 TARTA'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 TARTA's compliance with those requirements.

In our opinion, TARTA 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, 2003.

Internal Control over Compliance

The management of TARTA 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 TARTA'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 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 that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of TARTA as of and for the year ended December 31, 2003, and have issued our report thereon dated July 6, 2004. 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 TARTA, 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

July 6, 2004

TOLEDO AREA REGIONAL TRANSIT AUTHORITY (TARTA)

Schedule of Expenditures of Federal Awards

Year ended December 31, 2003

					January 1 through December 31, 2003						
U.S. Department of Transportation	**CFDA number**	**Grant number**	**Federal grant award**	**Cash balance December 31, 2002**	**Federal grant receipts**	**Local share**	**Total received**	**Federal expenditures**	**Local expenditures**	**Total expenditures**	**Cash balance December 31, 2003**
Federal Transit Administration (FTA)											
Federal Transit Cluster:											
Received directly from FTA:											
Capital investment grants	20.500	OH-90-0183	$ 198,500	24,000	120,000	30,000	150,000	120,000	30,000	150,000	24,000
Capital investment grants	20.500	OH-90-0196	2,033,690	1	1,759,788	439,947	2,199,735	1,759,788	439,947	2,199,735	1
Capital investment grants	20.500	OH-90-0279	2,364,000	2,702	123,000	—	123,000	123,000	2,702	125,702	—
Total capital investment grants			4,596,190	26,703	2,002,788	469,947	2,472,735	2,002,788	472,649	2,475,437	24,001
Formula grants	20.507	OH-90-0320	6,346,180	—	1,574,914	393,729	1,968,643	1,574,914	393,729	1,968,643	—
Formula grants	20.507	OH-90-0344	7,507,700	—	4,179,149	1,044,790	5,223,939	4,179,149	1,044,790	5,223,939	—
Formula grants	20.507	OH-90-0368	3,880,000	—	83,693	20,923	104,616	83,693	20,923	104,616	—
Formula grants	20.507	OH-90-0394	4,740,656	—	717,712	182,128	899,840	717,712	179,439	897,151	2,689
Formula grants	20.507	OH-90-0426	4,720,000	—	3,398,896	49,723	3,448,619	3,398,896	49,723	3,448,619	—
Total formula grants			27,194,536	—	9,954,364	1,691,293	11,645,657	9,954,364	1,688,604	11,642,968	2,689
Total Federal Transit Cluster			$ 31,790,726	26,703	11,957,152	2,161,240	14,118,392	11,957,152	2,161,253	14,118,405	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, 2003

(1) General

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal awards programs of TARTA. TARTA'S reporting entity is defined in note 1 to TARTA'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, 2003

(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: **None**

c) Noncompliance which is material to the basic financial statements: **None**

d) Reportable conditions in internal control over major program: **None reported**

Material weaknesses: **None**

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: **None**

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

h) Dollar threshold used to distinguish between Type A and Type B programs: **$358,715**

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 03 – 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 results in a significantly higher risk of error, 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 TARTA 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.

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

None.

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TOLEDO AREA REGIONAL TRANSIT AUTHORITY

Federal Transit Administration

Federal Funding Allocation Data

December 31, 2003

(With Independent Accountants' Report Thereon)

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**Independent Accountants' Report on
Applying Agreed Upon Procedures**

To the Board of Trustees
Toledo Area Regional Transit Authority:

We understand that the Toledo Area Regional Transit Authority (TARTA) is eligible to receive Urbanized Area Formula Program grants of the Federal Transit Act, as amended, and in connection therewith, TARTA is required to report certain information to the Federal Transit Administration (FTA).

The FTA has established the following standards with regard to the data reported to it in the Federal Funding Allocation Statistics Form (FFA-10) of TARTA's annual National Transit Database (NTD) report:

- A system is in place and maintained for recording data in accordance with NTD definitions. The correct data are being measured and no systematic errors exist.
- A system is in place to record data on a continuing basis and the data gathering is an ongoing effort.
- Source documents are available to support the reported data and are maintained for FTA review and audit for a minimum of three years following the FTA's receipt of the NTD report. The data are fully documented and securely stored.
- A system of internal controls is in place to ensure the accuracy of the data collection process and that the recording system and reported comments are not altered. Documents are reviewed and signed by a supervisor, as required.
- The data collection methods are those suggested by the FTA or meet FTA requirements.
- The deadhead miles, computed as the difference between the reported total actual vehicle miles data and the reported total actual vehicle revenue miles data, appear to be accurate.
- Data are consistent with prior reporting periods and other facts known about TARTA's operations.

We have applied the procedures to the data contained in the accompanying Federal Funding Allocation Statistics Form (FFA-10) for the fiscal year ended December 31, 2003. Such procedures, which were agreed to and specified by FTA in the Declarations section of the *2003 Reporting Manual* and were agreed to by TARTA, were applied to assist you in evaluating whether TARTA complied with the standards described in the second paragraph of this report and that the information included in the NTD report Federal Funding Allocation Statistics Form (FFA-10) for the fiscal year ended December 31, 2003 is presented in conformity with the requirements of the *Uniform System of Accounts and Records and Reporting System; Final Rule*, as specified in 49 CFR Part 630, *Federal Register*, January 15, 1993 and as presented in the *2003 Reporting Manual*.

This engagement to apply agreed upon procedures was performed in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the specified users of the report. Consequently, we make no representation regarding the sufficiency of the procedures described above either for the purpose for which this report has been requested or for any other purpose. This report is intended solely for your information and FTA and should not be used by those who did not participate in determining the procedures.

The procedures were applied separately to each of the information systems used to develop the reported vehicle revenue miles, fixed guideway directional route miles, passenger miles, and operating expenses of TARTA for the fiscal year ended December 31, 2003 for each of the following modes:

- Motor Bus—directly operated
- Demand Response—purchased transportation

The following information and finding came to our attention as a result of performing the procedures described in the Attachment to this report:

Verification and Approval of the Section 9 Data Process

There are no internal control procedures requiring parties to independently review Section 9-related source documents or evidence their review and approval by signing such documents.

The agreed-upon procedures are substantially less in scope than an examination, the objective of which is an expression of an opinion on the Federal Funding Allocation Statistics Form (FFA-10). Accordingly, we do not express such an opinion. Also, we do not express an opinion on TARTA's system of internal control taken as a whole.

In performing the procedures, except for the information and findings described above, no matters came to our attention that caused us to believe that the information included in the NTD report on the Federal Funding Allocation Statistics Form (FFA-10) for the fiscal year-ended December 31, 2003 is not presented in conformity with the requirements of the *Uniform System of Accounts and Records and Reporting System; Final Rule,* as specified in 49 CFR Part 630, *Federal Register,* January 15, 1993 and as presented in the *2003 Reporting Manual*. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report relates only to the information described above and does not extend to TARTA's financial statements taken as a whole, or the forms in TARTA's NTD report, other than the Federal Funding Allocation Statistics Form (FFA-10), for any date or period.

This report is intended solely for the information and use of TARTA's management, the Ohio Auditor of State and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

July 6, 2004

SECTION 9 CERTIFICATION – AGREED-UPON PROCEDURES

1. Discussed procedures related to the system for reporting and maintaining data in accordance with the NTD requirements and definitions set forth in 49CFR, Part 630, Federal Register, January 15, 1993 and as prescribed in the *2003 Reporting Manual*, with the personnel assigned responsibility of supervising the NTD data preparation and maintenance.

2. Discussed the procedures with the personnel assigned responsibility of supervising the preparation and maintenance of NTD data to determine:

   - The extent to which TARTA followed the procedures on a continuous basis; and

   - Whether they believe such procedures result in accumulation and reporting of data consistent with the NTD definitions and requirements set forth in 49CFR, Part 630, *Federal Register*, January 15, 1993, and as prescribed in the *2003 Reporting Manual*.

3. Inquired of the same person concerning the retention policy that is followed by TARTA with respect to source documents supporting the NTD data reported on the Federal Funding Allocation Statistics Form (FFA-10).

4. Based on a description of TARTA's procedures obtained in Items 1 and 2 above, identified all the source documents which are to be retained by TARTA for a minimum of three years.

5. For each type of source document, selected the months of March, August, and November and observed that each type of source document exists for each of these periods.

6. Discussed the system of internal control with the person responsible for supervising and maintaining the NTD data. Inquired whether individuals, independent of the individuals preparing the source documents and posting the data summaries, review the source documents and data summaries for completeness, accuracy and reasonableness and how often such reviews are performed.

7. Reviewed selected source documents and ascertained whether supervisor's signatures were present as required by the system of internal controls.

8. Obtained the worksheets utilized by TARTA to prepare the final data, which are transcribed onto the Federal Funding Allocation Statistics Form (FFA-10). Compared the periodic data included on the worksheets to the periodic summaries prepared by TARTA. Tested the arithmetical accuracy of the summarizations.

9. Discussed TARTA's procedures for accumulating and recording passenger mile data in accordance with NTD requirements with TARTA's staff, noting that TARTA uses an estimate of passenger miles based on statistical sampling meeting the FTA's 95% confidence and 10% precision requirements. TARTA uses an alternative sampling procedure and, therefore, we inquired whether the procedure has been approved by the FTA.

10. Discussed with TARTA's staff TARTA's eligibility to conduct statistical sampling for passenger mile data every third year. Determined whether TARTA meets one of the three criteria which allow reporters to conduct statistical samples for accumulating passenger mile data every third year rather than annually. However, TARTA has elected to conduct statistical samples on an annual basis.

11. Obtained a description of the sampling procedures for estimation of passenger mile data used by TARTA. Obtained a copy of TARTA's working papers or methodology used to select the actual sample of runs for recording passenger mile data. Determined that the methodology used to select specific runs from the universe resulted in a random selection of runs. If a selected sample run was missed, determined that a replacement sample run was randomly selected. Confirmed that TARTA followed the stated sampling procedure.

12. Selected a judgmental sample of the source documents for accumulating passenger mile data and determined that they are complete (all required data are recorded) and that the computations are accurate. Selected a judgmental sample of the accumulation periods and recomputed the accumulations for each of the selected periods. The accumulation periods selected were March, August and November. Tested the arithmetical accuracy of the summarization.

13. Discussed the procedures for systematic exclusion of charter, school bus and other ineligible vehicle miles from the calculation of vehicle revenue miles with TARTA staff and determined that stated procedures are followed.

14. For vehicle revenue mile data, documented the collection and recording methodology and determined that deadhead miles are systematically excluded from the computation.

15. Inquired of the person responsible for maintaining and reporting the NTD data whether the operations meet FTA's definition of fixed guideway in that the service is bus service operating over controlled access rights-of-way.

16. Discussed the measurement of fixed guideway directional route miles with the person responsible for reporting the NTD data and determined that the mileage is computed in accordance with the FTA's definitions of fixed guideway and directional route miles.

17. Measured fixed guideway directional route miles by retracing route.

18. Reviewed the Transit Agency Service form fixed guideway worksheets and discussed the commencement date of revenue service for each guideway segment with the person responsible for reporting the NTD data and determined that the date is classified as older than seven years.

19. Compared operating expenses with audited financial data, after reconciling items are removed.

20. Noted that TARTA purchases transportation services and inquired of the personnel reporting the NTD data regarding the disposition of purchased transportation generated fare revenues. Specifically, determined purchased transportation fare revenues are retained by the contract service provider. Obtained documentation of the retained fare revenue amounts as reported by the contract service provider and agreed the total to retained fare revenues reported on the Contractual Relationship form.

21. Obtained a copy of the purchased transportation contact and determined that the contract (1) specified the specific mass transportation services to be provided; (2) specified the monetary consideration obligated by TARTA for the service; (3) specified the period covered by the contract and that this period is the same as, or a portion of, the period covered by TARTA's NTD Report; and (4) was signed by representatives of both parties to the contract. Inquired of the person responsible for maintaining the NTD data regarding the retention of the executed contract, and determined that copies of the contracts are retained for three years.

22. Compared the data reported on the Federal Funding Allocation Statistics Form (FFA-10) to comparable data for the prior report year and calculated the percentage change from the prior year to the current year. Noted that vehicle revenue miles and passenger miles did not increase or decrease by 10%. Total operating expenses increased by 13%. Management has informed us that this change is mainly due to a catch-up in preventative maintenance performed during fiscal year 2003.

    Passenger miles increased approximately 15% for demand response service. Management has informed us that this change is the result of an increase of approximately 2,600 passengers during the fiscal year 2003.

23. The following *2003 Reporting Manual Section 9* test procedures were not applicable to TARTA and, therefore, were not performed:

    - Reporting Manual Section 9 Data Certification Procedures “n,” “r,” “v” and “x.”

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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
NOVEMBER 4, 2004