

ALLEN COUNTY REGIONAL TRANSIT AUTHORITY

AUDIT REPORT

For the Year Ended December 31, 2004

CHARLES E. HARRIS & ASSOCIATES, INC.
Certified Public Accountants and Government Consultants



**Auditor of State
Betty Montgomery**

Board of Trustees
Allen County Regional Transit Authority
200 E. High Street
Lima, Ohio 45801-4420

We have reviewed the *Report of Independent Accountants* of Allen County Regional Transit Authority, prepared by Charles E. Harris & Associates, Inc., for the audit period January 1, 2004 through December 31, 2004. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

May 4, 2006

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ALLEN COUNTY REGIONAL TRANSIT AUTHORITY
ALLEN COUNTY
AUDIT REPORT
For the Year Ended December 31, 2004

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**ALLEN COUNTY REGIONAL TRANSIT AUTHORITY
ALLEN COUNTY
For the Year Ended December 31, 2004**

BOARD OF TRUSTEES

<u>NAME</u>	<u>TERM OF OFFICE</u>
John Robenalt	1/25/02 to 11/25/05
George Jefferson	12/31/02 to 12/31/05
Mark Malone	11/01/02 to 10/19/05
Dr. Jon Rockhold	11/26/02 to 11/26/05
Dr. Chris Crawford	1/01/02 to 12/31/05

Statutory Legal Counsel

John Robenalt
211 North Elizabeth St
Lima, Ohio 45801

Charles E. Harris & Associates, Inc.
Certified Public Accountants

Rockefeller Building
614 W Superior Ave Ste 1242
Cleveland, OH 44113-1306
Office phone - (216) 575-1630
Fax - (216) 436-2411

REPORT OF INDEPENDENT ACCOUNTANTS

The Board of Trustees
Allen County Regional Transit Authority
200 E. High St.
Lima, Ohio 45801

We have audited the accompanying financial statements of the business-type activities of the Allen County Regional Transit Authority (the Authority) as of and for the year ended December 31, 2004, 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 audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our 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, 2004, and the changes in its financial position and cash flows, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2005 on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements of the Authority. 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.

Charles E. Harris & Associates, Inc.

December 15, 2005

**ALLEN COUNTY REGIONAL TRANSIT AUTHORITY
MANAGEMENT'S DISCUSSION & ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
(UNAUDITED)**

As management of the Allen County Regional Transit Authority, we offer readers of the Authority's financial statements this narrative overview and analysis of the Authority's financial activities for the fiscal year ended December 31, 2004.

Financial Highlights

- The assets of the Authority exceeded its liabilities at the close of the most recent fiscal year by \$3.4 million (net assets). Of this amount, \$.2 million (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The Authority's net assets decreased by \$.2 million, or 5%
- The Authority has current assets of \$.2 million and less than \$.1 million of current liabilities.
- The Authority has no long-term debt.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. The financial statements presented by the Authority are the Balance Sheet, the Statement of Revenues, Expenses and Changes in Net Assets and the Statement of Cash Flows. These statements are presented using the economic resources measurement focus and the accrual basis of accounting. The Authority is structured as a single enterprise fund with revenues recognized when earned and measurable. Expenses are recognized when they are incurred, not when paid. Capitalized assets are depreciated, except land, over their estimated useful lives.

The balance sheet presents the Authority's statement of financial position. GAAP allows the accounts of this statement to be presented in one of two ways:

Assets – liabilities = net assets (net asset approach)

Assets = liabilities + net assets (balance sheet approach)

The resulting difference between assets and liabilities will be called net assets, no matter which approach is taken. Over time, increases and 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 in assets without a corresponding increase to liabilities also results in increased net assets.

The Statement of Revenues, Expenses and Changes in Net Assets presents information showing how the Authority's net assets changed during the year. This statement summarizes operating revenues and expenses along with non-operating revenues and expenses. In addition, this statement lists capital grant revenues received from federal, state and local governments.

**ALLEN COUNTY REGIONAL TRANSIT AUTHORITY
MANAGEMENT'S DISCUSSION & ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
(UNAUDITED)**

The Statement of Cash Flows allows financial statement users to assess the Authority's adequacy or ability to generate sufficient cash flows to meet obligations in a timely manner. The statement is classified into four categories:

- A. Cash flows from operating activities;
- B. Cash flows form non-capital financing activities;
- C. Cash flows from capital and related financing activities and;
- D. Cash flows from investing activities.

Notes to the Financial Statements

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

FINANCIAL ANALYSIS OF THE AUTHORITY

Condensed Summary of Net Assets:

	<u>2004</u>	<u>2003-Restated</u>
Current and other assets	\$ 244,384	\$ 311,754
Capital assets	\$ 3,180,405	\$ 3,314,988
Total Assets	<u>\$ 3,424,789</u>	<u>\$ 3,626,742</u>
Current liabilities	\$ 57,439	\$ 83,949
Total Liabilities	<u>\$ 57,439</u>	<u>\$ 83,949</u>
Net Assets:		
Invested in capital assets, net of related debt	\$ 3,180,405	\$ 3,314,988
Unrestricted	\$ 186,945	\$ 227,805
Total Net Assets	<u>\$ 3,367,350</u>	<u>\$ 3,542,793</u>

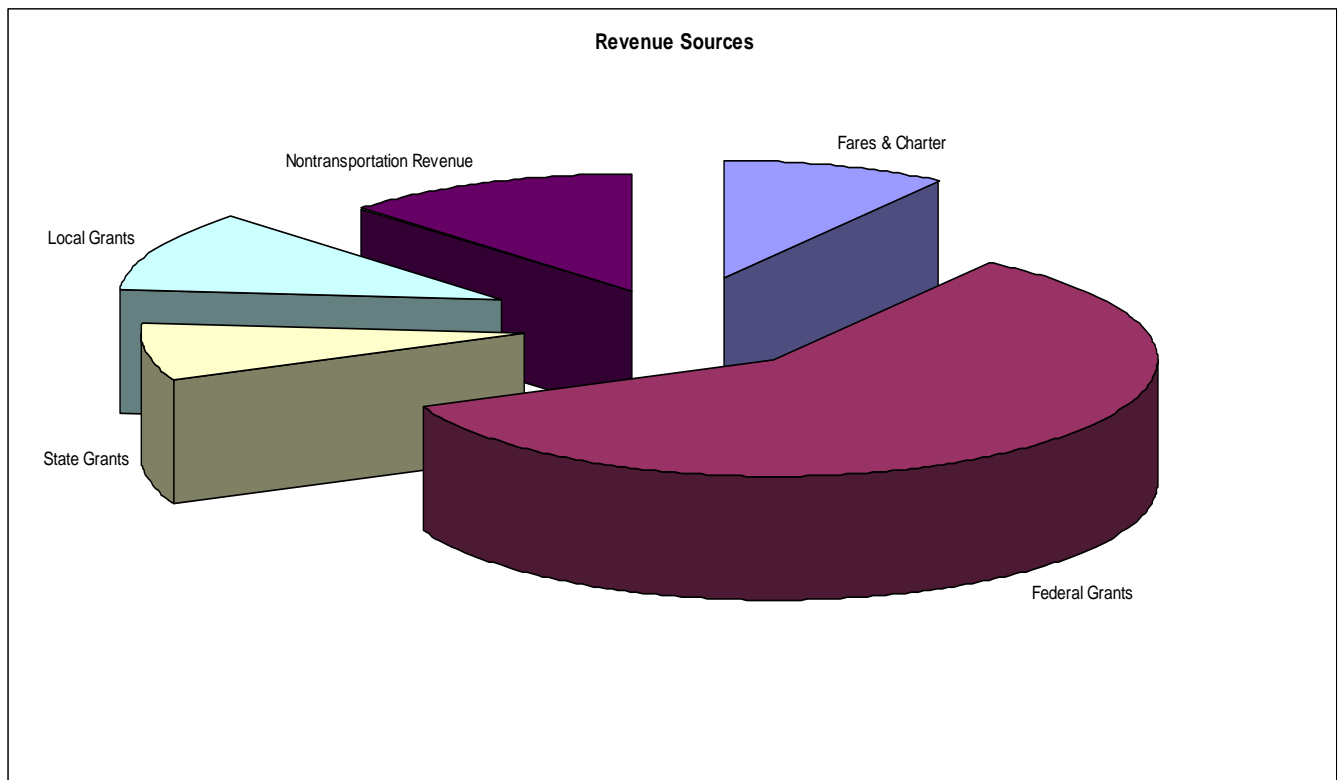
**ALLEN COUNTY REGIONAL TRANSIT AUTHORITY
MANAGEMENT'S DISCUSSION & ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
(UNAUDITED)**

The unrestricted net assets, \$186,945, may be used to meet the Authority's ongoing obligations to citizens and creditors. The Authority did not have any external restrictions placed on its net assets at this year- end.

At the end of the current fiscal year, the Authority is able to report positive balances in both of its net asset classifications.

The Authority's net assets decreased by \$175,443 during the current fiscal year. This decrease represents the degree to which operating revenues and nonoperating revenues were outstripped by increases in ongoing expenses. Key elements of these changes in net assets are as follows:

	<u>2004</u>	<u>2003</u>
Total Operating Revenues	\$ 130,736	\$ 124,205
Total Operating Expenses	<u>1,578,691</u>	<u>1,427,899</u>
Operating Loss	(1,447,955)	(1,303,694)
Total Other Revenue	<u>1,272,512</u>	<u>2,120,274</u>
Revenue Over (Under) Expenses	(175,443)	816,580
Net Assets-Beginning-Restated	<u>3,542,793</u>	<u>2,726,213</u>
Net Assets-Ending-Restated	<u>\$3,367,350</u>	<u>\$3,542,793</u>



**ALLEN COUNTY REGIONAL TRANSIT AUTHORITY
MANAGEMENT'S DISCUSSION & ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
(UNAUDITED)**

The Authority's reliance upon grant revenues is demonstrated by the graph above indicating 78% of total revenues are from federal, state and local grants. Capital grants decreased significantly in 2004 due to the completion of construction of the Authority's administration building. Expenses increased for various reasons, insurance being the most significant.

Capital Assets

The Authority's investment in capital assets as of December 31, 2004, amounts to \$3,180,405 million (net of accumulated depreciation). This investment in capital assets includes land, land improvements, buildings, equipment, furniture, vehicles, and infrastructure. Total acquisitions for the current fiscal year were \$183,782 and depreciation was \$318,365. Detailed information regarding capital asset activity is included in the Note 6 to the basic financial statements.

Debt

The Authority had no debt at December 31, 2004.

Request for Information

This financial report is designed to provide a general overview of the Authority's finances for those with an interest in its finances. Questions concerning any of the information in this report or requests for additional financial information should be addressed to the Executive Director, Allen County Regional Transit Authority, 200 E. High Street, Lima, Ohio 45801.

**Allen County Regional Transit Authority
Allen County
Statement of Net Assets
December 31, 2004**

ASSETS:

Current Assets:

Cash	\$ 30,575
Accounts receivable	172,773
Material and supplies inventory	<u>41,036</u>

Total current assets	<u>244,384</u>
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Noncurrent Assets:

Property, facilities, and equipment	5,953,571
Less: accumulated depreciation	<u>(2,773,166)</u>

Total noncurrent assets	<u>3,180,405</u>
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Total assets	<u>3,424,789</u>
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LIABILITIES:

Current Liabilities:

Accounts payable	12,847
Accrued payroll and benefits	<u>44,592</u>

Total Current Liabilities	<u>57,439</u>
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NET ASSETS

Invested in capital assets	3,180,405
Unrestricted	<u>186,945</u>

Total Net Assets	<u><u>\$ 3,367,350</u></u>
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The accompanying notes are an integral part of these financial statements.

**Allen County Regional Transit Authority
Allen County
Statement of Revenues, Expenses and Changes in Net Assets
For the years ended December 31, 2004**

OPERATING REVENUES:

Passenger Fares	\$ 111,690
Special Event and Charter Service Revenue	<u>19,046</u>
Total Operating Revenues	<u>130,736</u>

OPERATING EXPENSES:

Labor	618,758
Fringe Benefits	157,539
Services	116,987
Materials and Supplies	191,853
Claims and insurance net of settlements	101,637
Utilities	48,509
Miscellaneous	25,043
Depreciation	<u>318,365</u>
Total Operating Expenses	<u>1,578,691</u>
Operating Loss	<u>(1,447,955)</u>

NONOPERATING REVENUES:

Interest Income	483
Nontransportation Revenue	173,779
Federal Grants and Assistance	825,875
State Grants and Assistance	113,565
Local Grants and Assistance	<u>158,810</u>
Total Nonoperating Revenue	<u>1,272,512</u>
Excess of Revenues Over (Under) Expenses	(175,443)
Net assets-January 1-Restated, Note 10	<u>3,542,793</u>
Net assets-December 31	<u>\$ 3,367,350</u>

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

ALLEN COUNTY REGIONAL TRANSIT AUTHORITY
ALLEN COUNTY
Statement of Cash Flows
For the years ended December 31, 2004

CASH FLOWS FROM OPERATING ACTIVITIES:

Cash received from customers	\$ 130,736
Nontransportation revenue	176,991
Cash payments to suppliers for goods and services	(406,225)
Cash payments to employees for services	(629,468)
Cash payments for employee benefits	(152,429)
Cash payments for casualty and liability	(101,637)
Net cash used in operations	(982,032)

CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:

Federal grants	428,544
State grants	111,349
Local grants	121,310
Net cash provided by non-capital financing activities	661,203

CASH FLOW FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

Federal capital grants	281,566
State capital grants	2,216
Acquisition of property, facilities, and equipment	(183,782)
Net cash used by capital and related financing activities	100,000

CASH FLOWS FROM INVESTING ACTIVITIES:

Interest	483
Net Increase (Decrease) in cash	(220,346)
Cash-January 1	250,921
Cash-December 31	\$ 30,575

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

ALLEN COUNTY REGIONAL TRANSIT AUTHORITY
ALLEN COUNTY
Statement of Cash Flows- (continued)
For the years ended December 31, 2004

**Reconciliation of Operating Loss to Net
Cash Used In Operating Activities:**

Operating Loss	\$ (1,447,955)
Adjustments to Reconcile Operating Loss to Net Cash Used In Operating Activities:	
Depreciation	318,365
Nontransportation revenue	173,779
Changes in Assets and Liabilities:	
Decrease in Accounts Receivable	3,212
(Increase) in Materials and Supplies Inventory	(2,923)
(Decrease) in Accounts Payable	(20,910)
(Decrease) in Accrued Wages and Benefits	<u>(5,600)</u>
Total Adjustments	<u>465,923</u>
Net Cash Used in Operating Activities	<u><u>\$ (982,032)</u></u>

ALLEN COUNTY REGIONAL TRANSIT AUTHORITY
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

A. ORGANIZATION

Allen County Regional Transit Authority was created pursuant to Section 306.01 through 306.13 of the Ohio Revised Code for the purpose of providing public transportation in Allen County, Ohio. As a political subdivision, it is distinct from and is not an agency of, the State of Ohio or any other local government unit. The Authority is not subject to federal or state income taxes.

A five-member board that is appointed by the Allen County Board of Commissioners manages the Authority.

Management believes the financial statements included in this report represent all of the funds of the Authority over which the Authority has the ability to exercise direct operating control.

B. REPORTING ENTITY

In evaluating how to define the Authority for financial reporting purposes, management has considered all agencies, departments and organizations making up the Allen County Regional Transit Authority (the primary government) and its potential component units consistent with Governmental Accounting Standards Board Statement No. 14, "The Financial Reporting Entity." The Authority has no component units. However, the Authority is considered a component unit of Allen County (the "County") by virtue of the fact that the Authority's Board is appointed by the Allen County Board of Commissioners and the County's ability to impose its will on the Authority. These conclusions regarding the financial reporting entity are based on the concept of financial accountability. The Authority is not financially accountable for any other organizations.

C. BASIS OF ACCOUNTING

The Authority follows the accrual basis of accounting, whereby revenues and expenses are recognized in the period earned or incurred. The measurement focus is on determination of net income, financial position, and cash flows. All transactions are accounted for in a single enterprise fund.

ALLEN COUNTY REGIONAL TRANSIT AUTHORITY
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES-(continued)

In accordance with Statement No. 20 of the *Governmental Accounting Standards Board Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, the Authority has elected not to apply the provisions of the statements and interpretations of the Financial Accounting Standards Board issued after November 30, 1989. The Authority will continue applying all applicable pronouncements issued by the Governmental Accounting Standards Board.

D. CASH AND CASH EQUIVALENTS

The Authority considers highly liquid investments, with an original maturity of three months or less, to be cash equivalents. Investment procedures are restricted by the provisions of the Ohio Revised Code.

E. PROPERTY, FACILITIES AND EQUIPMENT

Property, facilities and equipment are stated at historical cost. The costs of normal maintenance and repairs are charged to operations as incurred.

Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets as follows:

<u>Description</u>	<u>Years</u>
Transportation Equipment	5-12
Other Equipment	5-10
Facilities	20-35

F. MATERIALS AND SUPPLIES

Materials and supplies are stated at the lower of cost or market. Cost is determined on the first-in, first-out (FIFO) basis. The costs of inventory items are recorded as expenses when used.

G. ACCUMULATED UNPAID VACATION AND PERSONAL LEAVE

Employees of the Authority are not permitted to carry over year-end vacation and personal/sick leave balances. Vacation pay is charged to expense when used.

ALLEN COUNTY REGIONAL TRANSIT AUTHORITY
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES-(continued)

H. GRANTS

Grants are recognized as nonoperating revenues in the accounting period in which they are earned and become measurable.

I. BUDGETARY ACCOUNTING CONTROL

The Authority's annual budget is prepared on the accrual basis of accounting as permitted by law. The Authority maintains control by not permitting total expenditures to exceed appropriations without approval of the Board.

J. USE OF ESTIMATES

The accounting and reporting policies of Allen RTA conform to accounting principles generally accepted in the United States of America (GAAP). 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.

K. NET ASSETS

Equity is displayed in three components as follows:

Invested in Capital assets, Net of Related Debt – This consists of capital assets, net of accumulated depreciation, less the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted – This consists of net assets that are legally restricted by outside parties or by law through constitutional provisions or enabling legislation. The Authority does not have restricted net assets at December 31, 2004.

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

ALLEN COUNTY REGIONAL TRANSIT AUTHORITY
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES-(continued)

L. NONEXCHANGE TRANSACTIONS

Nonexchange transactions, in which the Authority receives value without directly giving equal value in return, primarily include grants for operating assistance as well as the acquisition of property, facilities and equipment. Substantially all of the Authority's grants are reimbursement-type grants, which are recorded as revenue in the period the related expenditures are incurred. Any grants received in advance of the period in which the related expenditures are incurred, are recorded as restricted assets and as deferred revenue.

2. CASH AND INVESTMENTS

The investment and deposit of Authority monies are governed by the provisions of the Ohio Revised Code. In accordance with these statutes, 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, commercial paper, savings accounts, money market accounts, the State Treasurer's Asset Reserve 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 or any eligible dealer who is a member of the National Association of Securities Dealers for a period not exceeding thirty days. The Authority is prohibited from investing in derivatives and reversed repurchase agreements.

Protection of the Authority's deposits is provided by the Federal Deposit Insurance Corporation, by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the Financial Manager by the financial institution, or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

The following information classifies deposits and investments by categories of risk as defined by GASB Statement No.3, "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements":

Deposits: At December 31, 2004 the carrying amount of the Authority's deposits was \$30,575 and the bank balance was \$31,965, all of which was covered by FDIC.

Investments: The Authority had no investments at December 31, 2004.

ALLEN COUNTY REGIONAL TRANSIT AUTHORITY
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

3. DEFINED BENEFIT PENSION PLAN

The employees of the Authority are covered by the Public Employees Retirement System of Ohio. The State of Ohio accounts for the activities of the retirement system and the amounts of these funds are not reflected in the accompanying financial statements.

The Ohio Public Employees Retirement System (OPERS) is 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. Authority to establish and amend benefits is provided by state statute per Chapter 145 of the Ohio Revised Code. PERS issues a stand-alone financial report. Interested parties may obtain a copy by making a written request to 277 East Town Street, Columbus, Ohio 43215-4642.

The Ohio Revised Code provides statutory authority for employee and employer contributions. The employee contribution rates are 8.5% for employees other than law enforcement. For local government employer units the rate was 13.55% of covered payroll. The Authority's contributions for the years ending December 31, 2004, 2003, and 2002 were \$88,157, \$77,093, and \$103,371, respectively, equal to the required contributions for each year.

4. POSTEMPLOYMENT BENEFITS

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability recipients and primary survivor recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. The health care coverage provided by OPERS is considered an Other Postemployment Benefit (OPB) as described in GASB Statement No. 12, "Disclosure of Information on Postemployment Benefits Other Than Pension Benefits by State and Local Governmental Employers". A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2004 employer contribution rate was 13.55 percent of covered payroll; 4.00 percent was the portion used to fund health care.

ALLEN COUNTY REGIONAL TRANSIT AUTHORITY
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

4. POSTEMPLOYMENT BENEFITS-(continued)

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2004 (the latest information available), include a rate of return on investments of 8 percent, an annual increase in active employee total payroll of 4 percent compounded annually (assuming no change in the number of active employees), and an additional increase in total payroll of between .5 percent and 6.3 percent based on additional annual pay increases. Health care premiums were assumed to increase 4 percent annually.

All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Assets are adjusted to reflect 25 percent of unrealized market appreciation or depreciation on investment assets annually.

Actual employer contributions for 2004 which were used to fund postemployment benefits were \$26,024. The actual contribution and the actuarial required contribution amounts are the same. OPERS's net assets available for the payment of benefits at December 31, 2004 (the latest information available), was \$10.5 billion. The actuarial accrued liability and the unfunded actuarial accrued liability were \$26.9 billion and \$16.4 billion, respectively. The number of active contributing participants in the traditional and combined plans was 369,885.

In September 2004, the OPERS Retirement Board adopted the Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. The HCPP restructures OPERS' health care coverage to improve the financial solvency of the fund in response to skyrocketing health care costs. Under the HCPP, retirees eligible for health care coverage will receive a graded monthly allocation based on their years of service at retirement. The Plan incorporates a cafeteria approach, offering a broad range of health care options that allow benefit recipients to use their monthly allocation to purchase health care coverage customized to meet their individual needs. If the monthly allocation exceeds the cost of the options selected, the excess is deposited into a Retiree Medical Account that can be used to fund future health care expenses.

5. DEBT

The Authority had no debt at year-end December 31, 2004.

ALLEN COUNTY REGIONAL TRANSIT AUTHORITY
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

6. PROPERTY, FACILITIES AND EQUIPMENT

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

	<u>Balance January 1, 2004</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance December 31, 2004</u>
Capital Assets Not Being Depreciated:				
Land & Improvements	\$ 217,262	\$ -	\$ -	\$ 217,262
Capital Assets Being Depreciated:				
Building & Improvements	3,128,228	119,562	-	3,247,790
Vehicles	2,303,951	30,224	-	2,334,175
Equipment & Other	120,348	33,996	-	154,344
Total Capital Assets Being Depreciated	<u>5,552,527</u>	<u>183,782</u>	<u>-</u>	<u>5,736,309</u>
Less Accumulated Depreciation:				
Buildings & Improvements	(680,851)	(105,899)	-	(786,750)
Vehicles	(1,686,072)	(201,158)	-	(1,887,230)
Equipment & Other	(87,878)	(11,308)	-	(99,186)
Total Accumulated Depreciation	<u>(2,454,801)</u>	<u>(318,365)</u>	<u>-</u>	<u>(2,773,166)</u>
Total Capital Assets Being Depreciated, Net	<u>3,097,726</u>	<u>(134,583)</u>	<u>-</u>	<u>2,963,143</u>
Total Capital Assets	<u><u>\$3,314,988</u></u>	<u><u>\$ (134,583)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 3,180,405</u></u>

The balances at January 1, 2004 have been restated due to accounting errors in prior periods (See Note 10).

7. RISK MANAGEMENT

The Authority is a member of the Ohio Transit Risk Pool (OTRP), formerly the Ohio Transit Insurance Pool (OTIP), a self-insurance pool created under Chapter 2744 of the Ohio Revised Code. The Authority has the following insurance coverage: Comprehensive General Liability, Automobile Liability, Errors and Omissions, and Employee Benefits Liability. There has not been a reduction in coverage from the prior year and claims have not exceeded the coverage in any of the past three years. The Authority pays the State Worker's Compensation System a premium based on a rate per \$100 of salaries.

ALLEN COUNTY REGIONAL TRANSIT AUTHORITY
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

8. CONTINGENCIES

The Authority received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these grants requires compliance with terms and conditions specified in the grant agreements. These grants are subject to audit by the grantor agencies and disallowed claims resulting from these audits could become a liability of the Authority.

Pursuant to an agreement with the Petroleum Underground Storage Tank Release Compensation Board (the Board), the Authority maintained a irrevocable standby letter of credit with the Huntington National Bank in the amount of \$22,000 in favor of the Board to cover the deductible amount of the Authority's coverage for and underground storage tank.

9. SUBSEQUENT EVENTS/PENDING LITIGATION

Management believes there are no pending claims or lawsuits.

10. PRIOR PERIOD ADJUSTMENT

The Authority discovered errors in the carrying balances of certain assets and liabilities which related to accounting periods prior to January 1, 2004. The correction of these errors had the following effect on previously reported net assets:

	Enterprise Fund
December 31, 2003 Net Assets, as previously reported	\$ 3,564,155
Prior Period Adjustment	(21,687)
January 1, 2004 Net Assets, as restated	\$ 3,542,793

ALLEN COUNTY REGIONAL TRANSIT AUTHORITY
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2004

Federal Grantor/Title Grantor Number/Program Title	CFDA #	Grant #	Federal Expenditures
<u>U.S. Department of Transportation</u>			
<i>Federal Transit Administration (FTA)</i>			
<i>Federal Transit Cluster</i>			
<i>Received Directly from FTA:</i>			
<i>Operating, Planning, and Capital Formula Grants:</i>			
<i>Urbanized Area Formula Program</i>	20.507	OH-90-4479	\$299,603
<i>Urbanized Area Formula Program</i>	20.507	OH-90-2479	55,821
<i>Urbanized Area Formula Program</i>	20.507	OH-90-0431	30,500
<i>Urbanized Area Formula Program</i>	20.507	OH-90-0479	200,320
<i>Urbanized Area Formula Program</i>	20.507	OH-90-0234	166,511
<i>Urbanized Area Formula Program</i>	20.507	OH-90-8479	70,000
<i>Urbanized Area Formula Program</i>	20.507	OH-90-8431	3,120
Total U.S. Department of Transportation			<u>\$825,875</u>
Total Federal Expenditures			<u>\$825,875</u>

See accompanying notes to schedule of expenditures of federal awards.

Allen County Regional Transit Authority
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2004

1. Significant Accounting Policies

The accompanying schedule of federal awards expenditures is a summary of the activity of the Authority's federal award programs. The schedule has been prepared on the accrual basis of accounting.

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Charles E. Harris & Associates, Inc.
Certified Public Accountants

**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
Allen County Regional Transit Authority
200 E. High Street
Lima, Ohio 45801

We have audited the financial statements of the business-type activities of the Allen County Regional Transit Authority (the Authority), as of and for the year ended December 31, 2004, and have issued our report thereon dated December 15, 2005. We conducted our audit 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the 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 the internal control over financial reporting that, in our judgment, could adversely affect the Authority's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. A reportable condition is described in the accompanying schedule of findings and questioned costs as item ACTRA-04-01.

A material weakness is a reportable 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 caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the 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 consider the reportable condition described above to be a material weakness. We also noted other matters involving internal control over financial reporting that we have reported to management of the Authority in a separate letter dated December 15, 2005.

Compliance and Other Matters

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

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

Charles E. Harris and Associates, Inc.

December 15, 2005

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO
EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133**

Board of Trustees
Allen County Regional Transit Authority
Lima, Ohio

Compliance

We have audited the compliance of the Allen County Regional Transit Authority (the Authority) with the types of compliance requirements described in *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended December 31, 2004. The Authority's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the Authority's management. Our responsibility is to express an opinion on the Authority's compliance based on our audit.

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

In our opinion, the Authority complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2004.

Internal Control Over Compliance

The management of the Authority is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Authority's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

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

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

Charles E. Harris & Associates, Inc.
December 15, 2005

**ALLEN COUNTY REGIONAL TRANSIT AUTHORITY
ALLEN COUNTY
OMB CIRCULAR A-133 SECTION .505
December 31, 2004**

Schedule of Findings and Questioned Costs

A. Summary of Audit Results

1. The auditor's report expresses an unqualified opinion on the basic financial statements.
2. One reportable condition was disclosed during the audit of the financial statements of the Authority (ACRTA-04-01). This reportable condition was identified as a material weakness.
3. No instances of noncompliance material to the financial statements of the Authority were disclosed during the audit.
4. No reportable condition in internal control over major programs was disclosed.
5. The auditor's report on compliance for the major federal award program for the Authority expresses an unqualified opinion.
6. No findings required to be reported under Section .510(a) of OMB Circular A-133.
7. The program tested as a major program was Federal Transit Administration Cluster CFDA #20.507.
8. The dollar threshold for distinguishing Type A and Type B programs was \$300,000.
9. The Authority was not determined to be a low-risk auditee.

B. Findings-Financial Statement Audit

ACRTA-04-01- Financial Statements Materially Misstated

Criteria

Proper internal control requires that general ledger accounts be reconciled to subsidiary records periodically.

Condition

The Authority did not reconcile detailed records to general ledger control accounts maintained for cash, accounts receivable, prepaid insurance, accounts payable, and vehicle maintenance parts until year end. There were significant differences which resulted in numerous material year end adjustments and prior period adjustments.

ALLEN COUNTY REGIONAL TRANSIT AUTHORITY
ALLEN COUNTY
OMB CIRCULAR A-133 SECTION .505
December 31, 2004

Schedule of Findings and Questioned Costs-Continued

B. Findings-Financial Statement Audit-Continued

Effect

The financial statements for the interim months were materially misstated and management could not make informed operating decisions.

Corrective Action

We noted that management hired an outside consultant and corrected this condition. Appropriate adjustments were approved by management, recorded in the books of the Authority and reflected in the year end financial statements included in this report.

C. Findings and Questioned Costs- Federal Transit Cluster, CFDA 20.507

None

**ALLEN COUNTY REGIONAL TRANSIT AUTHORITY
ALLEN COUNTY, OHIO
For the Year Ended December 31, 2004**

SCHEDULE OF PRIOR AUDIT FINDINGS

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
03-ACRTA-01	Questioned Cost-Overpayment to contractor	Yes	Contractor refunded overpayment



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ALLEN COUNTY REGIONAL TRANSIT AUTHORITY

ALLEN 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
MAY 18, 2006**