Audited Financial Statements
For the Year Ended December 31, 2005

Steel Valley Regional Transit Authority

Auditor of State
Betty Montgomery

Board of Trustees
Steel Valley Regional Transit Authority
555 Adams Street
Steubenville, Ohio 43952

We have reviewed the *Independent Auditors' Report* of the Steel Valley Regional Transit Authority, Jefferson County, prepared by S.R. Snodgrass, A.C. for the audit period January 1, 2005 through December 31, 2005. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

July 12, 2006

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Steel Valley Regional Transit Authority
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SNODGRASS
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

INDEPENDENT AUDITORS' REPORT

Board of Trustees
Steel Valley Regional Transit Authority
Steubenville, Ohio

We have audited the accompanying financial statements of the Steel Valley Regional Transit Authority (the "Authority"), as of and for the year ended December 31, 2005 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 of America. 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 financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of December 31, 2005, and the change in its financial position and its cash flow for the year ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, during the year ended December 31, 2005, the Authority has implemented Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposit and Investment Risk Disclosures.*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 9, 2006, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and 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 read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements, but is supplementary information the Government Accounting Standards Board requires. We applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

S. R. Snodgrass, A.C.

Steubenville, Ohio
June 9, 2006

As management of the Steel Valley Regional Transit Authority (the "Authority"), we offer readers of the Authority's basic financial statements this narrative overview and analysis of the financial activities of the Authority for the year ended December 31, 2005. 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 financial position. We encourage readers to consider the information presented here in conjunction with the basic financial statements taken as a whole.

Overview of Financial Highlights

- The Authority has net assets of $1,290,672. These net assets result from the difference between total assets of $1,541,190 and total liabilities of $250,518.
- Current assets of $382,795 primarily consist of non-restricted Cash and Cash Equivalents of $251,658; Federal Assistance Receivable of $83,440; and Prepaid Expenses of $28,941.
- Current Liabilities of $46,165 primarily consist of Accrued Payroll of $9,421 Accrued and Withheld Payroll Taxes of $19,645, and Accrued Expenses of $12,618.

Basic Financial Statements and Presentation

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, not when received. Expenses are recognized when they are incurred, not when paid. Capital assets are capitalized and depreciated, except land, over their estimated useful lives.

The *Balance Sheet* presents information on all the Authority's assets and liabilities, with the difference between the two reported as net assets. 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 results in increased net assets, which indicate improved financial condition.

The *Statement of Revenues, Expenses and Changes in Net Assets* present 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.

The *Statement of Cash Flows* allows financial statement users to assess the Authority's adequacy or ability to generate sufficient cash flows to meet its obligations in a timely manner. The statement is classified into four categories: 1) Cash flows from operating activities, 2) Cash flows from non-capital financing activities, 3) Cash flows from capital and related financing activities, and 4) 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

Table 1 provides a summary of the Authority's net assets as of December 31, 2005:

Table 1

Condensed Summary of Net Assets

	2005	2004
Assets:		
Current Assets	$ 382,795	$ 363,325
Restricted Assets	14,013	29,895
Other Non-Current Assets	197,639	226,639
Capital Assets (net of accumulated depreciation)	946,743	1,054,329
Total Assets	1,541,190	1,674,188
Liabilities:		
Current Liabilities	$ 46,165	$ 31,789
Non Current Liabilities	204,353	198,847
Total Liabilities	250,518	230,636
Net Assets:		
Invested in Capital Assets, Net of Related Debt	$ 946,744	1,054,329
Restricted for Capital Assets	14,013	28,687
Unrestricted	329,915	360,536
Total Net Assets	$1,541,190	$1,443,552

The largest portion of the Authority's net assets reflect investment in capital assets consisting of land, buildings, building improvements, transportation equipment, and other equipment less any related debt used to acquire those assets still outstanding. The Authority uses these capital assets to provide public transportation services for the City of Steubenville and Mingo Junction area; consequently, these assets are not available to liquidate liabilities or to cover other spending.

The December 31, 2004 numbers have been revised to reflect a prior period adjustment in regard to the recording of depreciation expense for the year 2004.

Table 2 shows the highlights of the Authority's revenues and expenses. These two main components are subtracted to yield the changes in net assets. This table uses the full accrual method of accounting.

Table 2

Condensed Summary of Revenues, Expenses and Changes in Net Assets

	2005	2004
Operating Revenues (Expenses):		
Operating Revenues	$ 61,938	$ 57,825
Operating Expenses (excluding depreciation)	(848,112)	(796,678)
Depreciation Expenses	(163,142)	(308,263)
Operating Loss	(949,316)	(1,047,116)
Non-Operating Revenues:		
Property Tax Revenues	$265,131	$ 262,354
Federal Operating and Maintenance Grants and Reimbursements	425,837	399,944
State Operating and Maintenance Grants, Reimbursements, and Special Fare Assistance	70,955	80,783
Interest Income	4,763	2,111
Other Income	350	1,705
Total Non-Operating Revenues	767,036	746,897
Capital Grant Revenue	29,400	139,014
Decrease in Net Assets During Year	(152,880)	(161,205)
Net Assets, Beginning of Year	1,443,552	1,445,609
Net Assets, End of Year	$1,290,672	$1,284,404

Financial Operating Activities

The most significant operating expenses for the Authority are Labor, Insurance – Hospitalization and Life, Casualty and Liability Insurance, Materials and Supplies, Fuel and Lubricants, and Fringe Benefits. These expenses account for 84.1% of the total operating expenses. Labor, which accounts for 45.8% of the total, represents costs associated with salaried and hourly employees. Insurance – Hospitalization and Life, which account for 15.9% of the total, represents costs associated with the hospitalization and life insurance premiums paid by the Authority covering its employees. Casualty and Liability Insurance, which accounts for 11.1% of the total, represents costs associated with casualty and liability insurance premiums paid by the Authority. Fringe Benefits, which account for 6.3% of the total, represents costs associated with the Ohio Public Employees Retirement System. Fuel and Lubricants, which accounts for 5.6% of the total, represents costs associated with the purchase of diesel fuel and motor oils.

Funding for the most significant operating expenses indicated above is from Passenger Fares, as well as from Non-Operating Revenues in the form of Property Tax Revenues, Federal Operating and Maintenance Grants and Reimbursements, and State Operating and Maintenance Grants, Reimbursements, and Special Fare Assistance. These revenues account for 98.9% of the total combined revenues of $828,974. Passenger Fares revenue for 2005 was $57,536, and accounts for 6.9% of the total revenues. Property Tax Revenues for 2005 was $265,131, and accounts for 32.0% of the total revenue. Federal Operating and Maintenance Grants and Reimbursements Revenue for 2005 was $425,837, and accounts for 51.4% of the total revenue. State Operating and Maintenance Grants, Reimbursements, and Special Fare Assistance revenue for 2005 was $70.955, and accounts for 8.6% of the total revenue. Charter Revenue, Advertising Revenue, Interest Income, and Other Income make up the remaining 1.1% of total revenue.

The Authority monitors its sources of revenues very closely for fluctuations.

Capital Assets and Debt Administration

The Authority's investment in capital assets as of December 31, 2005, amounts to $949,744 (net of accumulated depreciation and related debt). This investment in capital assets includes land, buildings, building improvements, transportation equipment, and other equipment.

Additional information concerning the Authority's capital assets can be found in note 3 of the notes to the basic financial statements.

As of December 31, 2005, the Authority had no debt obligations.

Property Tax Levy

On May 3, 2005, voters in Steubenville and Mingo Junction, Ohio, approved a 1.5 mill, 10-year tax levy to support the Steel Valley Regional Transit Authority. The levy replaced an existing 1.0 mill levy approved by voters in 1995, which expired at December 31, 2004.

Current Known Facts and Conditions

In the year 2005, the Authority transported 69,395 Steubenville passengers, 10,617 Mingo Junction passengers, and 2,576 ADA Para Transit passengers for a total of 82,588 passengers in the Steubenville-Mingo Junction area.

House Bill 66 provides reimbursements to the Authority for the loss of revenue resulting form the elimination of certain business property taxes within the state. The phase out of these reimbursements may negatively impact revenue within the last five years of the current property tax levy. The Authority estimates a potential revenue loss of approximately $340,000 during this time frame (2011-2015). A reduction in service levels is being considered for implementation as early as 2007. Phased increases in the farce structure are probable prior to 2010. In the event these options prove insufficient to offset anticipated revenue losses, further service reductions and/or confirmed sources of additional revenue must be in place by 2011.

Contacting the Authority's Financial Management

This financial report is designed to provide our citizens, customers, and creditors, with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. Questions concerning any of the information in this report or to request for additional information should be addressed to: Frank Bovina, Transit Manager, Steel Valley Regional Transit Authority, 555 Adams Street, Steubenville, Ohio 43952.

Steel Valley Regional Transit Authority
BALANCE SHEET
DECEMBER 31, 2005

ASSETS

CURRENT ASSETS:	
Cash and cash equivalents	$ 251,658
Receivables:	
Trade	1,859
Federal assistance	83,440
Fuel inventory	16,897
Prepaid expenses	28,941
Total current assets	382,795
RESTRICTED ASSETS:	
Planning assistance receivable	2,947
Cash and cash equivalents	11,066
Total restricted assets	14,013
PROPERTY, BUILDING, IMPROVEMENTS AND EQUIPMENT:	
Land	132,713
Building	505,041
Building improvements	13,396
Transportation equipment	1,012,742
Other equipment	166,624
Total	1,830,516
Less accumulated depreciation	(883,773)
Property, building, improvements and equipment, net	946,743
OTHER ASSETS:	
Deferred receivable – Levy	197,639
Total other assets	197,639
TOTAL ASSETS	$1,541,190

See accompanying notes to financial statements

Steel Valley Regional Transit Authority
BALANCE SHEET
DECEMBER 31, 2005

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:	
Accounts payable	$ 4,481
Accrued payroll	9,421
Accrued and withheld payroll taxes	19,645
Accrued expenses	12,618
Total current liabilities	46,165
NONCURRENT LIABILITIES:	
Deferred revenue – levy	197,639
Deferred capital grant	6,714
Total noncurrent liabilities	204,353
Total liabilities	250,518
NET ASSETS:	
Invested in capital assets, net of related debt	946,743
Restricted net assets	14,013
Unrestricted	329,916
Total net assets	1,290,672
TOTAL LIABILITIES AND NET ASSETS	$1,541,190

See accompanying notes to financial statements

Steel Valley Regional Transit Authority
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2005

OPERATING REVENUES:	
Passenger fares	$ 57,536
Charter revenue	4,402
Total operating revenues	61,938
OPERATING EXPENSES:	
Labor	383,124
Fringe benefits	53,444
Insurance – hospitalization and life	134,849
Taxes – payroll	22,374
Materials and supplies	35,984
Fuel and lubricants	47,251
Services	37,984
Utilities	24,368
Casualty and liability insurance	94,297
Miscellaneous	14,437
Total operating expenses excluding depreciation	848,112
OPERATING LOSS BEFORE DEPRECIATION EXPENSE	(786,174)
DEPRECIATION EXPENSE	163,142
OPERATING LOSS	(949,316)
NONOPERATING REVENUES:	
Property tax revenues	265,131
Federal operating and maintenance grants and reimbursements	425,837
State operating and maintenance grants, reimbursements and special fare assistance	70,955
Interest income	4,763
Other	350
Total nonoperating revenues	767,036
NET LOSS BEFORE CAPITAL CONTRIBUTIONS	(182,280)
Capital contributions	29,400
DECREASE IN NET ASSETS	(152,880)
Net assets – beginning of year, as restated (refer to Note 9)	1,443,552
Net assets – end of year	$1,290,672

See accompanying notes to financial statements.

Steel Valley Regional Transit Authority
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2005

OPERATING ACTIVITIES:	
Cash received from customers	$ 61,982
Cash payments to suppliers for goods and services	(473,234)
Cash payments to employees for services	(386,571)
Net cash used in operating activities	(797,823)
NONCAPITAL FINANCING ACTIVITIES:	
Property taxes received	265,131
Operating, maintenance and planning grants received	464,441
Other	26,400
Net cash provided by noncapital financing activities	755,972
CAPITAL AND RELATED FINANCING ACTIVITIES:	
Capital grants received	29,400
Acquisition and appropriations of fixed assets	(26,557)
Net cash used in capital and related financing activities	2,843
INVESTING ACTIVITIES	
Interest received	4,763
NET DECREASE IN CASH AND CASH EQUIVALENTS	(34,245)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	296,969
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 262,724
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:	
Operating loss	$ (949,316)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation	163,142
Change in assets and liabilities:	
Accounts receivable – trade	44
Fuel inventory	(11,867)
Prepaid expenses	(14,201)
Accounts payable	2,166
Accrued payroll	(3,447)
Accrued and withheld payroll taxes	4,781
Accrued expenses	10,875
NET CASH USED IN OPERATING ACTIVITIES	$ (797,823)

See accompanying notes to financial statements.

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization **–** Steel Valley Regional Transit Authority ("SVRTA" or the "Authority") was created pursuant to Sections 306.30 through 306.71 of the Ohio Revised Code for the purpose of providing public transportation in the Steubenville – Mingo Junction area. The Authority commenced operations on January 1, 1996. As a political subdivision it is distinct from, and is not an agency of, the State of Ohio or any other local governmental unit. The Authority is not subject to federal or state income taxes.

The Authority is managed by a five-member Board of Trustees and provides virtually all mass transportation within the greater Steubenville – Mingo Junction area. In 2005, the Authority had eleven full-time equivalent employees. Approximately 64% of the Authority's employees at December 31, 2005 are subject to a three year collective bargaining agreement expiring on December 31, 2007.

Reporting Entity – The Authority has adopted the provisions of Statement No. 14 of the Governmental Accounting Standards Board ("GASB") regarding the definition of the financial reporting entity. Accordingly, the accompanying financial statements include only the accounts and transactions of the Authority. Under the criteria specified in Statement No. 14, the Authority has no component units. The Authority is not financially accountable for any other organization.

Basis of Accounting – The accompanying financial statements have been prepared on 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.

Pursuant to GASB Statement No. 20, 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.

Cash Equivalents – For purposes of the statement of cash flows, the Authority considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

Inventory – Inventory is stated at cost using the average cost method. Inventory consists of fuel in storage tanks for transportation equipment.

Property and Depreciation – Property improvements and equipment are stated at historical cost. The costs of normal maintenance and repairs are charged to operations as incurred. Improvements are capitalized and depreciated over the remaining useful lives of the equipment.

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

Description	Years
Building	39
Improvements	15-39
Transportation equipment	5-10
Other equipment	3- 7

Restricted Assets – Restricted assets consist of monies and other resources, the use of which is restricted for specific activities.

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 improvements 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. When both restricted and unrestricted resources are available for use, generally it is the Authority's policy to use restricted resources first, then unrestricted resources when they are needed.

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

Recognition of Revenue, Receivables and Deferred Revenues – Passenger fares and charter fees are recorded as revenue at the time services are performed.

The Authority complies with the provisions of Statement No. 33 of the Government Accounting Standards Board ("GASB") regarding the Accounting and Financial Reporting for Nonexhange Transactions. This statement requires that capital contributions be recognized as revenue and not as contributed capital. Accordingly, during the year ended December 31, 2005, $29,400 in capital contribution was recognized as revenue in the Statement of Revenue and Expenses for the Authority. This statement also requires the recognition of revenue for property taxes in the financial statement in the period for which the levy is intended to finance, which is the year after the taxes are levied. Taxes levied in 2005 that will be collected in 2006 are recorded as a deferred 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.

Vacation and Sick Pay Benefits – Employees earned vacation and sick pay benefits each year based upon length of service and employment status. Employees may not carry any vacation days over into a subsequent year. No payments are made for vacation days that are unused at the end of the year. Employees can carryover unused sick leave to a maximum of 720 hours. At December 31, 2005 employees have approximately 3,000 hours of unused sick leave. Sick leave is nonvesting and no sick leave benefits have been accrued. Unused sick benefits lapse upon an employee's separation from the Authority.

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.

Budgetary Accounting **–** The Authority's 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 expense 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.

New Accounting Pronouncements

During the year ended December 31, 2005, the Authority adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposit and Investment Risk Disclosures – an amendment of GASB Statement No. 3*. This statement revises the deposit and investment risks disclosed in the notes to the financial statements. The financial statements have been prepared in conformance with this statement.

2. CASH AND CASH EQUIVALENTS

The investments and deposits of the Authority are governed by the provisions of the Ohio Revised Code. In accordance with these statutes, only financial institutions located in Ohio are eligible to hold public deposits. The statutes also permit the Authority to invest monies in certificates of deposit, saving accounts, money market accounts, the State Treasurer's investment pool (STAROhio) and obligations of the United States government or certain agencies thereof. The Authority may also enter into repurchase agreements with any eligible depository 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 may pledge a pool of government securities with a market value equal to 105% of public monies on deposit at the institution. Repurchase agreements must be secured by the specific government securities upon which the repurchase agreements are based. These securities must be obligations of or guaranteed by the United States and mature or be redeemable within five years of the date of the related repurchase agreement. The market value of the securities subject to a repurchase agreement must exceed the value of the principal by 2% and be marked to market daily. State law does not require that securities maintained for public deposits and investments be held in the Authority's name.

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

<u>Deposits</u>

Custodial credit risk is the risk that, in the event of a bank failure, the Authority's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as a specific collateral held at the Federal Reserve Bank in the name of the Authority.

At December 31, 2005, the carrying amount of the Authority's deposits was $262,724 as compared to a bank balance of $289,827. Of the bank balance, $100,000 was on deposit and covered by federal depository insurance and $189,827 was collateralized by a pool of securities maintained by the Authority's financial institutions but not in the Authority's name.

The Authority has restricted cash of $11,066 to guarantee the deductible for the insurance policy covering two fuel tanks. In addition, $2,947 of receivables was considered restricted and to be used for planning assistance (i.e. general development and comprehensive planning).

Investments

The Authority held no investments at December 31, 2005.

STEEL VALLEY REGIONAL TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

3. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2005 is as follows:

Description	Balance 1-1-05	Fixed Assets Additions	Fixed Assets Disposals	Balance 12-31-05
Capital assets not being depreciated:				
Land	$ 80,364	$ 52,349	$ -	$ 132,713
Total capital assets not being depreciated	80,364	52,349	-	132,713
,				
Capital assets being depreciated:				
Building	505,041	-	-	505,041
Building improvements	13,396	-	-	13,396
Transportation equipment	1,009,534	3,208	-	1,012,742
Other equipment	166,624	-	-	166,624
Total capital assets being depreciated	1,694,595	3,208	-	1,697,803
Less accumulated deprecation:				
Building	12,950	12,950	-	25,900
Building improvements	5,443	893	-	6,336
Transportation equipment	618,487	131,866	-	750,353
Other equipment	83,751	17,434	-	101,184
Total accumulated deprecation	720,630	163,142	-	883,773
Total capital assets being depreciated	973,965	(159,935)	-	814,030
Total capital assets, net	$ 1,054,329	$ (107,586)	$ -	$ 946,743

The January 1, 2005 numbers have been revised to reflect a prior period adjustment regarding the recording of depreciation expense for the year 2004.

4. PROPERTY TAXES

The Authority was subsidized by a property tax levy passed in May, 2005 for ten years by the voters of Steubenville and Mingo Junction, Ohio. Taxes of 1.5 mills are levied through 2015. Property tax revenue can be used for operating or capital purposes.

The Authority receives cash from tax levies when the related property tax collections are distributed by the Jefferson County Auditor's office. These distributions are generally received in the year following that for which the tax is levied.

5. DEFINED BENEFIT PENSION PLAN

Public Employees Retirement System of Ohio

Plan Description **–** All employees of the Authority are required to be members of the Ohio Public Employees Retirement System ("OPERS"), a cost-sharing, multiple-employer pension plan. OPERS provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Chapter 145 of the Ohio Revised Code assigns the authority to establish and amend benefit provisions to the OPERS Board of Trustees (Board). OPERS issues a stand-alone financial report that includes financial statements and required supplementary information. The financial report may be obtained by making a written request to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 466-2085 or 1-800-222-PERS (7377).

Funding Policy **–** The Ohio Revised Code provides statutory authority for employee and employer contributions. Employees are required to contribute 8.5 percent of their covered payroll to OPERS. The 2005 employer contribution rate was 13.55 percent of covered payroll including portion of .2952 used to fund health care benefits. The Authority's total contributions to OPERS for pension benefits, (excluding the amount relating to postretirement benefits) for the years ending December 31, 2005, 2004 and 2003 were approximately $33,000, $31,200 and $28,800, respectively, equal to 100 percent of the required contribution for each year.

Other Postemployment Benefits Provided Through OPERS **–** In addition to the pension benefits described previously, OPERS provides postretirement 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 also available. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. As required by state statute, a portion of each employer's contribution to OPERS is set aside for the funding of postretirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The Authority's contributions for other postemployment benefits to OPERS for the year ended December 31, 2005, 2004 and 2003 were $20,400, $18,200 and $16,900, respectively, equal to 100 percent of the required contributions for each year.

5. DEFINED BENEFIT PENSION PLAN (CONTINUED)

Benefits are advance funding using the entry age normal actuarial cost method. The assumptions and calculations below were based on the System's latest Actuarial Review performed as of December 31, 2004. The difference between assumed and actual experience (actuarial gains and losses) becomes part of the unfunded actuarial accrued liability. 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 unrealized market appreciation or depreciation on investment assets. The investment assumption rate for 2004 was 8%. An annual increase of 4% 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% base increase, were assumed to range from 0.5% to 6.3%. Health care costs were assumed to increase at the projected wage inflation rate plus an additional factor ranging from 1% to 6% for the next 8 years. In subsequent years (9 and beyond), health care costs were assumed to increase at 4% (the projected wage inflation rate).

As of December 31, 2004 (the latest information available), the number of active contributing participants was 376,109. The number of active contributing participants used in the December 31, 2004 actuarial valuation was 355,287. The actuarial value of the Retirement System's net assets available for OPEB at December 31, 2004 was $10.8 billion. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were $29.5 billion and $18.7 billion respectively.

6. CONTINGENCIES

***Federal and State Grants* –** Under the terms of the Authority's various grants, periodic audits are required where certain costs could be questioned as not being an eligible expenditure under the terms of the grant. At December 31, 2005, there were no significant questioned costs that had not been resolved with the applicable federal and state agencies. Questioned costs could still be identified during audits to be conducted in the future. In the opinion of the Authority's management, no material grant expenditures will be disallowed.

The Authority receives a substantial amount of support from federal, state, and local governments. A significant reduction in the level of this support, if such were to occur, would have a material effect on the Authority's programs and activities.

Legal Proceedings – The Authority is involved in litigation in the normal course of business. Although the eventual outcome of these matters cannot be predicted, it is the opinion of management that the ultimate liability is not expected to have a material effect on the Authority's financial position.

7. GRANTS, REIMBURSEMENTS AND SPECIAL FARE ASSISTANCE

Grants, reimbursements and special fare assistance included in the statement of revenues expenses and changes in net assets expenses for the year ended December 31, 2005 consist of the following:

	2005
Nonoperating	
FEDERAL:	
FTA Operating Assistance	$152,823
FTA Maintenance Assistance	230,794
FTA Planning Assistance	42,220
Total	$425,837
STATE	
ODOT Operating Assistance	$ 16,467
ODOT Maintenance Assistance	27,829
ODOT Planning Assistance	6,117
ODOT Elderly Fare Assistance	14,695
ODOT Fuel Tax Reimbursement	5,847
Total	$ 70,955
Capital	
FTA Capital	$ 3,225
ODOT Capital	26,175
Total	$ 29,400

8. RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets, flood and earthquake, errors and omissions, employment matters, injuries to employees and employee theft and fraud.

The Authority participates in the Ohio Bureau of Workers' Compensation for workers compensation coverage and with the Ohio Department of Job and Family Services for unemployment coverage. The Authority continues to carry commercial insurance for other risks of loss, including employee health, life and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years and there has been no significant reduction in insurance coverage in the year 2005.

9. PRIOR PERIOD ADJUSTMENT

Net assets at the beginning of 2005 have been adjusted to correct an error relating to the recording of depreciation expense in 2004. Beginning net assets as presented in the prior audit report were $1,284,404. The balance has been restated to a correct balance of $1,443,552. Had the error not been made, net assets would have decreased by $2,057 in 2004 as opposed to a decrease of $161,205. Depreciation expense for the year ended December 31, 2004 was $149,115, not $308,263 as previously presented.

SNODGRASS
CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Trustees
Steel Valley Regional Transit Authority

We have audited the financial statements of the Steel Valley Regional Transit Authority (the "Authority") as of and for the year ended December 31, 2005 and have issued our report thereon dated June 9, 2006, in which we noted the Authority implemented Governmental Auditing Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures*. 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.

<u>Internal Control Over Financial Reporting</u>

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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

<u>Compliance and Other Matters</u>

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 and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management of the Authority in a separate letter dated June 9, 2006.

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

S. R. Snodgrass, A.C.

Steubenville, Ohio
June 9, 2006

Auditor of State
Betty Montgomery

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STEEL VALLEY REGIONAL TRANSIT AUTHORITY

JEFFERSON 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
JULY 25, 2006