# TOLEDO AREA REGIONAL TRANSIT AUTHORITY
Toledo, Ohio

## FINANCIAL STATEMENTS
December 31, 2007 and 2006

Mary Taylor, CPA
Auditor of State

Board of Trustees
Toledo Area Regional Transit Authority
1127 West Central Avenue
P.O. Box 792
Toledo, Ohio 43697-0792

We have reviewed the *Independent Auditor's Report* of the Toledo Area Regional Transit Authority, Lucas County, prepared by Clifton Gunderson LLP, for the audit period January 1, 2007 through December 31, 2007. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

September 3, 2008

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# Independent Auditor's Report

Board of Trustees
Toledo Area Regional Transit Authority
Toledo, Ohio

We have audited the accompanying balance sheets of the Toledo Area Regional Transit Authority (the Authority) as of December 31, 2007 and 2006, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. 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 financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of December 31, 2007 and 2006, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards,* we have also issued a report dated July 2, 2008 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 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.

The management's discussion and analysis on pages 2 through 7 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Clifton Gunderson LLP

Toledo, Ohio
July 2, 2008

As financial management of the Toledo Area Regional Transit Authority (the Authority), we offer readers of these financial statements this narrative overview and analysis of the financial activities of the Authority for the fiscal years ended December 31, 2007 and 2006. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities and to identify any significant changes in the financial position. We encourage readers to consider the information presented here in conjunction with the financial statements as a whole.

**Financial Highlights in 2007**

- The Authority's total net assets decreased $4.6 million, or 17%, over the course of the year's operations.
- The Authority's operation expenses, excluding depreciation, in 2007 were $717,000 higher than in 2006. Increases in costs associated with Paratransit service and fuel contributed to the increase.
- Operating revenues for the Authority of $5.7 million in 2007 were comparable to 2006.
- Property tax revenues of $15.3 million (2.5 mils) were up $374,000 compared to 2006. This tax represents 57% of all revenues received and will vary little until a levy is replaced.
- Total funding from the State of Ohio decreased by $44,000, or 5%, as the State experienced budgetary restrictions resulting in general cuts in transit funding.
- The Authority provided no charter services in 2007 in accordance with current federal regulations.

**Financial Highlights in 2006**

- The Authority's total net assets decreased $ 4.2 million, or 13%, over the course of the year's operations. This decrease is the result of a $4.9 million loss from operations reduced by $739,000 of capital contributions.
- The Authority's operation expenses, excluding depreciation, in 2006 were $90,000 higher than in 2005. Increases in costs associated with Paratransit service and fringe benefits costs contributed to the increase.
- Operating revenues for the Authority of $5.6 million in 2006 were up $329,000, or 6.3%, over 2005.
- Property tax revenues of $14.9 million (2.5 mils) were comparable to 2005. This tax represents 56.9% of all revenues received and will vary little until a levy is replaced.
- Total funding from the State of Ohio increased by $29,000, or 3.4%, as the State was able to increase transit funding slightly.
- The Authority provided no charter services in 2006 in accordance with current federal regulations.

## Overview of the Financial Statements

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

### *Required Financial Statements*

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

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

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

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

### *Notes to Financial Statements*

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

**Financial Analysis of the Authority**

One of the most important questions asked about the Authority's finances is "Is the Authority as a whole better off or worse off as a result of this year's activities?" The balance sheet 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*

| | 2007 | 2006 | 2005 |
|---|---|---|---|
| **ASSETS** | | | |
| Current assets | $25,664,928 | $22,227,980 | $21,916,832 |
| Restricted assets | 24,027 | 23,603 | 26,690 |
| Long-term investments | 769,495 | 715,203 | 1,192,814 |
| Capital assets, net | 18,682,286 | 22,073,113 | 25,212,018 |
| Total assets | 45,140,736 | 45,039,899 | 48,348,354 |
| **LIABILITIES** | | | |
| Current liabilities | 4,048,435 | 2,903,302 | 2,078,129 |
| Property taxes | 17,838,000 | 14,250,000 | 14,250,000 |
| Other deferred revenue | 267,021 | 249,890 | 230,839 |
| Total liabilities | 22,153,456 | 17,403,192 | 16,558,968 |
| **NET ASSETS** | | | |
| Invested in capital assets | 18,682,286 | 22,073,113 | 25,212,018 |
| Unrestricted | 4,280,967 | 5,539,991 | 6,550,678 |
| Restricted for capital acquisitions | 24,027 | 23,603 | 26,690 |
| Total net assets | $22,987,280 | $27,636,707 | $31,789,386 |

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

*Year Ending December 31, 2007*

Investment in capital assets decreased to $18.7 million in 2007 from $22.1 million in 2006, or 15%. This decrease was the result of the excess of depreciation expense over capital asset additions, as well as the removal of obsolete assets.

**Financial Analysis of the Authority, Continued**

*Year Ending December 31, 2006*

Investment in capital assets decreased to \$22.1 million in 2006 from \$25.2 million in 2005, or 12.5%. This increase was the result of the excess of depreciation expense over capital asset acquisitions as well as an uninsured loss on a bus from an accident during the year.

*Change in Net Assets*

| | 2007 | 2006 | 2005 |
|---|---|---|---|
| Operating revenues | \$ 5,658,116 | \$ 5,579,740 | \$ 5,250,478 |
| Operating expenses, excluding depreciation | (28,013,933) | (27,296,556) | (27,206,229) |
| Depreciation expense | (3,680,043) | (3,828,006) | (3,409,687) |
| Operating loss | (26,035,860) | (25,544,822) | (25,365,438) |
| Nonoperating revenues (expenses): | | | |
| Property taxes | 15,302,228 | 14,927,641 | 14,678,003 |
| Federal operating and preventive maintenance grants | 4,928,261 | 4,843,496 | 4,318,408 |
| State operating and preventive maintenance grants | 698,298 | 754,888 | 735,900 |
| State special fare assistance | 138,737 | 126,550 | 116,758 |
| Investment income | 217,120 | 192,275 | 186,872 |
| Loss on disposal of capital assets | (6,117) | (208,016) | (31,199) |
| Nontransportation revenue | 107,906 | 16,164 | 641 |
| Total nonoperating revenues | 21,386,433 | 20,652,998 | 20,005,383 |
| Capital contributions | - | 739,145 | 3,479,395 |
| Decrease in net assets | (4,649,427) | (4,152,679) | (1,880,660) |
| Net assets: | | | |
| Beginning of year | 27,636,707 | 31,789,386 | 33,670,046 |
| End of year | \$22,987,280 | \$27,636,707 | \$31,789,386 |

**Financial Analysis of the Authority, Continued**

*Year Ended December 31, 2007*

The Authority's operating revenues for 2007 were up $78,000 over 2006, or 1.4%. Ridership on line service amounted to 4.6 million remaining consistent with 2006. In addition, miles of service of 4.3 million remained consistent with the prior year. Revenues from contract service to the Toledo Public Schools increased .8% in 2007. Operating expenses, excluding depreciation, increased by $717,000 or 2.6%, from 2006 primarily from the escalation of fuel costs and paratransit service. The 2007 nonoperating revenues of $21.4 million were higher than revenues in 2006 due to an increase in funds for preventative maintenance and continued recoveries of property tax delinquencies.

*Year Ended December 31, 2006*

The Authority's operating revenues for 2006 were up $329,000 over 2005, or 6.3%. Passenger fares increased $298,000 in 2006 due to a 11% increase in the individual fares. Ridership on line service amounted to 4.6 million resulting in a 2.1% decrease over 2005. In addition, miles of service of 4.3 million decreased 4.4% from the prior year. Revenues from contract service to the Toledo Public Schools increased .8% in 2006. Operating expenses, excluding depreciation, increased by $90,000 or .3%, from 2005 primarily from the escalation of fringe benefit costs and paratransit service. The 2006 nonoperating revenues of $20.7 million were higher than revenues in 2005 due to an increase in funds for preventative maintenance and a one time recovery of property tax delinquencies of approximately $200,000 in 2006.

**Capital Contributions**

*Year Ended December 31, 2006*

Capital contributions from federal and state agencies in 2006 were $739,000, a decrease from 2005 of $2.7 million. In 2006, the Authority purchased five air conditioned, low floor, lift equipped, diesel transit buses at a total cost of $514,000. The Authority also expended $250,000 on continuing progress on a new bio-diesel fueling station and $134,000 on software and building improvements.

**Capital Asset and Debt Administration**

*Capital Assets 2007*

The Authority's investment in capital assets amounts to $18.7 million, net of accumulated depreciation, as of December 31, 2007, a decrease of $3.4 million (15%) compared with 2006. Capital assets include land and land improvements, revenue producing and servicing equipment, buildings and structures, shop equipment, office furnishings and computer equipment. Major capital expenditures during the year include the purchase of five small transit busses for a total of $290,000 which are included in assets not being depreciated as they were not yet in service at year end.

## Capital Asset and Debt Administration, Continued

*Capital Assets 2006*

The Authority's investment in capital assets amounts to $22.1 million, net of accumulated depreciation, as of December 31, 2006, a decrease of $3.1 million (12.5%) over 2005. 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:

- The purchase of five small transit buses totalling $514,000
- The continuing progress on a bio-diesel fueling island at a total cost of $250,000
- The purchase of software and building improvement at a total cost of $134,000

The Authority also disposed of one forty-foot transit vehicle with a net book value of $209,000 related to a bus that was destroyed in an accident.

## Long-Term Debt

The Authority has no outstanding long-term debt as of December 31, 2007 and 2006.

## Requests for Information

This financial report is designed to provide a general overview of the Authority's finances for all those with an interest in its finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

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

**TOLEDO AREA REGIONAL TRANSIT AUTHORITY**
**BALANCE SHEETS**
**December 31, 2007 and 2006**

| ASSETS | 2007 | 2006 |
|---|---|---|
| **CURRENT ASSETS** | | |
| Cash and cash equivalents (includes approximately $620,380 and $663,146 designated by the Board of Trustees for capital acquisitions in 2007 and 2006, respectively) | $ 5,815,261 | $ 6,118,396 |
| Property taxes receivable | 17,838,798 | 14,252,219 |
| Accounts receivable | 912,224 | 881,234 |
| Inventories | 931,296 | 900,733 |
| Prepaid expenses and deposits | 167,349 | 75,398 |
| Total current assets | 25,664,928 | 22,227,980 |
| **OTHER ASSETS** | | |
| Restricted cash and cash equivalents for capital acquisitions | 24,027 | 23,603 |
| Capital assets not being depreciated | 1,082,823 | 781,876 |
| Capital assets being depreciated, net | 17,599,463 | 21,291,237 |
| Long-term investments (designated by the Board of Trustees for capital acquisitions) | 769,495 | 715,203 |
| **TOTAL ASSETS** | $45,140,736 | $45,039,899 |
| **LIABILITIES AND NET ASSETS** | | |
| **CURRENT LIABILITIES** | | |
| Accounts payable | $ 2,172,018 | $ 615,705 |
| Accrued payroll and vacation pay | 777,899 | 990,797 |
| Accrued workers' compensation insurance | 237,764 | 293,743 |
| Accrued employer's contribution to Public Employees Retirement System | 168,470 | 212,753 |
| Accrued claims, including self-insurance | 615,005 | 722,125 |
| Other | 77,279 | 68,179 |
| Total current liabilities | 4,048,435 | 2,903,302 |
| **DEFERRED REVENUE** | | |
| Property taxes | 17,838,000 | 14,250,000 |
| Other | 267,021 | 249,890 |
| Total deferred revenue | 18,105,021 | 14,499,890 |
| Total liabilities | 22,153,456 | 17,403,192 |
| **NET ASSETS** | | |
| Invested in capital assets | 18,682,286 | 22,073,113 |
| Unrestricted | 4,280,967 | 5,539,991 |
| Restricted for capital acquisitions | 24,027 | 23,603 |
| Total net assets | 22,987,280 | 27,636,707 |
| **TOTAL LIABILITIES AND NET ASSETS** | $45,140,736 | $45,039,899 |

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

**TOLEDO AREA REGIONAL TRANSIT AUTHORITY**
**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**
**Years Ended December 31, 2007 and 2006**

| | 2007 | 2006 |
|---|---|---|
| **OPERATING REVENUES** | | |
| Passenger fares | $ 2,402,642 | $ 2,397,460 |
| Toledo Board of Education and other contracts | 3,055,474 | 3,032,280 |
| Auxiliary transportation revenue | 200,000 | 150,000 |
| Total operating revenues | 5,658,116 | 5,579,740 |
| **OPERATING EXPENSES** | | |
| Labor | 12,251,881 | 12,210,729 |
| Fringe benefits | 4,570,409 | 4,920,964 |
| Materials and supplies | 3,165,188 | 2,881,856 |
| Services | 4,077,727 | 3,762,975 |
| Fuel | 2,714,952 | 2,323,935 |
| Taxes | 371,425 | 347,445 |
| Claims and insurance | 319,547 | 499,398 |
| Utilities | 522,766 | 300,963 |
| Miscellaneous | 20,038 | 48,291 |
| Total operating expenses | 28,013,933 | 27,296,556 |
| Operating loss before depreciation | (22,355,817) | (21,716,816) |
| **DEPRECIATION** | 3,680,043 | 3,828,006 |
| Operating loss | (26,035,860) | (25,544,822) |
| **NONOPERATING REVENUES (EXPENSES)** | | |
| Property taxes | 15,302,228 | 14,927,641 |
| Federal operating and preventive maintenance assistance | 4,928,261 | 4,843,496 |
| State operating and preventive maintenance grants and assistance | 837,035 | 881,438 |
| Investment income | 217,120 | 192,275 |
| Loss on disposal of capital assets | (6,117) | (208,016) |
| Nontransportation revenues | 107,906 | 16,164 |
| Total nonoperating revenues | 21,386,433 | 20,652,998 |
| Net loss before capital contributions | (4,649,427) | (4,891,824) |
| **CAPITAL CONTRIBUTIONS** | - | 739,145 |
| Decrease in net assets | (4,649,427) | (4,152,679) |
| **NET ASSETS** | | |
| Beginning of year | 27,636,707 | 31,789,386 |
| End of year | $ 22,987,280 | $ 27,636,707 |

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

**TOLEDO AREA REGIONAL TRANSIT AUTHORITY**
**STATEMENTS OF CASH FLOWS**
**Years Ended December 31, 2007 and 2006**

| | 2007 | 2006 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Receipts from fares and contracts | $ 5,504,718 | $ 5,655,691 |
| Payments to suppliers | (9,420,498) | (9,379,641) |
| Payments for labor and employee benefits | (17,570,816) | (17,092,408) |
| Net cash used in operating activities | (21,486,596) | (20,816,358) |
| **CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES** | | |
| Proceeds from: | | |
| Property taxes | 15,303,649 | 14,925,422 |
| Federal operating and preventive maintenance assistance | 4,928,261 | 4,843,496 |
| State operating and preventive maintenance grants and assistance | 975,838 | 822,333 |
| Nontransportation revenues | 107,906 | 16,164 |
| Net cash provided by noncapital financing activities | 21,315,654 | 20,607,415 |
| **CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES** | | |
| Expenditures for capital assets | (308,333) | (898,158) |
| Proceeds received on disposal of capital assets | 13,000 | - |
| Proceeds from capital contributions | - | 739,145 |
| Net cash used in capital and related financing activities | (295,333) | (159,013) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Purchase of long-term investments | (816,755) | (1,157,619) |
| Sale/maturity of long-term investments | 762,463 | 1,635,230 |
| Interest on investments | 217,856 | 195,858 |
| Net cash provided by investing activities | 163,564 | 673,469 |
| Net increase (decrease) in cash and cash equivalents | (302,711) | 305,513 |
| **CASH AND CASH EQUIVALENTS** | | |
| Beginning of year | 6,141,999 | 5,836,486 |
| End of year | $ 5,839,288 | $ 6,141,999 |

**TOLEDO AREA REGIONAL TRANSIT AUTHORITY**
**STATEMENTS OF CASH FLOWS**
**Years Ended December 31, 2007 and 2006**

| | 2007 | 2006 |
|---|---|---|
| **RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES** | | |
| Operating loss | $ (26,035,860) | $ (25,544,822) |
| Adjustments to reconcile operating loss to net cash used in operating activities: | | |
| Depreciation | 3,680,043 | 3,828,006 |
| Changes in assets and liabilities: | | |
| Accounts receivable – trade and other | (170,529) | 57,939 |
| Inventories | (30,563) | (79,163) |
| Prepaid expenses and deposits | (91,951) | 77,458 |
| Accounts payable | 1,556,313 | 282,574 |
| Accrued liabilities and other | (411,180) | 542,599 |
| Deferred revenue | 17,131 | 19,051 |
| Net cash used in operating activities | $ (21,486,596) | $ (20,816,358) |

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

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

### Basis of Accounting

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

Nonexchange transactions, in which the Authority receives value without directly giving equal value in return, include property taxes, grants and entitlements. On an accrual basis, revenue from property taxes is recognized in the period for which the levy is intended to finance, which is the year after the taxes are levied. Taxes levied in 2007 that will be collected in 2008 are recorded as a receivable and deferred revenue. Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Revenue from grants and entitlements is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use its 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.

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

### Basis of Accounting, Continued

The Authority accounts for its financial statements consistent with all applicable GASB pronouncements, as well as the pronouncements of the Financial Accounting Standards Board (FASB) and its predecessors issued on or before November 30, 1989, unless those pronouncements conflict with or contradict those of GASB. The Authority has elected not to apply the provisions of the FASB statements and interpretations issued subsequent to November 30, 1989.

### Use of Estimates in Preparing Financial Statements

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

### Cash Equivalents

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

### Inventories

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

### Restricted Assets

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

### Investments

Investments are stated at fair value, which is based on quoted market prices. Any unrealized gains or losses are recognized as adjustments to investment income. The Authority's policy is to hold investment securities to their scheduled maturity date. All investments with a maturity beyond twelve months at date of purchase are classified as long-term.

### Capital Assets

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

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

### Capital Assets, Continued

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

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

### Accounting for Impairment of Long-Lived Assets

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

### Compensated Absences

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

The Authority provides sick and accident pay to its full-time union employees. Employee sick and accident pay is recorded as an expense when paid and does not carry over from year to year.

### Budgets and Budgetary Accounting

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

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

### Budgets and Budgetary Accounting, Continued

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

The Authority had no expenditures in excess of appropriations at the legal level of appropriation for the years ended December 31, 2007 and 2006.

### 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.

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

### Passenger Fares

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

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

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

### Capital Contributions

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

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

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

### Classification of Revenues

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

## NOTE 2 - CASH AND INVESTMENTS

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

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.

### Deposits

Information regarding the Authority's deposits at December 31, 2007 and 2006 is as follows:

| | 2007 | 2006 |
|---|---|---|
| Book/carrying value of deposits | $ 5,839,288 | $ 6,141,999 |
| Bank balance: | | |
| Covered by federal depository insurance | $ 439,996 | $ 444,723 |
| Uncollateralized as defined by the GASB | 5,866,283 | 6,302,441 |
| **Total bank balance** | $ 6,306,279 | $ 6,747,164 |

The uncollateralized deposits at December 31, 2007 and 2006, were, however, covered by pledged collateral pools as discussed above.

## NOTE 2 - CASH AND INVESTMENTS (CONTINUED)

### Long-Term Investments

As of December 31, 2007 and 2006, the Authority had the following long-term investments:

| Description | Maturity | Fair value |
|---|---|---|
| 2007 | | |
| U.S. Treasury | January – December 2008 | $ 302,775 |
| U.S. Treasury | January – August 2009 | 224,343 |
| U.S. Treasury | March 2010 | 112,260 |
| U.S. Treasury | June – October 2011 | 73,871 |
| U.S. Treasury | March – July 2012 | 56,246 |
| **Total** | | $ 769,495 |
| 2006 | | |
| U.S. Treasury | January – September 2007 | $ 183,429 |
| U.S. Treasury | February – December 2008 | 234,776 |
| U.S. Treasury | February 2009 | 84,947 |
| U.S. Treasury | March – 2010 | 141,958 |
| U.S. Treasury | May – October 2011 | 70,093 |
| **Total** | | $ 715,203 |

### Interest rate risk

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

### Concentration of credit and custodial credit risk

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

## NOTE 3 - ACCOUNTS RECEIVABLE

Accounts receivable at December 31, 2007 and 2006 consisted of the following:

| | 2007 | 2006 |
|---|---|---|
| State operating and preventive maintenance assistance | $ 340,032 | $ 479,105 |
| Trade and other | 562,441 | 391,642 |
| Interest | 9,751 | 10,487 |
| **Total accounts receivable** | $ 912,224 | $ 881,234 |

## NOTE 4 - CAPITAL ASSETS

Capital asset activity for the years ended December 31, 2007 and 2006 was as follows:

| | 2007 | | | |
|---|---|---|---|---|
| | **Balance January 1, 2007** | **Additions** | **Deductions** | **Balance December 31, 2007** |
| Capital assets not being depreciated: | | | | |
| Land | $ 743,224 | $ - | $ - | $ 743,224 |
| Construction in progress | 38,652 | 300,947 | - | 339,599 |
| Total capital assets not being depreciated | 781,876 | 300,947 | - | 1,082,823 |
| Capital assets being depreciated: | | | | |
| Buildings | 7,126,291 | - | - | 7,126,291 |
| Land improvements | 1,564,362 | - | - | 1,564,362 |
| Transit stations | 5,607,537 | - | 740,124 | 4,867,413 |
| Transportation equipment | 45,126,563 | - | 2,590,864 | 42,535,699 |
| Other equipment (primarily service equipment, furniture and fixtures, computers and computer equipment, software and transit shelters) | 8,069,082 | 7,386 | 244,832 | 7,831,636 |
| Total capital assets being depreciated | 67,493,835 | 7,386 | 3,575,820 | 63,925,401 |
| Less accumulated depreciation: | | | | |
| Buildings | 4,527,293 | 264,619 | - | 4,791,912 |
| Land improvements | 1,541,747 | 2,874 | - | 1,544,621 |
| Transit stations | 2,957,843 | 173,158 | 730,718 | 2,400,283 |
| Transportation equipment | 31,606,993 | 2,703,903 | 2,586,863 | 31,724,033 |
| Other equipment | 5,568,722 | 535,489 | 239,122 | 5,865,089 |
| Total accumulated depreciation | 46,202,598 | 3,680,043 | 3,556,703 | 46,325,938 |
| Total capital assets being depreciated, net | 21,291,137 | (3,672,657) | 19,117 | 17,599,463 |
| **Total capital assets, net** | $ 22,073,113 | $(3,371,710) | $ 19,117 | $ 18,682,286 |

**NOTE 4 - CAPITAL ASSETS** (CONTINUED)

| | 2006 | | | |
|---|---|---|---|---|
| | **Balance January 1, 2006** | **Additions** | **Deductions** | **Balance December 31, 2006** |
| Capital assets not being depreciated: | | | | |
| Land | $ 743,224 | $ - | $ - | $ 743,224 |
| Construction in progress | 43,824 | (5,172) | - | 38,652 |
| Total capital assets not being depreciated | 787,048 | (5,172) | - | 781,876 |
| Capital assets being depreciated: | | | | |
| Buildings | 7,042,672 | 83,619 | - | 7,126,291 |
| Land improvements | 1,554,887 | 9,475 | - | 1,564,362 |
| Transit stations | 5,590,888 | 16,649 | - | 5,607,537 |
| Transportation equipment | 44,963,648 | 769,629 | 606,714 | 45,126,563 |
| Other equipment (primarily service equipment, furniture and fixtures, computers and computer equipment, software and transit shelters) | 8,102,637 | 23,958 | 57,613 | 8,068,982 |
| Total capital assets being depreciated | 67,254,732 | 903,330 | 664,327 | 67,493,735 |
| Less accumulated depreciation: | | | | |
| Buildings | 4,271,901 | 255,392 | - | 4,527,293 |
| Land improvements | 1,539,190 | 2,557 | - | 1,541,747 |
| Transit stations | 2,780,616 | 177,227 | - | 2,957,843 |
| Transportation equipment | 29,188,590 | 2,815,960 | 397,557 | 31,606,993 |
| Other equipment | 5,049,465 | 576,870 | 57,613 | 5,568,722 |
| Total accumulated depreciation | 42,829,762 | 3,828,006 | 455,170 | 46,202,598 |
| Total capital assets being depreciated, net | 24,424,970 | (2,924,676) | 209,157 | 21,291,137 |
| **Total capital assets, net** | $ 25,212,018 | $ (2,929,848) | $ 209,157 | $ 22,073,013 |

## NOTE 5 - DEFINED BENEFIT PENSION PLAN

### *Plan Description*

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

OPERS administers three separate pension plans as described below:

- The Traditional Pension Plan ("TP") – a cost-sharing multiple-employer defined benefit pension plan.

- The Member-Directed Plan ("MD") – a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the MD Plan, members accumulate retirement assets equal to the value of member and (vested) employer contributions plus any investment earnings thereon.

- The Combined Plan ("CO") – a cost-sharing multiple-employer defined benefit pension plan. Under the CO Plan, employer contributions are invested by OPERS to provide a formula retirement benefit similar in nature to the TP Plan benefit. Member contributions, the investment of which are self-directed by the members, accumulate retirement assets in a manner similar to the MD Plan.

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

### *Funding Policy*

The ORC provides statutory authority for employee and employer contributions. In 2007, employees other than law enforcement personnel are required to contribute 9.5% (9.0% in 2006) of their covered payroll to OPERS. The 2007 and 2006 employer contribution rates for local government employer units were 13.85% and 13.70%, respectively, of covered payroll including 5.5% and 4.5% in 2007 and 2006, respectively, that is used to fund postretirement health care benefits. The Authority's total contributions to OPERS pension benefits (excluding the amount relating to postretirement benefits) for the years ended December 31, 2007, 2006 and 2005 were $1,712,000, $1,668,600, and $1,661,500, respectively, equal to 100% of the required contribution for each year.

## NOTE 6 - OTHER POSTEMPLOYMENT BENEFITS

OPERS 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 OPERS is set aside for the funding of post-retirement health care. The ORC provides statutory authority for employer contributions. The contributions rates of 13.77% and 13.54% to the Plan for the years ended December 31, 2007 and 2006, respectively, included a portion (5% to 6% in 2007 and 4.5% in 2006) that was used to fund healthcare. The Authority's contributions for post-employment benefits were approximately $683,800 and $554,400 for the years ended December 31, 2007 and 2006, respectively.

The ORC provides the statutory authority requiring public employers to fund postretirement health care through their contributions to OPERS.

### Summary of Assumptions

- *Actuarial Review* – The assumptions and calculations below were based on the OPERS' latest actuarial review performed as of December 31, 2006.

- *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 annually, not to exceed a 12% corridor.

- *Investment Return* – The investment assumption rate for 2006 was 6.5%.

- *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 at the projected wage inflation rate plus an additional factor ranging from 0.5% to 5% for the next eight years. In subsequent years (10 and beyond), health care costs were assumed to increase at 4% (the projected wage inflation rate).

## NOTE 6 - OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

OPEBs are advanced funded on an actuarially determined basis. The number of active participating participants at December 31, 2007 was 374,979. At December 31, 2006 (the latest date information is available), the number of active contributing participants was 362,130 and $12 billion represents the actuarial value of the OPERS' net assets available for OPEB. The actuarially accrued liability and the unfunded actuarial accrued liability at December 31, 2006 (the latest date information is available), based on the actuarial cost method used, were $30.7 billion and $18.7 billion, respectively.

The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004, will be effective January 1, 2007. Member and employer contribution rates increased as of January 1, 2006, January 1, 2007 and January 1, 2008, which allowed additional funds to be allocated to the health care plan.

## NOTE 7 - RISK MANAGEMENT

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

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

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

The Authority provides hospitalization and medical benefits coverage to all of its full-time employees. The Authority is self-insured, with certain stop-loss coverage, for hospitalization and medical benefits coverage and expense totalled approximately $2.3 million in 2007 and $2.8 million in 2006. In addition, the Authority provides life insurance coverage to all full-time employees.

Changes in the accrued claims liability, including both general liability and medical, for the years ended December 31, 2007, 2006 and 2005 are as follows:

| | 2007 | 2006 | 2005 |
|---|---|---|---|
| **January 1, liability** | $ 722,125 | $ 368,800 | $ 517,750 |
| Current year claims and changes in estimates | 2,308,755 | 2,824,524 | 2,367,788 |
| Claim payments | (2,415,875) | (2,471,199) | (2,516,738) |
| **December 31, liability** | $ 615,005 | $ 722,125 | $ 368,800 |

## NOTE 8 - PROPERTY TAX REVENUES

The Authority is subsidized by two annual property tax levies consisting of a 1.0 mill levy in effect through 2011 and a 1.5 mill levy in effect through 2007. Revenues generated from the 1.0 mill and 1.5 mill levies are based on property valuations conducted in 2001 and 1997, respectively, for property located within the Authority's operating district. Property tax revenue may be used for operating or capital purposes. In November 2007, voters in the nine community transit districts approved a 1.5 mill replacement levy which is effective January 2008.

Property taxes include amounts levied against all real, public utility, and tangible (used in business) property located in the Authority's operating district. Lucas and Wood Counties collect all property taxes on behalf of the Authority. Due and collections dates for the 2006 and 2005 levy, as established by Lucas and Wood Counties, were February and July of the subsequent year.

Real property and tangible personal property taxes collected during fiscal year 2007 and 2006 had a lien and levy date of December 2006 and 2005, respectively.

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

Federal operating and preventive maintenance assistance consist of the following for the years ended December 31, 2007 and 2006:

| | 2007 | 2006 |
|---|---|---|
| FTA operating assistance | $ 556,000 | $ 540,000 |
| FTA short-range planning and marketing | 132,261 | 143,496 |
| FTA preventive maintenance assistance | 4,240,000 | 4,160,000 |
| **Total** | $ 4,928,261 | $ 4,843,496 |

State operating and preventive maintenance grants and special fare assistance consist of the following for the years ended December 31, 2007 and 2006:

| | 2007 | 2006 |
|---|---|---|
| ODOT operating assistance | $ 340,032 | $ 420,000 |
| State fuel tax reimbursement | 358,267 | 334,888 |
| State elderly and handicapped | 138,736 | 126,550 |
| **Total** | $ 837,035 | $ 881,438 |

## NOTE 10 - COMMITMENTS AND CONTINGENCIES

### Operating leases

The Authority has cancellable operating leases executed in one-year intervals for revenue vehicle tire utilization. Total rental expense for all operating leases amounted to approximately $147,700 and $145,500 for the years ended December 31, 2007 and 2006, respectively.

### Litigation

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

### Grants

Under the terms of the Authority's various capital and operating grants, periodic audits are required where certain costs could be questioned as not being an eligible expenditure under the terms of the grants. At December 31, 2007 and 2006, there were no material questioned costs that had not been resolved with the federal or state agencies. Questioned costs could still be identified during audits to be conducted in the future. Management of the Authority believes there will be no material adjustments to the grants and, accordingly, has not recorded a provision for possible repayments under the above grants.

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

## NOTE 11 - PARATRANSIT SERVICE

As of October 1, 2008, the Authority will assume direct management of the Paratransit division, which has been outsourced to a third-party since inception.

# TOLEDO AREA REGIONAL TRANSIT AUTHORITY
Toledo, Ohio

## REPORTS ISSUED PURSUANT TO THE OMB CIRCULAR A-133
December 31, 2007

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# Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

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

We have audited the basic financial statements of Toledo Area Regional Transit Authority (the Authority) as of and for the year ended December 31, 2007, and have issued our report thereon dated July 2, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Authority's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in Item 2007-1 and 2007-2 in the accompanying schedule of findings and responses to be significant deficiencies in internal control over financial reporting.

**Internal Control Over Financial Reporting, Continued**

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described in 2007-1 is a material weakness.

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

We noted certain matters that we reported to management of the Authority in a separate letter dated July 2, 2008.

The Authority's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Authority's responses and, accordingly, we express no opinion on them.

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

Clifton Gunderson LLP

Toledo, Ohio
July 2, 2008

## Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance and Schedule of Expenditures of Federal Awards in Accordance With OMB Circular A-133

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

**Compliance**

We have audited the compliance of Toledo Area Regional Transit Authority (the Authority) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2007. The Authority's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Toledo Area Regional Transit Authority's management. Our responsibility is to express an opinion on the Authority's compliance based on our audit.

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

In our opinion, the Authority complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2007.

**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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control over compliance.

The Board of Trustees
Toledo Area Regional Transit Authority

**Internal Control Over Compliance, Continued**

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as Item 2007-3 to be a significant deficiency.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. We consider the 2007-3 deficiency described in the accompanying schedule of findings and questioned costs to be a material weakness.

The Authority's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Authority's response and, accordingly, we express no opinion on it.

**Schedule of Expenditures of Federal Awards**

We have audited the basic financial statements of the Authority as of and for the year ended December 31, 2007, and have issued our report thereon dated July 2, 2008. 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.

The Authority's response to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the Authority's responses and, accordingly, we express no opinion on them.

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

Clifton Gunderson LLP

Toledo, Ohio
July 2, 2008

## TOLEDO AREA REGIONAL TRANSIT AUTHORITY
## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
### Year Ended December 31, 2007

| Federal Grantor Agency/ Pass-Through Grantor/ Program or Cluster Title | Federal CFDA number | Grant number | Federal expenditures |
|---|---|---|---|
| U. S. Department of Transportation: | | | |
| Federal Transit Administration (FTA) | | | |
| Federal Transit Cluster: | | | |
| Received directly from FTA: | | | |
| Capital investment grants | 20.500 | OH-15-X001 | $ 337,573 |
| Capital investment grants | 20.500 | OH-90-X586 | 5,607 |
| Subtotal CFDA 20.500 | | | 343,180 |
| Formula grants | 20.507 | OH-90-0394 | 950 |
| Formula grants | 20.507 | OH-90-0426 | 17,428 |
| Formula grants | 20.507 | OH-90-0456 | 68,301 |
| Formula grants | 20.507 | OH-90-0501 | 38,659 |
| Formula grants | 20.507 | OH-90-0536 | 171,379 |
| Formula grants | 20.507 | OH-90-X586 | 4,796,000 |
| Subtotal CFDA 20.507 | | | 5,092,717 |
| **TOTAL FEDERAL TRANSIT CLUSTER** | | | $ 5,435,897 |

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

**TOLEDO AREA REGIONAL TRANSIT AUTHORITY**
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**
**Year Ended December 31, 2007**

## NOTE 1 - GENERAL

The accompanying schedule of expenditures of federal awards presents the activity of federal award programs of Toledo Area Regional Transit Authority (the Authority).

## NOTE 2 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards is presented on the accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.* Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

This information is an integral part of the accompanying schedule.

**TOLEDO AREA REGIONAL TRANSIT AUTHORITY**
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

## Section I—Summary of Auditor's Results

### Financial Statements

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

### Federal Awards

| | | |
|---|---|---|
| Internal control over major programs: | | |
| • Material weakness(es) identified? | X yes | ___ no |
| • Significant deficiency(ies) identified that are not considered to be material weakness(es)? | ___ yes | X none reported |
| Type of auditor's report issued on compliance for major programs: | Unqualified | |
| Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133? | X yes | ___ no |

Identification of major programs:

| CFDA Number(s) | Name of Federal Program or Cluster |
|---|---|
| 20.500 and 20.507 | Federal Transit Cluster |

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

Auditee qualified as low-risk auditee? ___ yes X no

## Section II—Financial Statement Findings

### Reference 2007-1 – Segregation of Duties

**Criteria**

Segregation of duties is a key component of internal controls.

**Condition**

The Authority has an inadequate segregation of duties. Presently, the Comptroller reviews purchase orders (to verify availability of funds), approves disbursement vouchers, has the ability to record cash disbursements and also has check signing authority. In addition, the Comptroller has the ability and authority to receive mail (deposits), make deposits, make bank transfers, opens bank statements and reviews bank reconciliations.

**Effect**

This condition increases the possibility that an irregularity (or error) may not be prevented or detected in a timely manner.

**Recommendation**

Inadequate segregation of duties is not uncommon in small organizations. With a limited number of individuals to share responsibilities for access to assets and accounting, it is sometimes difficult to mitigate the control weaknesses caused by a lack of segregation of duties. It is rarely practical to hire additional employees just to improve internal controls. However, there are usually compensating procedures that can be implemented, either by managers directly, or by other employees. We recommend certain of the Comptroller approvals noted above be reassigned to other personnel. When performed by other employees, it is especially important for those employees to be adequately trained and supervised. Even then, override by supervisory employees may be possible.

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

The Comptroller serves as the Systems Administrator for the Financial Ledger System. In this capacity, the ability to perform the above mentioned tasks is critical; however, it should be noted that these duties are not performed as they are assigned to other staff members. Signature changes relating to approving disbursement vouchers were instituted after the 2006 audit and management will continue to review current assignment of responsibilities to address the segregation issue.

## Section II—Financial Statement Findings, Continued

### Reference 2007-2 – Accounting Policies and Procedures Manual

#### Criteria

An accounting policies and procedures manual will help ensure Authority transactions are recorded in a consistent manner.

#### Condition

The Authority presently does not have an accounting policies and procedures manual.

#### Effect

The lack of an accounting policies and procedures manual increases the possibility of misunderstandings, errors, inefficient or wasted effort, duplicated or omitted procedures, and other situations that could result in inaccurate or untimely accounting records.

#### Recommendation

While the accounting department is fairly small, written procedures, instructions and duty assignments will prevent or reduce the likelihood of the effects mentioned above. A well devised accounting manual can also help ensure all similar transactions are treated consistently, accounting principles in use are proper, and records are produced in the form desired by management. A good accounting manual should aid in the training of new employees and allow management to delegate some accounting functions to other employees. It will take some time and effort to develop a manual; however, we believe this time will be more than offset by time saved later in training and supervising accounting personnel. Also, in the process of the comprehensive review of existing accounting procedures, management might identify procedures to eliminate or improve, making the system more efficient and effective.

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

Currently there are flowcharts which document the activity and account flow for Accounts Payable and Accounts Receivable. Preliminary work has been done on detailing tasks performed by staff members as well as standardizing reconciliation formats. Over the next few months we will expand the tasks lists to encompass step-by-step processes and procedures. In addition, an accounting policies and procedures manual will be created.

## Section III – Federal Award findings and Questioned Costs

### Reference 2007-3 – Other

Grant from the U.S. Department of Transportation
Federal Transit Cluster
CFDA 20.500 and 20.507

See finding 2007-1 in Section II – Financial Statement Findings.

**TOLEDO AREA REGIONAL TRANSIT AUTHORITY**
**SUMMARY OF PRIOR AUDIT FINDINGS**

**Reference 2006-1 and 2006-2 – Segregation of Duties**

Grant from U.S. Department of Transportation, Other
Federal Transit Cluster
CFDA 20.500 and 20.507

The Authority has an inadequate segregation of duties. Presently, the Comptroller reviews purchase orders (to verify availability of funds), approves disbursement vouchers, records cash disbursements and also has check signing authority.

**Status**

This finding has not been corrected. See finding 2007-1.

Mary Taylor, CPA
Auditor of State

**TOLEDO AREA REGIONAL TRANSIT AUTHORITY**

**LUCAS COUNTY**

**CLERK'S CERTIFICATION**

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

Susan Babbitt

**CLERK OF THE BUREAU**

**CERTIFIED**
**SEPTEMBER 16, 2008**

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