

TOLEDO AREA REGIONAL TRANSIT AUTHORITY

Financial Statements

December 31, 2002 and 2001

(With Independent Auditors' Report Thereon)



**Auditor of State
Betty Montgomery**

Board of Trustees
Toledo Area Regional Transit Authority
1127 W. Central Avenue
Toledo, Ohio 43697-0792

We have reviewed the Independent Auditor's Report of the Toledo Area Regional Transit Authority, Lucas County, prepared by KPMG LLP, for the audit period January 1, 2002 to December 31, 2002. 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.

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

October 10, 2003

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TOLEDO AREA REGIONAL TRANSIT AUTHORITY

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191 West Nationwide Boulevard
Suite 500
Columbus, OH 43215-2568

Telephone 614 249 2300
Fax 614 249 2348

Independent Auditors' Report

The Board of Trustees
Toledo Area Regional Transit Authority:

We have audited the accompanying balance sheets of the Toledo Area Regional Transit Authority (TARTA) as of December 31, 2002 and 2001, and the related statements of revenues and expenses, changes in capital and accumulated earnings, and cash flows for the years then ended. These financial statements are the responsibility of TARTA'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 TARTA as of December 31, 2002 and 2001, 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 March 28, 2003 on our consideration of TARTA's internal controls over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

KPMG LLP

March 28, 2003

TOLEDO AREA REGIONAL TRANSIT AUTHORITY

Balance Sheets

December 31, 2002 and 2001

Assets	2002	2001
Current assets:		
Cash and cash equivalents (includes approximately \$6,539,000 and \$5,524,000 designated by the Board of Trustees for capital acquisitions in 2002 and 2001, respectively)	\$ 13,353,959	10,977,960
Property taxes receivable	14,545,000	14,525,000
Trade and other accounts receivable	1,288,409	1,728,199
Materials and supplies	677,866	699,880
Prepaid expenses and deposits	152,934	197,802
Total current assets	<u>30,018,168</u>	<u>28,128,841</u>
Restricted assets:		
Restricted for capital acquisitions – cash and cash equivalents	26,743	2,691
Property, buildings and equipment, net	15,427,798	15,601,419
Long-term investments (designated by the Board of Trustees for capital acquisitions)	1,155,562	1,429,357
Total assets	<u>\$ 46,628,271</u>	<u>45,162,308</u>
Liabilities and Capital		
Current liabilities:		
Accounts payable	\$ 533,878	421,710
Accrued payroll	605,519	593,648
Accrued workers' compensation insurance	63,800	250,000
Accrued employer's contribution to Public Employees Retirement System	211,911	228,475
Accrued claims	334,600	281,950
Other	102,182	79,743
Total current liabilities	<u>1,851,890</u>	<u>1,855,526</u>
Other liabilities – deferred revenue:		
Property taxes	14,545,000	14,525,000
Other	174,732	168,708
Total liabilities	<u>16,571,622</u>	<u>16,549,234</u>
Capital grants and accumulated earnings:		
Capital grants:		
Federal	11,111,976	13,529,377
State	366,826	626,920
Local	1,964	3,949
Private	3,649	4,349
Total capital grants	<u>11,484,415</u>	<u>14,164,595</u>
Accumulated earnings	<u>18,572,234</u>	<u>14,448,479</u>
Total capital grants and accumulated earnings	<u>30,056,649</u>	<u>28,613,074</u>
Total liabilities, capital, and accumulated earnings	<u>\$ 46,628,271</u>	<u>45,162,308</u>

See accompanying notes to financial statements.

TOLEDO AREA REGIONAL TRANSIT AUTHORITY

Statements of Revenues and Expenses

Years ended December 31, 2002 and 2001

	2002	2001
Operating revenues:		
Passenger fares	\$ 1,815,600	1,869,305
Toledo Board of Education contract	2,769,551	2,672,120
Charter service revenue	390,980	391,802
Auxiliary transportation revenue	96,733	100,574
Total revenues	5,072,864	5,033,801
Operating expenses:		
Labor	11,217,106	10,257,304
Fringe benefits	3,521,531	3,725,400
Materials and supplies	3,544,207	3,186,060
Services	2,816,952	2,441,169
Taxes	269,143	250,243
Claims and insurance	362,707	278,195
Utilities	306,444	317,400
Miscellaneous	119,191	169,975
Total operating expenses before depreciation	22,157,281	20,625,746
Operating loss before depreciation	(17,084,417)	(15,591,945)
Depreciation:		
On assets acquired with capital grants	2,682,231	2,995,901
On assets acquired with TARTA equity	256,319	256,168
Total depreciation expense	2,938,550	3,252,069
Operating loss	(20,022,967)	(18,844,014)
Nonoperating revenues:		
Investment income	401,778	548,550
Nontransportation revenues	131,760	6,822
Experience refund and premium credit from the Ohio Bureau of Workers Compensation	—	465,604
Federal operating grants and reimbursements	3,746,748	3,428,690
State operating grants, reimbursements, and special fare assistance	1,122,792	1,141,906
Property taxes	14,551,915	10,787,697
Total nonoperating revenues	19,954,993	16,379,269
Net loss before capital contributions	(67,974)	(2,464,745)
Capital contributions	1,511,549	967,301
Net income (loss)	\$ 1,443,575	(1,497,444)

See accompanying notes to financial statements.

TOLEDO AREA REGIONAL TRANSIT AUTHORITY
 Statements of Changes in Capital and Accumulated Earnings
 Years ended December 31, 2002 and 2001

	<u>Capital Grants</u>				<u>Accumulated earnings</u>	<u>Total</u>
	<u>Federal</u>	<u>State</u>	<u>Local</u>	<u>Private</u>		
Balances at December 31, 2000	\$ 16,319,730	840,205	5,934	5,049	12,939,600	30,110,518
Disposal of capital assets, net	(10,422)	-	-	-	10,422	-
Net loss	-	-	-	-	(1,497,444)	(1,497,444)
Amortization of capital grants:						
Transfer to accumulated earnings of an amount equal to the depreciation on assets acquired with capital grants	<u>(2,779,931)</u>	<u>(213,285)</u>	<u>(1,985)</u>	<u>(700)</u>	<u>2,995,901</u>	<u>-</u>
Balances at December 31, 2001	13,529,377	626,920	3,949	4,349	14,448,479	28,613,074
Disposal of capital assets, net	2,051	-	-	-	(2,051)	-
Net income	-	-	-	-	1,443,575	1,443,575
Amortization of capital grants:						
Transfer to accumulated earnings of an amount equal to the depreciation on assets acquired with capital grants	<u>(2,419,452)</u>	<u>(260,094)</u>	<u>(1,985)</u>	<u>(700)</u>	<u>2,682,231</u>	<u>-</u>
Balances at December 31, 2002	<u><u>\$ 11,111,976</u></u>	<u><u>366,826</u></u>	<u><u>1,964</u></u>	<u><u>3,649</u></u>	<u><u>18,572,234</u></u>	<u><u>30,056,649</u></u>

See accompanying notes to financial statements.

TOLEDO AREA REGIONAL TRANSIT AUTHORITY

Statements of Cash Flows

Years ended December 31, 2002 and 2001

	2002	2001
Cash flows from operating activities:		
Operating loss	\$ (20,022,967)	(18,844,014)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization	2,938,550	3,252,069
Allowance for doubtful accounts	24,691	3,235
Loss on disposal	(2,564)	12,874
Changes in operating assets and liabilities which increase (decrease) cash provided by operating activities:		
Trade and other accounts receivable	1,232,716	615,711
Materials and supplies	22,014	(60,833)
Prepaid expenses and deposits	44,868	(61,817)
Accounts payable	112,168	33,998
Accrued liabilities and other	(115,804)	(95,919)
Deferred revenue	6,024	1,519
Net cash used in operating activities	(15,760,304)	(15,143,177)
Cash flows from noncapital financing activities:		
Proceeds from:		
Property taxes	14,551,915	10,787,697
Federal operating grants and reimbursements	3,746,748	3,428,690
State operating grants, reimbursements, and special fare assistance	372,192	295,506
Nontransportation revenues	131,760	472,426
Net cash provided by noncapital financing activities	18,802,615	14,984,319
Cash flows from capital and related financing activities:		
Expenditures for property, buildings and equipment	(2,811,747)	(1,699,415)
Proceeds from state and federal capital funding	1,511,549	967,301
Net cash used in capital and related financing activities	(1,300,198)	(732,114)
Cash flows from investing activities:		
Purchase of investments	(1,155,562)	(1,429,357)
Sale/maturity of investments	1,429,357	1,658,543
Interest on investments	384,143	591,645
Net cash provided by investing activities	657,938	820,831
Net increase (decrease) in cash and cash equivalents	2,400,051	(70,141)
Cash and cash equivalents at beginning of year	10,980,651	11,050,792
Cash and cash equivalents at end of year	\$ 13,380,702	10,980,651
Supplemental Information:		
Noncash activities:		
Bureau of Workers' Compensation credit	\$ —	191,653

See accompanying notes to financial statements.

TOLEDO AREA REGIONAL TRANSIT AUTHORITY

Notes to Financial Statements

December 31, 2002 and 2001

(1) Summary of Significant Accounting Policies

A summary of accounting policies followed in the preparation of the accompanying financial statements of the Toledo Area Regional Transit Authority (TARTA) is presented below:

(a) *The Entity*

TARTA 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. TARTA is not subject to federal or state income taxes.

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

The City of Toledo (the City) is a related organization to TARTA as the Mayor of the City, with the approval of City Council, appoints a voting majority of TARTA's Board. However, the financial statements of TARTA 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 TARTA.

(b) *Basis of Accounting*

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

Non-exchange transactions, in which TARTA receives value without directly giving equal value in return, include property taxes, grants, and entitlements. On an accrual basis, revenue from property taxes is recognized in the period for which the levy is intended to finance, which is the year after the taxes are levied. Taxes levied in 2002 that will be collected in 2003 are recorded as receivable and deferred revenue. Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Revenue from grants and entitlements is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which TARTA must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to TARTA on a reimbursement basis.

TOLEDO AREA REGIONAL TRANSIT AUTHORITY

Notes to Financial Statements

December 31, 2002 and 2001

Pursuant to GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, TARTA follows GASB guidance as applicable to proprietary funds and Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins issued on or before November 30, 1989 that do not conflict with or contradict GASB pronouncements.

(c) *Operating Grants, Reimbursements and Special Fare Assistance*

Operating grants, reimbursements, and special fare assistance are included in revenue in the period to which the grant, reimbursement, and special fare assistance applies.

(d) *Capital Grants*

TARTA receives contributed capital funds from the Federal Transit Administration (FTA), Ohio Department of Transportation (ODOT), local and private sources prior to January 1, 2001. Federal, state, local and private grants for the acquisition of property, buildings and equipment (capital grants) were credited to capital as the related expenditures were incurred. Capital grants received after January 1, 2001 are recorded as a revenue in the statement of revenues and expenses. Capital grants received prior to January 1, 2001 are amortized to accumulated earnings in the amount of the annual depreciation on assets acquired with capital grants. Project costs are generally shared anywhere from 80% to 100% for federal and 0% to 10% for state, with the remaining share covered by TARTA or local sources.

(e) *Passenger Fares*

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

(f) *Materials and Supplies*

Materials and supplies are stated at average cost which is not in excess of market.

(g) *Restricted Assets*

Restricted cash and cash equivalents include funds received under various capital grants from the ODOT and the FTA that are restricted for capital expenditures.

(h) *Investments*

Investments are reported at fair value, which is based on quoted market prices. Any unrealized gains or losses are recognized as adjustments to investment income. TARTA's policy is to hold investment securities to their scheduled maturity date.

TOLEDO AREA REGIONAL TRANSIT AUTHORITY

Notes to Financial Statements

December 31, 2002 and 2001

(i) Property, Building, and Equipment and Depreciation

Property, buildings and equipment are recorded at cost. Depreciation is charged to expense over the estimated useful lives of the assets and is determined using the straight-line method. Expenditures for maintenance and repairs, which do not materially extend the useful life of the asset, are charged to expense. Proceeds or gains on disposal of property, buildings and equipment purchased with capital grant funds are transferred to the operating fund if less than \$5,000. If the proceeds or gains are greater than \$5,000, the proceeds are, at the discretion of the grantor, either refunded to the grantor or applied against specified grants. Accordingly, such gains or losses are credited or charged to capital grants received.

The estimated useful lives used in computing depreciation and amortization are as follows:

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

(j) Compensated Absences

Compensated absences are accrued in accordance with GASB Statement No. 16, *Accounting for Compensated Absences*. Vacation pay is accrued and reflected as a liability when earned. TARTA 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.

(k) Budgets and Budgetary Accounting

In accordance with Section 5705 of the ORC, an annual budget of revenues, expenses, and capital expenditures is prepared under the accrual basis of accounting, GAAP. The budget is adopted by resolution of the Board of Trustees. TARTA, 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 TARTA'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 TARTA for the year.

TOLEDO AREA REGIONAL TRANSIT AUTHORITY

Notes to Financial Statements

December 31, 2002 and 2001

The following accounts had expenditures in excess of appropriations, at the legal level of appropriation for the year ended December 31, 2002:

	<u>Appropriations</u>	<u>Expenditures</u>	<u>Excess</u>
General and administrative	3,037,600	3,070,419	32,819
Fuel taxes	11,100	11,373	273

(l) Cash Equivalents

For purposes of the statements of cash flows, TARTA considers all investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

(m) 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.

(n) New Accounting Pronouncements

TARTA will implement the provisions of GASB Statement No. 34, *Basic Financial Statements – Management Discussion and Analysis – for State and Local Governments*; GASB Statements No. 37, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus*; and GASB Statements No. 38, *Certain Financial Statement Note Disclosures*, effective for the year ended December 31, 2003. Management has not yet determined the impact of these statements on TARTA’s financial statements.

(2) Cash and Investments

The provisions of the ORC govern the investment and deposit of TARTA 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 TARTA 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. TARTA 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.

TOLEDO AREA REGIONAL TRANSIT AUTHORITY

Notes to Financial Statements

December 31, 2002 and 2001

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 TARTA.

(a) Deposits

Information regarding TARTA's deposits is as follows at December 31:

	2002	2001
Book/carrying value of deposits	\$ <u>13,380,702</u>	<u>10,980,651</u>
Bank balance:		
Covered by federal depository insurance	\$ 808,008	668,127
Uncollateralized as defined by the GASB	<u>12,785,026</u>	<u>10,902,479</u>
	<u>\$ 13,593,034</u>	<u>11,570,606</u>

The uncollateralized deposits at December 31, 2002 and 2001, were, however, covered by pledged collateral pools as discussed above.

(b) Investments and Other Deposits

TARTA's investments are detailed below and categorized in accordance with the criteria established by the GASB to give an indication of the level of custodial credit risk assumed as of December 31, 2002 and 2001. Category 1 includes investments that are insured or registered or for which the securities are held by TARTA or its agent in TARTA's name. Category 2 includes investments that are uninsured and unregistered for which the securities are held by the counterparty's trust department or agent in TARTA's name. Category 3 includes uninsured and unregistered investments for which securities are held by the counterparty or by its trust department or agent but not in TARTA's name. Deposits and equities in pools of funds managed by other governmental units are not categorized.

Description	Category			Carrying amount/ Fair value
	1	2	3	
December 31, 2002:				
U.S. Treasuries	\$ —	—	<u>1,155,562</u>	<u>1,155,562</u>
December 31, 2001:				
U.S. Treasuries	\$ —	—	<u>1,658,543</u>	<u>1,658,543</u>

TOLEDO AREA REGIONAL TRANSIT AUTHORITY

Notes to Financial Statements

December 31, 2002 and 2001

(3) Property Tax Revenues

TARTA is subsidized by two annual property tax levies consisting of a 1.0 mill levy in effect through 2001 and a 1.5 mill levy in effect through 2008. Revenues generated from the 1.0 mill and 1.5 mill levies are based on property valuations conducted in 1971 and 1997, respectively, for property located within TARTA's operating district. Property tax revenue may be used for operating or capital purposes. A 1.0 mill replacement levy was effective beginning 2001 was passed in November 2000 based on a property valuation conducted in 2000. TARTA began receiving taxes from this replacement levy in 2002. The new levy will be in effect through 2011.

Property taxes include amounts levied against all real, public utility, and tangible (used in business) property located in TARTA's operating district. Lucas and Wood Counties collect all property taxes on behalf of TARTA. Due and collection dates, as established by Lucas and Wood Counties, were February 2002 and July 2002, for those taxes due during 2002.

Real property and tangible personal property taxes collected during fiscal year 2002 had a lien and levy date of December 2001.

(4) Property, Buildings and Equipment

Property, buildings and equipment were comprised of the following at December 31:

	2002	2001
Land	\$ 743,224	743,224
Buildings and land improvements	8,400,441	7,676,004
Transit stations	3,075,816	3,060,559
Transportation equipment	36,105,548	34,987,936
Other equipment (primarily service equipment, furniture and fixtures, computers and computer equipment, software, and transit shelters)	5,981,039	5,698,846
Work in progress	729,541	144,338
	55,035,609	52,310,907
Accumulated depreciation	(39,607,811)	(36,709,488)
	\$ 15,427,798	15,601,419

Work in progress for 2002 primarily represents bus station construction and design and the replacement of all radio equipment for TARTA and TARPS, the replacement of scheduling software used by TARPS and the purchase of automatic vehicle location hardware and software for costs incurred by December 31, 2002. The remaining costs for the design of the station will be approximately \$198,3000 and for the radio equipment, scheduling software and vehicle location hardware and software will be approximately \$882, 100. These projects are each funded by federal capital grants and are expected to be completed by mid 2003.

TOLEDO AREA REGIONAL TRANSIT AUTHORITY

Notes to Financial Statements

December 31, 2002 and 2001

Work in progress for 2001 primarily represents bus station construction design and facilities rehabilitation for costs incurred by December 31, 2001. The remaining costs for the design of the station and for the rehabilitation will be approximately \$214,000 and \$39,000, respectively, funded by federal capital grants. Both projects are expected to be completed by mid-2002.

(5) Risk Management

TARTA is exposed to various risks of loss related to torts, theft or destruction of assets, errors or omissions, injuries to employees, and natural disasters. Effective April 4, 2002, TARTA commenced participation in the Ohio Transit Risk Pool, Inc. (OTRP) formerly the Ohio Transit Insurance Pool, Inc. (OTIP) related to its general liability risk. TARTA had insurance for general liability claims from \$250,000 per claim up to \$10 million, prior to April 4, 2002. A provision with respect to claims on either side of this range is accrued in the period in which accidents occur or the incidence of loss is determined, based upon management's estimate of the ultimate liability.

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

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

TARTA provides hospitalization and medical benefits coverage to all of its full-time employees either under professionally administered self-insured plan or HMO provider contracts. Expenses associated with these benefits totaled approximately \$2 million in 2002 and \$1.9 million 2001. In addition, TARTA provides life insurance coverage to all full-time employees. Expense associated with this benefit totaled approximately \$28,000 in 2002 and \$27,000 in 2001. The self-insurance plan has a stop loss of \$75,000 per individual.

TOLEDO AREA REGIONAL TRANSIT AUTHORITY

Notes to Financial Statements

December 31, 2002 and 2001

The general liability and hospitalization claims liability was calculated by reviewing claim lag reports and consulting with TARTA's attorneys. Changes in the accrued general liability and hospitalization claims liability in 2002 and 2001 are as follows:

	<u>Beginning of year liability</u>	<u>Current year claims and changes in estimates</u>	<u>Claim payments</u>	<u>End of year liability</u>
2002	\$ 281,950	2,147,989	2,095,339	334,600
2001	\$ 250,750	1,976,889	1,945,689	281,950

TARTA 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 TARTA 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.

(6) Defined Benefit Pension Plan

(a) Plan Description

TARTA contributes to the Public Employees Retirement System of Ohio (PERS), a cost-sharing multiple-employer defined benefit pension plan. PERS provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Chapter 145 of the Ohio Revised Code assigns the authority to establish and amend benefit provisions to the PERS Board of Trustees (Board). PERS issues a stand-alone financial report that includes the financial statements. That report may be obtained by writing to Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 614-466-2085 or 1-800-222-PERS (7377).

(b) Funding Policy

The Ohio Revised Code provides statutory authority for employee and employer contributions. Plan members are required to contribute 8.5% of their annual covered salary, and TARTA is required to contribute at an actuarially determined rate. The 2002, 2001, and 2000 employer contribution rate was 13.55%, 13.55%, and 10.84%, respectively, of annual covered payroll. The 2000 rate reflected a 20% temporary contribution rate rollback. The contribution requirements of plan members and TARTA are established and may be amended by the Board. TARTA's contributions to PERS for the years ending December 31, 2002, 2001, and 2000 were approximately \$1,513,100, \$1,395,700, and \$1,034,200, respectively, equal to the required contributions for each year. Required employer contributions are equal to 100% of the dollar amount billed to each employer.

TOLEDO AREA REGIONAL TRANSIT AUTHORITY

Notes to Financial Statements

December 31, 2002 and 2001

(7) Other Postemployment Benefits

PERS also 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 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 PERS (see note 6) is set aside for the funding of postretirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The contribution rates of 13.55% and 10.84% to the Plan for the years ended December 31, 2002 and 2001, respectively, included a portion (5.0% and 4.3% respectively) that was used to fund healthcare. TARTA's contributions for post-employment benefits were approximately \$558,334 and \$443,000 for the years ended December 31, 2002 and 2001, respectively.

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

Summary of assumptions:

- *Actuarial Review* – The assumptions and calculations below were based on the System's latest Actuarial Review performed as of December 31, 2001.
- *Funding Method* – An entry age normal actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of unfunded actuarial accrued liability.
- *Assets Valuation Method* – All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach assets are adjusted annually to reflect 25% of the unrealized market appreciation or depreciation on investment assets.
- *Investment Return* – The investment assumption rate for 2001 was 8.0%.
- *Active Employee Total Payroll* – An annual increase of 4.0% compounded annually, is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4.0% base increase, were assumed to range from 0.5% to 6.3%.
- *Health Care* – Health care costs were assumed to increase 4.0% annually.

OPEBs are advanced funded on an actuarially determined basis. The number of active participating participants at December 31, 2002 was 402,041. \$11.6 billion represents the actuarial value of the Retirement System's net assets available for OPEB at December 31, 2001 (the latest date information is available). The actuarially accrued liability and the unfunded actuarial accrued liability at December 31, 2001 (the latest date information is available), based on the actuarial cost method used, were \$16.4 billion and \$4.8 billion, respectively.

TOLEDO AREA REGIONAL TRANSIT AUTHORITY

Notes to Financial Statements

December 31, 2002 and 2001

(8) Contingencies

Under the terms of TARTA'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, 2002, there were no material questioned costs that had not been resolved with the FTA or ODOT. Questioned costs could still be identified during audits to be conducted in the future. Management of TARTA believes there will be no material adjustments to the grants and, accordingly, has not recorded a provision for possible repayments under the above grants.

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

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

	2002	2001
FTA operating assistance	\$ 550,000	480,000
FTA short-range planning and marketing	196,748	68,690
FTA non-capital improvement assistance	3,000,000	2,880,000
Total	\$ 3,746,748	3,428,690

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

	2002	2001
ODOT operating assistance	\$ 683,605	726,400
State fuel tax reimbursement	256,911	238,870
State elderly and handicapped	182,276	176,636
Total	\$ 1,122,792	1,141,906

(10) Operating Leases

TARTA has cancelable operating leases executed in one-year intervals for revenue vehicle tire utilization. Total rental expense for all operating leases amounted to approximately \$128,000 and \$121,000 for the years ended December 31, 2002 and 2001, respectively.

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**TOLEDO AREA REGIONAL
TRANSIT AUTHORITY (TARTA)**

OMB Circular A-133 Report

Year ended December 31, 2002

(With Independent Auditor's Report Thereon)

TOLEDO AREA REGIONAL TRANSIT AUTHORITY

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191 West Nationwide Boulevard
Suite 500
Columbus, OH 43215-2568

Telephone 614 249 2300
Fax 614 249 2348

Independent Auditors' Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

The Board of Trustees
Toledo Area Regional Transit Authority:

and

The Honorable Betty Montgomery
Auditor of State:

We have audited the financial statements of the Toledo Area Regional Transit Authority (TARTA) as of and for the year ended December 31, 2002, and have issued our report thereon dated March 28, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether TARTA's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management of the Authority in a separate letter dated March 28, 2003.

Internal Control over Financial Reporting

In planning and performing our audit, we considered TARTA's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the Authority in a separate letter dated March 28, 2003.

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

KPMG LLP

March 28, 2003



191 West Nationwide Boulevard
Suite 500
Columbus, OH 43215-2568

Telephone 614 249 2300
Fax 614 249 2348

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

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

and

The Honorable Betty Montgomery
Auditor of State:

Compliance

We have audited the compliance of Toledo Area Regional Transit Authority (TARTA) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended December 31, 2002. TARTA's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of TARTA's management. Our responsibility is to express an opinion on TARTA's compliance based on our audit.

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

In our opinion, TARTA complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2002.

Internal Control over Compliance

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

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

Schedule of Expenditures of Federal Awards

We have audited the financial statements of TARTA as of and for the year ended December 31, 2002, and have issued our report thereon dated March 28, 2003. Our audit was performed for the purpose of forming an opinion on the 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 financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

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

KPMG LLP

March 28, 2003

TOLEDO AREA REGIONAL TRANSIT AUTHORITY

Schedule of Expenditures of Federal Awards
Year ended December 31, 2002

U.S. Department of Transportation	CFDA number	Grant number	Federal grant award	Cash balance December 31, 2001	January 1 through December 31, 2002					Cash balance December 31, 2002	
					Federal grant receipts	Local share	Total received	Federal expenditures	Local expenditures		Total expenditures
Federal Transit Administration (FTA)											
Federal Transit Cluster:											
Received directly from FTA:											
Capital and planning	20.500	OH-90-0183	\$ 198,500	—	12,482	27,121	39,603	12,482	3,121	15,603	24,000
Capital assistance	20.500	OH-90-0344	7,507,700	—	—	—	—	—	—	—	—
Capital assistance	20.500	OH-90-0178	3,114,456	2,691	—	—	—	—	2,691	2,691	—
Capital assistance	20.500	OH-90-0300	1,945,600	—	53,695	—	53,695	53,695	—	53,695	—
Capital assistance	20.500	OH-90-0320	6,346,180	—	7,577	1,894	9,471	7,577	1,894	9,471	—
Capital assistance	20.500	OH-90-0279	2,364,000	—	638,360	2,702	641,062	638,360	—	638,360	2,702
Capital assistance	20.500	OH-90-0368	3,880,000	—	436,307	109,077	545,384	436,307	109,077	545,384	—
Capital assistance	20.500	OH-90-0196	2,033,690	—	36,232	9,058	45,341	36,232	9,058	45,290	51
Capital assistance	20.500	OH-90-0394	4,740,656	—	3,870,757	80,179	3,950,936	3,870,767	80,179	3,950,946	(10)
			\$ 32,130,782	2,691	5,055,461	230,031	5,285,492	5,055,420	206,020	5,261,440	26,743

See accompanying notes to Schedule of Expenditures of Federal Awards.

See accompanying independent auditors' report.

TOLEDO AREA REGIONAL TRANSIT AUTHORITY

Notes to Schedule of Expenditures of Federal Awards

Year ended December 31, 2002

(1) General

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

(2) Basis of Accounting

The accompanying Schedule of Expenditures of Federal Awards is presented using the cash basis of accounting.

(3) Relationship of Federal Financial Reports

Amounts reported in the accompanying Schedule of Expenditures of Federal Awards agree with the amounts reported in the related federal financial reports.

TOLEDO AREA REGIONAL TRANSIT AUTHORITY

Schedule of Findings and Questioned Costs

Year ended December 31, 2002

(1) Summary of Auditors' Results

- | | |
|--|--|
| (a) The type of report issued on the basic financial statements: | <i>Unqualified opinion</i> |
| (b) Reportable conditions in internal control were disclosed by the audit of the financial statements: | <i>None Reported</i> |
| Material weaknesses: | <i>None</i> |
| (c) Noncompliance which is material to the financial statements: | <i>None</i> |
| (d) Reportable conditions in internal control over major programs: | <i>None Reported</i> |
| Material weaknesses: | <i>None</i> |
| (e) The type of report issued on compliance for major program | <i>Unqualified opinion</i> |
| (f) Any audit findings which are required to be reported under Section 510(a) of OMB Circular A-133: | <i>None</i> |
| (g) Major program: | <i>Federal Transit Cluster
(CFDA # 20.500)</i> |
| (h) Dollar threshold used to distinguish between Type A and Type B programs: | <i>\$300,000</i> |
| (i) Auditee qualified as low-risk auditee under Section 530 of OMB Circular A-133: | <i>Yes</i> |

(2) Findings Relating to the Financial Statements Reported in Accordance with *Government Auditing Standards*

None.

(3) Findings and Questioned Costs Relating to Federal Awards

None.



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

TOLEDO AREA REGIONAL TRANSIT AUTHORITY

LUCAS COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
NOVEMBER 6, 2003**