PORTAGE AREA REGIONAL TRANSPORTATION AUTHORITY

AUDIT REPORT

For the year ended December 31, 2005

Charles E. Harris & Associates, Inc.
Certified Public Accountants and Government Consultants

Auditor of State
Betty Montgomery

Board of Trustees
Portage Area Regional Transportation Authority
2000 Summit Rd.
Kent, OH 44240

We have reviewed the *Report of Independent Accountants* of the Portage Area Regional Transportation Authority, Portage County, prepared by Charles E. Harris & Associates, Inc., for the audit period January 1, 2005 through December 31, 2005. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

July 10, 2006

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Portage Area Regional Transportation Authority
AUDIT REPORT
For the Year Ended December 31, 2005

TABLE OF CONTENTS

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Certified Public Accountants

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REPORT OF INDEPENDENT ACCOUNTANTS

Board of Directors
Portage Area Regional Transportation Authority
Kent, Ohio

We have audited the financial statements of the business-type activities of the Portage Area Regional Transportation Authority, Kent, Ohio (the Authority) as of and for the year ended December 31, 2005, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority, as of December 31, 2005, and the results of its operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management’s Discussion and Analysis is not a required part of the basic financial statements, but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, which consisted principally on 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.

In accordance with *Government Auditing Standards*, we have also issued a report dated April 5, 2006, on our consideration of the Authority' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

Charles E. Harris & Associates, Inc.
April 5, 2006

As management of the Portage Area Regional Transportation Authority ("Authority"), we offer readers of the Authority's basic financial statements this narrative overview and analysis of the financial activities of the Authority for the year ended December 31, 2005. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities and to identify any significant changes in financial position. We encourage readers to consider the information presented here in conjunction with the basic financial statements taken as a whole.

Overview of Financial Highlights

- The Authority has net assets of $6.6 million. These net assets result from the difference between total assets of $6.9 million and total liabilities of $318,408.

- Current assets of $1.5 million primarily consist of non-restricted Cash and Cash Equivalents of $788,491; Sales Tax receivable of $512,620; and Inventory of $185,778.

- Restricted assets of $528,218 consist of State capital assistance receivable, and special deposits for capital projects.

- Current liabilities of $318,408 primarily consist of Accounts payable of $108,445; and accrued payroll expenses of $204,833.

Basic Financial Statements and Presentation

This annual report includes the basic financial statements and accompanying notes prepared in accordance with the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments.

The financial statements presented by the Authority are the Balance Sheet, the Statement of Revenues, Expenses, and Changes in Net Assets and the Statement of Cash Flows. These statements are presented using the economic resources measurement focus and the accrual basis of accounting. The Authority is structured as a single enterprise fund with revenues recognized when earned and measurable, not when received. Expenses are recognized when they are incurred, not when paid. Capital assets are capitalized and depreciated, except land, over their estimated useful lives.

Basic Financial Statements and Presentation (Cont'd)

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

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

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

Notes to the Financial Statements

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

Financial Analysis of the Authority

Condensed Summary of Net Assets

	2005	2004
Current Assets	$1,513,360	$1,189,369
Restricted Assets	$ 528,218	$ 18,056
Capital Assets, net	$4,925,226	$4,775,365
Total Assets	$6,966,804	$5,982,790
Current Liabilities	$ 318,408	$ 236,064
Total Liabilities	$ 318,408	$ 236,064
Net Assets: Invested in Capital Assets, Net of Related Debt	$4,925,226	$4,775,365
Restricted for Capital Assets	$ 528,218	$ 18,056
Unrestricted	$1,194,952	$ 953,305
Total Net Assets	$6,648,396	$5,746,726

The largest portion of the Authority's net assets reflects investment in capital assets consisting of buses, operating facilities and equipment, less any related debt used to acquire any of those assets still outstanding. The Authority uses these capital assets to provide public transportation services for Portage County citizens. These assets are not available to liquidate liabilities or to cover other spending.

Condensed Summary of Revenues, Expenses, and Changes in Net Assets

	2005	2004
Operating Revenues (Expenses)		
Operating Revenues	$ 2,574,396	$ 1,660,353
Operating Expenses, excluding depreciation	(5,804,612)	(5,029,767)
Depreciation Expense	(831,983)	(1,250,328)
Operating Loss	$(4,062,199)	$(4,619,742)
Non-Operating Revenues		
Federal Grants and Reimbursements	$ 397,000	$ 334,756
State Grants, Reimbursements and Special Fare Assistance	229,864	186,047
Local Grants and reimbursements	11,235	4,958
Sales Tax Revenues	3,447,431	3,424,386
Interest Income	20,065	4,758
Other Income	40,150	74,641
Total Non-Operating Revenues	$ 4,145,745	$ 4,029,546
Capital Contributions	$ 818,126	$ 750,456
Increase in Net Assets During the Year	$ 901,670	$ 160,260
Net Assets, Beginning of Year	5,746,726	5,586,466
Net Assets, End of Year	$ 6,648,396	$ 5,746,726

The Authority's operating revenues overall increased $0.91 million to $2.57 million in 2005. This 55% increase resulted from an entire year of operating the Kent State University on-campus transportation. The on-campus service began July, 2004. There was also a 27% decrease in ticket sales due to the termination of Geauga Lake service and the closing of two TOPS grocery stores (*PARTA* tickets are sold at TOPS). In addition there was an accounting change in 2005 to report Kent State and agency revenues as operating revenues. Previously this was reported as non-operating revenues; 2004 figures have been modified to show this change. Operating Expenses, excluding depreciation, increased by $.77 million, or 15%. This is partly due to inflation and the increase in fuel prices. Depreciation expense decreased by $.43 million over 2005. There were slight increases in Non-operating revenues and Capital contributions.

Financial Analysis of the Authority

Revenues

For purposes of this presentation, the Authority groups its revenues into the following categories:

Passenger Fares – Farebox fares and ticket sales are included here. The overall decrease over the previous year is due to the termination of the Geauga Lake shuttle service. In addition, two Tops Grocery stores, which sold *PARTA* tickets, went out of business.

Federal Grants and Reimbursements – The Authority received $397,000 in capitalized maintenance to cover certain preventive maintenance costs incurred.

State Grants and Reimbursements – The Ohio Department of Transportation allocates grants for elderly and disabled programs. The Authority's allocation decreased to $79,000 for 2005 which reflects the decline in available state funds. This category also includes $71,559 for reimbursement for state fuel taxes paid by the Authority, and $79,200 for certain preventive maintenance costs incurred.

Local Grants and Reimbursements – The Authority received approximately $2.4 million in local grants and agency contracts to provide transportation in Portage County. This primarily consists of $1.9 million from Kent State University, and $.46 million from Portage County Social Service Agencies. PARTA received $11,235 in the form of a local grant from the county to aid in a snow removal program for senior citizens in Portage County.

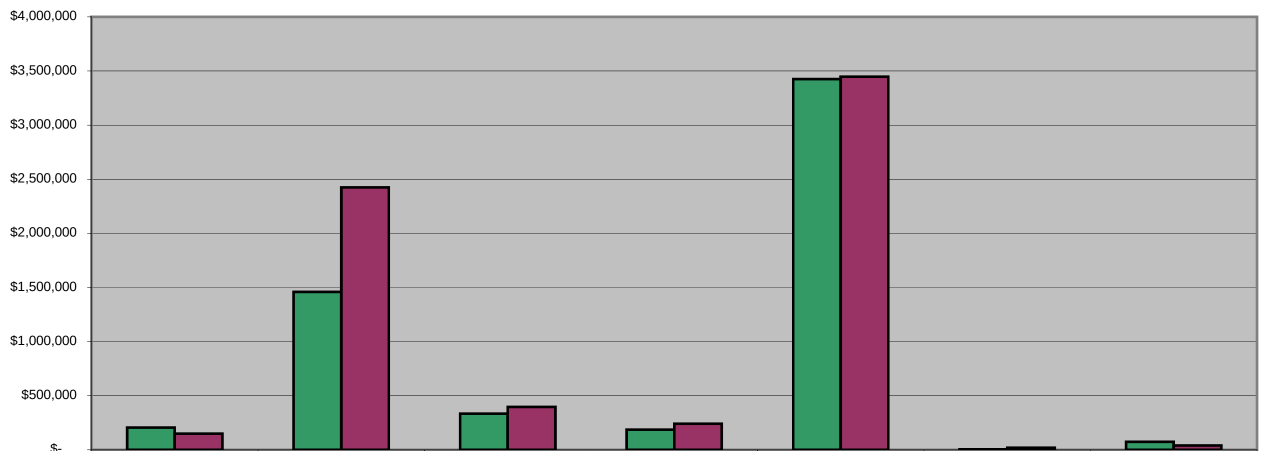
Sales Tax Revenues – .25 mills is levied against Portage County sales tax, and in 2005 *PARTA* renewed the levy to be permanent. For 2005, Sales Tax Revenues increased .67% and generated approximately 51.3% of the Authority's revenue (excluding capital contributions).

Interest Income – Interest income from Star Ohio is reported here and increased 322% from 2004 to 2005.

Other Income – This category summarizes miscellaneous income and revenue from various sources such as advertising, insurance, or special events.

Financial Analysis of the Authority (cont.)

2004 & 2005 REVENUES



	Passenger fares for transit service	Contract services	Federal grants and reimbursements	State grants, and special fare assistance	Sales tax	Interest Income	Other
2004	$206,224	$1,459,087	$334,756	$186,047	$3,424,386	$4,758	$74,641
2005	$149,558	$2,424,838	$397,000	$241,098	$3,447,431	$20,064	$40,150

Expenses

Labor and Fringe Benefits These personnel costs accounted for approximately 71% of all the Authority operating expenses (excluding depreciation) in 2005. There was a 15.4% increase in this category is primarily due to an increase in personnel, staff wage increases and employer paid taxes including OPERS, health insurance and worker's compensation.

Services These are expenses associated with work performed by outside consultants such as advertising, legal fees, custodial, training, employee background checks, and drug testing. The expenses slightly increased from 2004 to 2005 as a result of an aging bus fleet and required testing for new employees.

Fuel & Lubricants Fuel and lubricant expenses increased approximately $214,400 (71.5%). This is a direct result of the national increase in fuel costs, and an additional 250,000 revenue miles in 2005.

Materials and Supplies There was a slight decrease in these costs which is contributed to the new tire lease agreement. additional uniforms for drivers and mechanics, and additional office supplies (i.e. copier paper and printer cartridges).

Utilities These expenses include public utilities (i.e. gas, electric, phone, sewer, water), as well as satellite and cell phone. As our staff continues to increase, the amount of time the building is utilized (evenings & weekends) causes our utility expenses to increase.

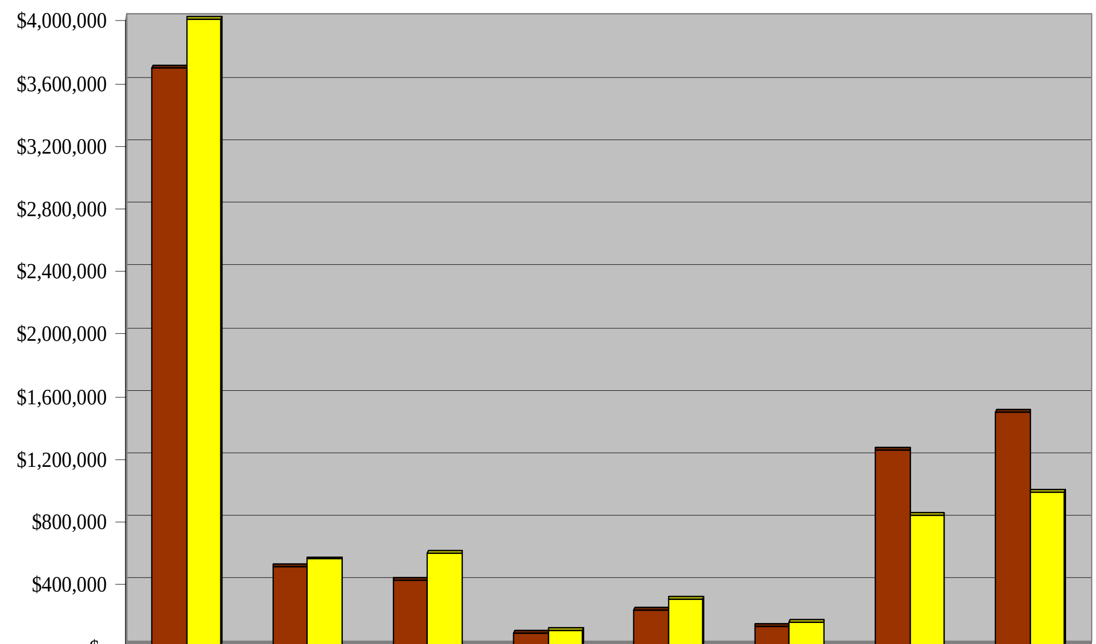
Financial Analysis of the Authority (cont.)

Casualty and Liability *PARTA* belongs to an insurance pool of 11 transit agencies and premiums are based on an annual actuarial study done by the Ohio Transit Risk Pool. The cost for insurance increased 33% as expected in 2005. In addition, as *PARTA* continues to grow and the cost for coverage continues to increase, our expenses will also continue to increase.

Miscellaneous Following our growth trend, there were increases in dues and subscriptions, travel & meetings, and advertising & promotions.

Depreciation This category includes depreciation on all capital assets, except land.

2004 & 2005 Expenses



	Labor and Fringe Benefits	Services	Fuel, materials and supplies	Utilities	Casualty and Liability	Miscellaneous	Depreciation	Capital
2004	$3,690,055	$499,383	$413,263	$81,969	$223,933	$121,164	$1,250,328	$1,491,524
2005	$4,122,292	$550,222	$590,197	$94,609	$298,138	$149,154	$831,983	$981,844

Operations These are expenses directly related to the operation of revenue vehicles. Included are wages and fringe benefits of operators, dispatchers, customer service, as well as diesel fuel and security costs.

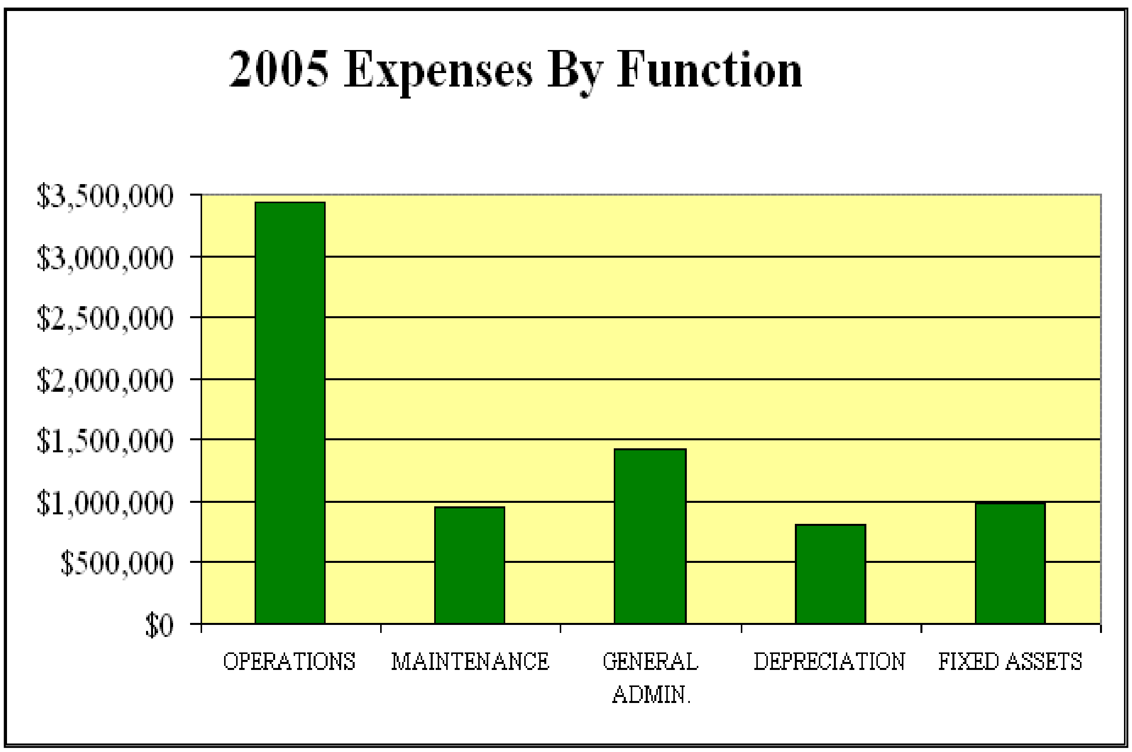
Maintenance Vehicle and facility maintenance labor costs, fringe benefits, and materials and supplies are included in this category.

Financial Analysis of the Authority (cont.)

General Administration   Administrative personnel labor and fringe benefits are included in this category, as well as public liability and property damage insurance, professional services, advertising fees and office supplies.

2005 EXPENSE BY FUNCTION

OPERATIONS	$3,435,452	45.1%
MAINTENANCE	$946,326	12.4%
GENERAL ADMIN.	$1,422,834	18.7%
DEPRECIATION	$831,983	10.9%
FIXED ASSETS	$981,844	12.9%
TOTAL	$7,618,439	100.0%



Condensed Summary of Cash Flows

Net cash used for operating activities decreased as a result of increased payments to employees. In addition, in 2005 there was a reclassification Kent State and agency revenues from non-operating to operating activities. This also affected the Net cash provided by non-capital financing activities. Net cash used in capital and relating financing activities decreased as a result of a decrease in 2005 capital projects. Net cash provided by investing activities increased due to a climb in interest rates. Closing Cash & Cash Equivalents increased as a result of an increase in restricted funds. Two projects (AVL Communications System and bus purchases) planned in 2005 were not completed by the end of the year.

CASH FLOWS FROM OPERATING ACTIVITIES:	2005	2004
Cash Received from customers	$ 2,593,437	$ 206,224
Cash payments to suppliers for goods and services	(4,094,962)	(1,585,167)
Cash payments to employees for services	(1,709,339)	(3,690,320)
Net cash used in operating activities	(3,210,864)	(5,069,263)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Sales taxes received	3,512,344	3,408,033
Operating grants received	643,703	1,953,387
Other	145,721	74,641
Net cash provided by non-capital financing activities	4,301,464	5,436,061
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Capital grants received	803,406	457,166
Acquisition of fixed assets	(981,844)	(1,215,685)
Net cash used in capital and related financing activities	(178,438)	(758,519)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest received from investments	20,064	4,758
Net cash provided by capital and related financing activities	20,064	4,758
NET DECREASE IN CASH AND CASH EQUIVALENTS	932,530	(386,963)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	381,041	768,004
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 1,313,571	$ 381,041

Capital Assets

The Authority's investment in capital assets amounts to approximately $4.93 million, net of accumulated depreciation as of December 31, 2005, an increase of $.15 million (3.1%). Capital assets include land and land improvements, revenue producing and service equipment, buildings and structures, shop equipment, office furnishings, and computer equipment. The Authority disposed of capital equipment, which had reached its useful life, in the amount of $323,845. Major capital asset expenditures during the current fiscal year included the purchase of replacement vehicles and bus equipment, totaling $.8 million.

Request for Information

This financial report is designed to provide a general overview of the Authority's finances for those with an interest in its finances. Questions concerning any of the information in this report or request for additional financial information should be addressed to the Secretary-Treasurer, Portage Area Regional Transportation Authority, 2000 Summit Rd., Kent, OH 44240.

PORTAGE AREA REGIONAL TRANSPORTATION AUTHORITY
STATEMENT OF NET ASSETS
DECEMBER 31, 2005

ASSETS		
Current Assets		
Cash and Cash Equivalents	$	788,491
Receivables:		
Accounts		13,781
Operating Grants		12,371
Accrued Sales Tax		512,620
Prepaid Expenses		319
Materials & Supplies Inventory		185,778
Total Current Assets		1,513,360
Restricted Assets		
State Capital Assistance Receivable		3,138
Restricted Cash		525,080
Total Restricted Assets		528,218
Capital Assets (Net of Accumulated Depreciation)		4,925,226
TOTAL ASSETS	$	6,966,804
LIABILITIES		
Accounts Payable	$	108,445
Sales Tax Fees Payable		5,128
Accrued Payroll		155,720
Unearned Revenue		49,115
Total Liabilities	$	318,408
NET ASSETS		
Invested in Capital Assets	$	4,925,226
Restricted For Capital Assets		528,218
Unrestricted		1,194,952
TOTAL NET ASSETS	$	6,648,396

The notes to the financial statements are an integral part of these statements.

PORTAGE AREA REGIONAL TRANSPORTATION AUTHORITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2005

OPERATING REVENUES:		
Contract Services	$	2,424,838
Passenger Fares for Transit Services		149,558
TOTAL OPERATING REVENUES		2,574,396
OPERATING EXPENSES:		
Labor and Fringe Benefits		4,122,292
Services		550,222
Fuel, Materials and Supplies		590,197
Utilities		94,609
Casualty and Liability Insurance		298,138
Miscellaneous		149,154
Depreciation		831,983
TOTAL OPERATING EXPENSES		6,636,595
Operating Income (Loss)		(4,062,199)
NON-OPERATING REVENUES:		
Federal Grants and Reimbursements		397,000
State Grants, Reimbursements and Special Fare Assistance		241,098
Sales Tax		3,447,431
Interest Income		20,064
Other		40,150
TOTAL NON-OPERATING REVENUES		4,145,743
Net Income (Loss) Before Capital Contributions		83,544
Capital Contributions		818,126
Changes in Net Assets		901,670
Net Assets (Deficit) Beginning of Year		5,746,726
Net Assets (Deficit) End of Year	$	6,648,396

The notes to the financial statements are an integral part of these statements.

PORTAGE AREA REGIONAL TRANSPORTATION AUTHORITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2005

Increase (Decrease) in Cash and Cash Equivalents	
Cash Flows from Operating Activities	
Cash Received from Customers	$ 2,593,437
Cash Payments to Employees for Services	(4,094,962)
Cash Payments for Goods and Services	(1,709,339)
Net Cash Provided by (Used in) Operating Activities	(3,210,864)
Cash Flows from Noncapital Financing Activities	
Sales Taxes Received	3,512,344
Operating Grants Received	643,703
Other	145,721
Net Cash Provided by (Use by) Noncapital Financing Activities	4,301,768
Cash Flows from Capital Financing Activities	
Capital Grants Received	803,406
Acquisition of Capital Assets	(981,844)
Net Cash Provided by (Used by) Capital Financing Activities	(178,438)
Cash Flows from Investing Activities	
Interest on Investments	20,064
Net Cash Provided by (Used by) Investing Activities	20,064
Net Increase (Decrease) in Cash and Cash Equivalents	932,530
Cash and Cash Equivalents Beginning of Year	381,041
Cash and Cash Equivalents End of Year	$ 1,313,571
Reconciliation of Operating Loss to Net Cash Provided by (Used in) Operating Activities	
Operating Income (Loss)	$ (4,062,199)
Adjustments:	
Depreciation	831,983
(Increase) Decrease in Assets:	
Accounts Receivable	19,040
Prepaid Expenses	(319)
Materials & Supplies Inventory	(32,598)
Increase (Decrease) in Liabilities:	
Accounts Payable	771
Sales Tax Fees Payable	5,128
Accrued Wages and Benefits	27,330
Total Adjustments	851,335
Net Cash Provided by (Used in) Operating Activities	$ (3,210,864)

The notes to the financial statements are an integral part of these statements.

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

A. ORGANIZATION

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

Through May 1993, Portage Area Regional Transportation Authority acted as a pass-through agency to the Kent State University Campus Bus Service, which operated virtually all mass transportation service for the Kent/Ravenna area. In 1993, the Authority commenced directly providing fixed route and demand responsive service in the Kent/Ravenna area. The Federal Transportation Administration and the Ohio Department of Transportation provide financial assistance and makes grants directly to the Authority for operations and acquisition of property and equipment.

Under Ohio law, the Authority is authorized to levy a sale and use tax for transit purposes, including both capital improvement and operating expenses, at the rate of .25 percent, .5 percent, 1 percent, or 1.5 percent if approved by a majority of the electors residing within the territorial boundaries of the Authority. Such a sales and use tax is in addition to the sales and use taxes levied by the State of Ohio and Portage County. During 2001, the voters of Portage County passed a sales and use tax levy of one quarter of one percent (0.25%) for five years on November 6, 2001. Revenues from this sales and use tax levy became effective February 1, 2002.

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

B. REPORTING ENTITY

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

C. BASIS OF ACCOUNTING

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

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

D. CASH AND CASH EQUIVALENTS

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

E. PROPERTY, FACILITIES AND EQUIPMENT

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

Depreciation is computed using the straight-line method over the estimated useful lives of the individual assets (4 to 40 years).

F. MATERIALS AND SUPPLIES

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

G. ACCUMULATED UNPAID VACATION AND PERSONAL LEAVE

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

H. GRANTS

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

I. <u>BUDGETARY ACCOUNTING CONTROL</u>

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

J. <u>USE OF ESTIMATES</u>

The accounting and reporting policies of Portage RTA conform to accounting principles generally accepted in the United States of America (GAAP). The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

K. <u>NET ASSETS</u>

Equity is displayed in three components as follows:

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

Restricted – This consists of net assets that are legally restricted by outside parties or by law through constitutional provisions or enabling legislation. The Authority has restricted net assets, for capital assets, at December 31, 2005.

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

L. <u>NONEXCHANGE TRANSACTIONS</u>

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

2. CASH AND INVESTMENTS

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

The investment and deposit of Authority monies are governed by the provisions of the Ohio Revised Code. In accordance with these statutes, only banks located in Ohio and domestic building and loan associations are eligible to hold public deposits. The statutes also permit the Authority to invest its monies in certificates of deposit, commercial paper, savings accounts, money market accounts, the State Treasurer's Asset Reserve investment pool (STAR Ohio) and obligations of the United States government or certain agencies thereof. The Authority may also enter into repurchase agreements with any eligible depository or any eligible dealer who is a member of the National Association of Securities Dealers for a period not exceeding thirty days. The Authority is prohibited from investing in any financial instrument, contract, or obligation whose value or return is based upon or linked to another asset or index, or both, separate from the financial instrument, contract, or obligation itself (commonly known as a derivative). The Authority is also prohibited from investing in reverse repurchase agreements.

Custodial Credit Risk is the risk that, in the event of a bank failure, the Authority's deposits may not be returned. Public depositories must give security for all public funds on deposit. These institutions may either specifically collateralize individual accounts in lieu of amounts insured by the Federal Deposit Insurance Corporation (FDIC), or may pledge a pool of government securities valued at least 105% of the total value of public monies on deposit at the institution. Repurchase agreements must be secured by the specific government securities upon which the repurchase agreements are based. These securities must be obligations of or guaranteed by the United States and must mature or be redeemable within five years of the date of the related repurchase agreement. The market value of the securities, subject to a repurchase agreement, must exceed the value of the principal by 2% and be marked to market daily.

Deposits: At fiscal year end, the carrying amount of the Authority's deposits (excluding change funds of $200) was $218,791 and the bank balance was $250,935. Of the bank balance, $100,000 was covered by federal depository insurance and $150,935 was uninsured, but collateralized with securities held by the pledging financial institution's trust department or agent not in the Authority's name.

Investments:

Interest Rate Risk- The Ohio Revised Code generally limits security purchases to those that mature within five years of the settlement date. It is the Authority's policy to evaluate market conditions, interest rate forecasts, and cash flow requirements to consider the term of an investment, with the goal being to buy where relative value exists along the maturity spectrum.

Credit Risk- The Authority invested in STAR Ohio, with a year ending balance of $569,500. This is rated AAA by Moodys. STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price, which is the price the investment could be sold for on December 31, 2004. These investments are not categorized because they are not evidenced by securities that exist in physical or book entry form.

Concentration of Credit Risk- The Authoritys' investment policy is to be diversified in its holding of investments by avoiding concentrations of specific users. During the year, the Authoritys' investments were in STAR Ohio. These investments were secured within pledged collateral held and in the name of the pledging institution, in which the investments are held.

Interest revenue during fiscal year 2005 amounted to $20,064.

3. DEFINED BENEFIT PENSION PLAN

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

The Ohio Public Employees Retirement System (OPERS) is a cost-sharing multiple-employer defined benefit pension plan. OPERS provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report. Interested parties may obtain a copy by making a written request to 277 East Town Street, Columbus, Ohio 43215-4642.

The Ohio Revised Code provides statutory authority for employee and employer contributions. The employee contribution rates are 8.5% of covered payroll for employees. For local government employer units the rate was 13.55% of covered payroll. The Authority’s contributions for the years ending December 31, 2005, 2004, and 2003 were $303,266, $272,653, and $161,136, respectively, equal to the required contributions for each year.

4. POSTEMPLOYMENT BENEFITS

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability recipients and primary survivor recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. The health care coverage provided by OPERS is considered an Other Postemployment Benefit (OPB) as described in GASB Statement No. 12, “Disclosure of Information on Postemployment Benefits Other Than Pension Benefits by State and Local Governmental Employers”. A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2005 employer contribution rate was 13.55 percent of covered payroll; 4.00 percent was the portion used to fund health care.

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

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

Actual employer contributions for 2005 which were used to fund postemployment benefits were $213,741. The actual contribution and the actuarial required contribution amounts are the same. OPERS's net assets available for the payment of benefits at December 31, 2004 (the latest information available), was $10.8 billion. The actuarial accrued liability and the unfunded actuarial accrued liability were $29.5 billion and $18.7 billion, respectively. The number of active contributing participants in the traditional and combined plans was 376,109.

In September 2005, the OPERS Retirement Board adopted the Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. The HCPP restructures OPERS' health care coverage to improve the financial solvency of the fund in response to skyrocketing health care costs. Under the HCPP, retirees eligible for health care coverage will receive a graded monthly allocation based on their years of service at retirement. The Plan incorporates a cafeteria approach, offering a broad range of health care options that allow benefit recipients to use their monthly allocation to purchase health care coverage customized to meet their individual needs. If the monthly allocation exceeds the cost of the options selected, the excess is deposited into a Retiree Medical Account that can be used to fund future health care expenses.

5. Other Employee Benefits

Compensated Absences - Employees of the Authority earn vacation and sick leave at various rates under the Authority policy. In case of death, termination or retirement, an employee (or his estate) is paid for portions of these benefits. The Authority records a liability for vacation, holiday and sick hours earned but not used at year-end at the employee's current wage rate. The Authority's obligation for this amount at December 31, 2005 was $91,769.

6. DEBT

The Authority had no debt at year-end December 31, 2005.

7. RISK MANAGEMENT

The Authority is a member of the Ohio Transit Risk Pool (OTRP), formerly the Ohio Transit Insurance Pool (OTIP), a self-insurance pool created under Chapter 2744 of the Ohio Revised Code. Under this plan, the Authority receives property and casualty loss coverage in exchange for premiums paid. OTRP self-insures the first $250,000 of any qualified property loss and the first $1,000,000 of any qualified casualty loss subject to a $1,000 per loss deductible. Per occurrence, reinsurance coverage is maintained by OTRP equal to approximately $200,000,000 for qualified property losses and $7,500,000 for qualified casualty losses. Any underfunding of the plan's liabilities is shared pro-rata by the members based on pool contribution factors comprised of: population, full-time employees, vehicles, property values, budget, claims history times two and net operating expenses. The Authority continues to carry commercial insurance for all other risks of loss, including workers' compensation and employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years. The Authority has the following insurance coverage: Comprehensive General Liability, Automobile Liability, Errors and Omissions, and Employee Benefits Liability. There has not been a reduction in coverage from the prior year and claims have not exceeded the coverage in any of the past three years. The Authority pays the State Worker's Compensation System a premium based on a rate per $100 of salaries.

8. PROPERTY, FACILITIES AND EQUIPMENT

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

Description	Balance January 1, 2005	Additions	Deletions	Balance December 31, 2005
Capital assets not being depreciated:				
Land	$ 160,000	-	-	$ 160,000
Capital assets being depreciated:				
Building and building improvements	4,345,353	$ 32,980	-	4,378,333
Transportation equipment	3,772,550	930,528	$ (323,845)	4,379,233
Computers and software	337,161	18,336	-	355,497
Other equipment	197,742	-	-	197,742
Total capital assets being depreciated	8,652,806	981,844	(323,845)	9,310,805
Less accumulated depreciation				
Building and building improvements	(1,186,994)	(191,271)	-	(1,378,265)
Transportation equipment	(2,499,239)	(579,785)	323,845	(2,755,179)
Computers and software	(250,400)	(32,895)	-	(283,295)
Other equipment	(100,808)	(28,032)	-	(128,840)
Total accumulated depreciation	(4,037,441)	(831,983)	323,845	(4,545,579)
Total capital assets being depreciated, net	4,615,365	149,861	-	4,765,226
Total capital asset, net	$ 4,775,365	$ 149,861	$ -	$ 4,925,226

9. CONTINGENCIES

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

10. SUBSEQUENT EVENTS/PENDING LITIGATION

Management believes there are no pending claims or lawsuits.

Portage Area RegionalTransit Authority

Schedule of Federal Awards Expenditures

For the Year Ended December 31, 2005

Federal Grantor/Pass Through Grantor Program Title	Grant Number	CFDA Number	Program Expenditures
U.S. Department of Transportation			
Passed Through The Ohio Department of Transportation:			
Federal Transit Administration			
Federal Transit Cluster			
Capital Assistance Formula Grants	OH-90-X236	20.500	$ 7,312
	OH-90-X243	20.500	213,333
	OH-90-X273	20.500	31,462
	OH-90-X464	20.500	533,867
	OH-90-X495	20.500	2,514
Total Capital Assistance Formula Grants			788,488
Operating Assistance Formula Grants	OH-90-X495	20.507	397,000
Total Operating Assistance Formula Grants			397,000
Total Ohio Department of Transportation			1,185,488
Total U.S. Department of Transportation			1,185,488
Total Federal Financial Assistance			$ 1,185,488

See accompanying Notes to the Schedule of Federal Awards Expenditures

1. <u>General</u>

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

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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*

Board of Directors
Portage Area Regional Transportation Authority
Kent, Ohio

We have audited the financial statements of the Portage Area Regional Transportation Authority, Kent, Ohio (the Authority) as of and for the year ended December 31, 2005, and have issued our report thereon dated April 5, 2006. 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 in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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

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

Charles E. Harris & Associates, Inc.
April 5, 2006

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

Board of Directors
Portage Area Regional Transportation Authority
Kent, Ohio

Compliance

We have audited the compliance of the Portage Area Regional Transportation Authority, Kent, Ohio (the Authority) with the types of compliance requirements described in *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended December 31, 2005. The Authority's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the Authority's management. Our responsibility is to express an opinion on the Authority's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major 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 its major federal program for the year ended December 31, 2005.

Internal Control Over Compliance

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

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

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

Charles E. Harris & Associates, Inc.
April 5, 2006

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 SECTION .505

PORTAGE AREA REGIONAL TRANSPORTATION AUTHORITY
PORTAGE COUNTY
DECEMBER 31, 2005

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	*Type of Financial Statement Opinion*	Unqualified
(d)(1)(ii)	*Were there any material control weakness conditions reported at the financial statement level (GAGAS)?*	No
(d)(1)(ii)	*Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?*	No
(d)(1)(iii)	*Was there any reported material non-compliance at the financial statement level (GAGAS)?*	No
(d)(1)(iv)	*Were there any material internal control weakness conditions reported for major federal programs?*	No
(d)(1)(iv)	*Were there any other reportable internal control weakness conditions reported for major federal programs?*	No
(d)(1)(v)	*Type of Major Programs' Compliance Opinion*	Unqualified
(d)(1)(vi)	*Are there any reportable findings under Section .510*	No
(d)(1)(vii)	*Major Programs:*	Federal Transit Administration Cluster: Capital Assistance Grant CFDA# 20.500 Operating Assistance Grant CFDA# 20.507
(d)(1)(viii)	*Dollar Threshold: Type A\B Programs*	Type A: > $300,000 Type B: all others
(d)(1)(ix)	*Low Risk Auditee?*	Yes

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (continued)
OMB CIRCULAR A-133 SECTION .505

PORTAGE AREA REGIONAL TRANSPORTATION AUTHORITY
PORTAGE COUNTY
DECEMBER 31, 2005

2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

None.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None.

STATUS OF PRIOR AUDIT'S CITATIONS AND RECOMMENDATIONS

The prior audit report, as of December 31, 2004, reported no material citations or recommendations.

Auditor of State
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PORTAGE AREA REGIONAL TRANSPORTATION AUTHORITY

PORTAGE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
JULY 20, 2006