TOLEDO AREA REGIONAL TRANSIT AUTHORITY
Toledo, Ohio

FINANCIAL STATEMENTS
December 31, 2005 and 2004

Auditor of State
Betty Montgomery

Board of Trustees
Toledo Area Regional Transit Authority
1127 West Central Avenue
Toledo, Ohio 43695

We have reviewed the *Independent Auditor's Report* of the Toledo Area Regional Transit Authority, Lucas County, prepared by Clifton Gunderson LLP, for the audit period January 1, 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 Toledo Area Regional Transit Authority is responsible for compliance with these laws and regulations.

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

August 7, 2006

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Clifton Gunderson LLP
Certified Public Accountants & Consultants

Independent Auditor's Report

Board of Trustees
Toledo Area Regional Transit Authority
Toledo, Ohio

We have audited the accompanying balance sheet of the Toledo Area Regional Transit Authority (the Authority) as of December 31, 2005, and the related statements of revenues, expenses and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Toledo Area Regional Transit Authority as of December 31, 2004 were audited by other auditors whose report dated April 29, 2005, expressed an unqualified opinion on those financial statements.

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 its cash flows for the year 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 May 1, 2006 on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Clifton Gunderson LLP

Toledo, Ohio
May 1, 2006

TOLEDO AREA REGIONAL TRANSIT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2005 and 2004

As financial management of the Toledo Area Regional Transit Authority (the Authority), we offer readers of these financial statements this narrative overview and analysis of the financial activities of the Authority for the fiscal years ended December 31, 2005 and 2004. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities and to identify any significant changes in the financial position. We encourage readers to consider the information presented here in conjunction with the financial statements as a whole.

Financial Highlights in 2005

- The Authority's total net assets decreased $1.9 million, or 5.6%, over the course of the year's operations. This decrease is primarily the result of an increase in the operating loss in 2005 over the prior year.
- The Authority's operation expenses, excluding depreciation, in 2005 were $1.9 million higher than in 2004. Maintenance expenses increased $1,020,000, or 28%, in order to maintain older buses in the fleet that are beyond retirement years. Fuel in 2005 was $581,000, or 37%, over 2004 resulting from the escalation of fuel prices. These increases were offset by a decrease in fringe benefits cost of $313,000, or 7%.
- Operating revenues for the Authority of $5.3 million in 2005 were up $168,000, or 3.3%, over 2004.
- Property tax revenues of $14.7 million (2.5 mils) were very comparable to 2004. This tax represents 58% of all revenues received and will vary little until a levy is replaced.
- Total funding from the State of Ohio decreased by $89,000, or 9%, as budgetary restraints of the State resulted in general cuts in all transit funding throughout the State.
- The Authority provided no charter services in 2005 in accordance with current federal regulations.

Financial Highlights 2004

- The Authority's total net assets decreased $2.9 million, or 8.0%, over the course of the year's operations. This decrease is primarily the result of depreciation expense in excess of capital asset acquisitions that were funded through capital contributions (grant revenue) during the year.
- The Authority's operation expenses, excluding depreciation, in 2004 were only $449,000 higher than in 2003. Labor increases of $681,000 and an increase in fringe benefit costs of $323,000 were offset by a decrease in materials and supplies resulting from a lower cost for repair parts for revenue vehicles in the amount of $703,000 after the "catch-up" in preventive maintenance in 2003.
- Operation revenues for the Authority were $5.1 million for fiscal year 2004 and were comparable to fiscal year 2003.
- Property tax revenues of $14.6 million (2.5 mils) were very comparable to 2003. This tax represents 58% of all revenues received and will vary little until a levy is replaced.

Financial Highlights 2004, Continued

- Total funding from the State of Ohio decreased $196,000, or 17%, as budgetary restraints of the State resulted in all transit properties being cut in both operating and capital funding.

- Charter services revenues decreased 68% from 2003. The Authority no longer provides regular charter service within the district except in those instances where local private operations do not have the equipment capacity to handle large movements.

Overview of the Financial Statements

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

Required Financial Statements

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

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

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

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

Notes to Financial Statements

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

Financial Analysis of the Authority

One of the most important questions asked about the Authority's finances is "Is the Authority as a whole better off or worse off as a result of this year's activities?" The balance sheet and the statement of revenues, expenses and changes in net assets report information about the Authority's activities in a way that will help answer this question. Over time, increases or decreases in the Authority's net assets are one indicator of whether its financial health is improving or deteriorating. However, one will need to consider other non-financial factors such as changes in economic conditions, population decline or growth and new or changed governmental legislation.

Regional Transit Authority's Net Assets

	2005	2004
ASSETS		
Current assets	$ 21,916,832	$ 24,688,500
Restricted assets	26,690	26,690
Long-term investments	1,192,814	1,172,621
Capital assets, net	25,212,018	24,291,734
Total assets	48,348,354	50,179,545
LIABILITIES		
Current liabilities	2,164,932	2,117,696
Property taxes	14,250,000	14,250,000
Other deferred revenue	144,036	141,803
Total liabilities	16,558,968	16,509,499
NET ASSETS		
Invested in capital assets	25,212,018	24,291,734
Unrestricted	6,577,368	9,378,312
Total net assets	$ 31,789,386	$ 33,670,046

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

Year Ending December 31, 2005

Investment in capital assets increased to $25.2 million in 2005 from $24.3 million in 2004, or 3.8%. This increase was the result of capital asset acquisitions that were funded through capital contributions (grant revenues) in excess of depreciation expense.

Financial Analysis of the Authority, Continued

Year Ended December 31, 2004

Investment in net capital assets decreased to $24.3 million in 2004 down from $26.5 million in 2003. The 8.4% decrease was the result of depreciation expense in excess of capital asset acquisitions that were funded through capital contributions (grant revenue) during the year.

Change in Net Asset

	2005	2004
Operating revenues	$ 5,250,478	$ 5,082,788
Operating expenses, excluding depreciation	(27,237,428)	(25,289,122)
Depreciation expense	(3,409,687)	(3,746,201)
Operating loss	(25,396,637)	(23,952,535)
Nonoperating revenues:		
Property taxes	14,678,003	14,635,296
Federal operating and preventive maintenance grants	4,318,408	4,158,394
State operating and preventive maintenance grants	735,900	821,348
State special fare assistance	116,758	120,259
Investment income	186,872	292,591
Other	641	18,344
Nonoperating revenues	20,036,582	20,046,232
Capital contributions	3,479,395	963,949
Decrease in net assets	(1,880,660)	(2,942,354)
Net assets:		
Beginning of year	33,670,046	36,612,400
End of year	$ 31,789,386	$ 33,670,046

Year Ended December 31, 2005

The Authority's operating revenues for 2005 were up $167,700 over 2004, or 3.3%. Ridership on line service of 4.7 million was up 4.2% over 2004, but miles of service of 4.5 million decreased 7.7% from the prior year. Revenues from contract service to the Toledo Public Schools increased 2.1%. There were no charter revenues in 2005 compared to $87,400 of such revenues in 2004. Operating expenses, excluding depreciation, increased by $1.9 million, or 7.7%, from 2004 primarily from increased repair costs on older revenue equipment and the escalation of fuel prices. The 2005 nonoperating revenues of $20.0 million were just slightly under such revenues in 2004.

Financial Analysis of the Authority, Continued

Capital Contributions

Capital contributions from federal and state agencies in 2005 were $3,479,000, an increase from 2004 of $2,515,000. In 2005, the Authority purchased 26 air conditioned, low floor, lift equipped, diesel transit buses at a total cost of $3,512,000, and also expended $225,300 on a new bio-diesel fueling station.

Year Ended December 31, 2004

The Authority's operating revenues for the years 2004 and 2003 were comparable. Ridership on line service of 4.5 million was comparable to 2003, but miles of service of 4.8 million increased 4.4% from the prior year. Revenues from contract service for the Toledo Public Schools increased 1.6%, but charter revenues decreased 68% from 2003 as previously noted. Operating expenses, excluding depreciation, increased only $449,000 or 1.8% from 2003 primarily from reduced repair costs on revenue equipment.

The 2004 non-operating revenues of $20.0 million remained relatively constant with 2003.

Capital Asset and Debt Administration

Capital Assets 2005

The Authority's investment in capital assets amounts to $25.2 million, net of accumulated depreciation, as of December 31, 2005, an increase of $920,000 (3.8%) over 2004. Capital assets include land and land improvements, revenue producing and servicing equipment, buildings and structures, shop equipment, office furnishings and computer equipment. Major capital expenditures during the year include the following:

- The purchase of 16 small transit buses totalling $892,000
- The purchase of 10 thirty-five foot transit buses totalling $2,620,000
- The construction of a bio-diesel fueling island at a total cost of $225,300

The Authority also disposed of 10 thirty-foot transit vehicles and 14 forty-foot transit vehicles that were fully depreciated and out of service.

Capital Assets 2004

The Authority's investment in capital assets amounts to $24.3 million, net of accumulated depreciation, as of December 31, 2004, a decrease of $2.2 million (8.4%) from 2003. Capital assets include land and land improvements, revenue producing and servicing equipment, buildings and structures, shop equipment, office furnishings and computer equipment. Major capital expenditures during the year include the following:

- Purchase of 10 small transit buses totalling $918,000
- Addition to two transit stations at Fifth Third Field (baseball) totalling $313,000
- Purchase of radios and maintenance hardware and software totalling $437,000

The Authority also disposed of 20 older line service and paratransit vehicles that were fully depreciated and out of service, and transferred the Perry Station in the central business district to the City of Toledo.

Long-Term Debt

The Authority has no outstanding long-term debt as of December 31, 2005 and 2004.

Requests for Information

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

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

TOLEDO AREA REGIONAL TRANSIT AUTHORITY
BALANCE SHEETS
December 31, 2005 and 2004

ASSETS	2005	2004
CURRENT ASSETS		
Cash and cash equivalents (includes approximately $883,541 and $1,834,578 designated by the Board of Trustees for capital acquisitions in 2005 and 2004, respectively)	$ 5,809,796	$ 7,759,088
Property taxes receivable	14,250,000	14,250,000
Accounts receivable	882,610	1,617,715
Inventories	801,042	743,769
Prepaid expenses and deposits	173,384	317,928
Total current assets	21,916,832	24,688,500
OTHER ASSETS		
Restricted cash and cash equivalents for capital acquisitions	26,690	26,690
Capital assets, net	25,212,018	24,291,734
Long-term investments (designated by the Board of Trustees for capital acquisitions)	1,192,814	1,172,621
TOTAL ASSETS	$ 48,348,354	$ 50,179,545
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	$ 333,131	$ 351,831
Accrued payroll and vacation	875,800	573,134
Accrued workers' compensation insurance	200,300	230,000
Accrued employer's contribution to Public Employees Retirement System	235,835	258,047
Accrued claims, including self-insurance	368,800	517,750
Other	151,066	186,934
Total current liabilities	2,164,932	2,117,696
DEFERRED REVENUE		
Property taxes	14,250,000	14,250,000
Other	144,036	141,803
Total deferred revenue	14,394,036	14,391,803
Total liabilities	16,558,968	16,509,499
NET ASSETS		
Invested in capital assets	25,212,018	24,291,734
Unrestricted	6,577,368	9,378,312
Total net assets	31,789,386	33,670,046
TOTAL LIABILITIES AND NET ASSETS	$ 48,348,354	$ 50,179,545

These financial statements should be read only in connection with the accompanying summary of significant accounting policies and notes to financial statements.

TOLEDO AREA REGIONAL TRANSIT AUTHORITY
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
Years Ended December 31, 2005 and 2004

	2005	2004
OPERATING REVENUES		
Passenger fares	$ 2,099,321	$ 1,943,120
Toledo Board of Education contract	2,979,252	2,918,430
Charter and contract service revenue	27,905	115,638
Auxiliary transportation revenue	144,000	105,600
Total operating revenues	5,250,478	5,082,788
OPERATING EXPENSES		
Labor	12,690,230	12,293,188
Fringe benefits	4,444,312	4,757,720
Materials and supplies	5,292,504	3,908,160
Services	3,530,960	3,187,570
Taxes	358,512	321,818
Claims and insurance	413,145	343,111
Utilities	426,350	399,252
Miscellaneous	81,415	78,303
Total operating expenses	27,237,428	25,289,122
Operating loss before depreciation	(21,986,950)	(20,206,334)
DEPRECIATION	3,409,687	3,746,201
Operating loss	(25,396,637)	(23,952,535)
NONOPERATING REVENUES		
Property taxes	14,678,003	14,635,296
Federal operating and preventive maintenance assistance	4,318,408	4,158,394
State operating and preventive maintenance assistance	852,658	941,607
Investment income	186,872	292,591
Nontransportation revenues	641	18,344
Total nonoperating revenues	20,036,582	20,046,232
Net loss before capital contributions	(5,360,055)	(3,906,303)
CAPITAL CONTRIBUTIONS	3,479,395	963,949
Decrease in net assets	(1,880,660)	(2,942,354)
NET ASSETS		
Beginning of year	33,670,046	36,612,400
End of year	$ 31,789,386	$ 33,670,046

These financial statements should be read only in connection with the accompanying summary of significant accounting policies and notes to financial statements.

TOLEDO AREA REGIONAL TRANSIT AUTHORITY
STATEMENTS OF CASH FLOWS
Years Ended December 31, 2005 and 2004

	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from fares, charters and contracts	$ 5,301,848	$ 5,070,292
Payments to suppliers	(9,625,839)	(8,189,963)
Payments for labor and employee benefits	(17,445,883)	(17,183,372)
Net cash used in operating activities	(21,769,874)	(20,303,043)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Proceeds from:		
Property taxes	14,678,003	14,635,296
Federal operating and preventive maintenance assistance	4,858,408	4,138,394
State operating and preventive maintenance assistance	999,445	1,113,838
Nontransportation revenues	641	18,344
Net cash provided by noncapital financing activities	20,536,497	19,905,872
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Expenditures for property, buildings, and equipment	(4,361,170)	(1,578,248)
Proceeds from capital contributions	3,479,395	963,949
Net cash used in capital and related financing activities	(881,775)	(614,299)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(1,139,024)	(1,182,257)
Sale/maturity of investments	1,118,831	1,136,480
Interest on investments	186,053	294,397
Net cash provided by investing activities	165,860	248,620
Net decrease in cash and cash equivalents	(1,949,292)	(762,850)
CASH AND CASH EQUIVALENTS		
Beginning of year	7,785,778	8,548,628
End of year	$ 5,836,486	$ 7,785,778

These financial statements should be read only in connection with the accompanying summary of significant accounting policies and notes to financial statements.

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

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

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

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

BASIS OF ACCOUNTING

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

Nonexchange transactions, in which the Authority receives value without directly giving equal value in return, include property taxes, grants and entitlements. On an accrual basis, revenue from property taxes is recognized in the period for which the levy is intended to finance, which is the year after the taxes are levied. Taxes levied in 2005 that will be collected in 2006 are recorded as a receivable and deferred revenue. Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Revenue from grants and entitlements is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use its first permitted, matching requirements, in which the Authority must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Authority on a reimbursement basis.

The Authority accounts for its financial statements consistent with all applicable GASB pronouncements, as well as the pronouncements of the Financial Accounting Standards Board (FASB) and its predecessors issued on or before November 30, 1989, unless those pronouncements conflict with or contradict those of GASB.

USE OF ESTIMATES IN PREPARING FINANCIAL STATEMENTS

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

CASH EQUIVALENTS

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

INVENTORIES

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

RESTRICTED ASSETS

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

INVESTMENTS

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

CAPITAL ASSETS

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

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

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

COMPENSATED ABSENCES

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

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

BUDGETS AND BUDGETARY ACCOUNTING

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

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

The Authority had no expenditures in excess of appropriations, at the legal level of appropriation for the years ended December 31, 2005 and 2004.

NET ASSETS

Equity is displayed in three components as follows:

Invested in Capital Assets **–** This consists of capital assets, net of accumulated depreciation.

Restricted **–** This consists of net assets that are legally restricted by outside parties or by law through constitutional provisions or enabling legislation. When both restricted and unrestricted resources are available for use, generally it is the Authority's policy to use restricted resources first, and then unrestricted resources when they are needed. The Authority does not have restricted net assets at December 31, 2005 or 2004.

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

PASSENGER FARES

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

FEDERAL AND STATE OPERATING AND PREVENTIVE MAINTENANCE ASSISTANCE FUNDS

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

CAPITAL CONTRIBUTIONS

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

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

CLASSIFICATION OF REVENUES

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

NOTE 1 - CASH AND INVESTMENTS

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

Public depositories must give security for all public funds on deposit. These institutions may either specifically collateralize individual accounts in lieu of amounts insured by the Federal Deposit Insurance Corporation (FDIC) or Savings Association Insurance Fund (SAIF), or may pledge a pool of government securities valued at least 105% of the total value of public monies on deposit with the institution.

Repurchase agreements must be secured by the specific government securities upon which the repurchase agreements are based. These securities must be obligations of or guaranteed by the United States government and mature or be redeemable within five years of the date of the related repurchase agreement. State law does not require that security for public deposits and investments be maintained in the name of the Authority.

Deposits

Information regarding the Authority's deposits at December 31, 2005 and 2004 is as follows:

	2005	2004
Book/carrying value of deposits	$ 5,836,486	$ 7,785,778
Bank balance:		
Covered by federal depository insurance	$ 646,550	$ 731,000
Uncollateralized as defined by the GASB	5,418,448	7,518,343
Total bank balance	$ 6,064,998	$ 8,249,343

The uncollateralized deposits at December 31, 2005 and 2004, were, however, covered by pledged collateral pools as discussed above.

NOTE 1 - CASH AND INVESTMENTS (CONTINUED)

Long-Term Investments

As of December 31, 2005 and 2004, the Authority had the following long-term investments:

Description	Maturity	Fair value
2005		
U.S. Treasury	February – November 2006	$ 739,041
U.S. Treasury	March 2007	118,978
U.S. Treasury	February 2008	127,323
U.S. Treasury	March – April 2010	207,472
Total		$ 1,192,814
2004		
U.S. Treasury	November – December 2005	$ 349,064
U.S. Treasury	February – November 2006	782,968
U.S. Treasury	May 2009	40,589
Total		$ 1,172,621

Interest rate risk

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

Concentration of credit risk

The Authority places no limit on the amount that may be invested in any one issuer. Presently, all investments are U.S. Treasury securities.

NOTE 2 - ACCOUNTS RECEIVABLE

Accounts receivable at December 31, 2005 and 2004 consisted of the following:

	2005	2004
State operating and preventive maintenance assistance	$ 420,000	$ 566,787
Federal operating and preventive maintenance assistance	-	540,000
Interest	14,070	13,251
Trade and other	448,540	497,677
Total accounts receivable	$ 882,610	$ 1,617,715

NOTE 3 - CAPITAL ASSETS

Capital asset activity for the years ended December 31, 2005 and 2004 was as follows:

	2005			
	Balance January 1, 2005	**Additions**	**Deductions**	**Balance December 31, 2005**
Capital assets not being depreciated:				
Land	$ 743,224	$ -	$ -	$ 743,224
Construction in progress	-	43,824	-	43,824
Total capital assets not being depreciated	743,224	43,824	-	787,048
Capital assets being depreciated:				
Buildings	6,868,062	174,610	-	7,042,672
Land improvements	1,542,544	12,343	-	1,554,887
Transit stations	5,590,888	-	-	5,590,888
Transportation equipment	45,107,044	3,840,356	3,983,752	44,963,648
Other equipment (primarily service equipment, furniture and fixtures, computers and computer equipment, software and transit shelters)	7,790,591	312,764	718	8,102,637
Total capital assets being depreciated	66,899,129	4,340,073	3,984,470	67,254,732
Less accumulated depreciation:				
Buildings	4,032,143	239,758	-	4,271,901
Land improvements	1,538,396	794	-	1,539,190
Transit stations	2,604,142	176,474	-	2,780,616
Transportation equipment	30,750,788	2,367,792	3,929,990	29,188,590
Other equipment	4,425,150	624,869	554	5,049,465
Total accumulated depreciation	43,350,619	3,409,687	3,930,544	42,829,762
Total capital assets being depreciated, net	23,548,510	930,386	53,926	24,424,970
Total capital assets, net	$ 24,291,734	$ 974,210	$ 53,926	$ 25,212,018

NOTE 3 - CAPITAL ASSETS (CONTINUED)

	2004			
	Balance January 1, 2004	**Additions**	**Deductions**	**Balance December 31, 2004**
Capital assets not being depreciated:				
Land	$ 743,224	$ -	$ -	$ 743,224
Construction in progress	86,595	1,449,748	1,536,343	-
Total capital assets not being depreciated	829,819	1,449,748	1,536,343	743,224
Capital assets being depreciated:				
Buildings	6,868,062	-	-	6,868,062
Land improvements	1,542,544	-	-	1,542,544
Transit stations	5,500,641	312,696	222,449	5,590,888
Transportation equipment	46,415,911	918,940	2,227,807	45,107,044
Other equipment (primarily service equipment, furniture and fixtures, computers and computer equipment, software and transit shelters)	7,375,302	437,379	22,090	7,790,591
Total capital assets being depreciated	67,702,460	1,669,015	2,472,346	66,899,129
Less accumulated depreciation:				
Buildings	3,794,730	237,413	-	4,032,143
Land improvements	1,537,871	525	-	1,538,396
Transit stations	2,666,077	160,514	222,449	2,604,142
Transportation equipment	30,163,972	2,749,447	2,162,631	30,750,788
Other equipment	3,846,266	598,302	19,418	4,425,150
Total accumulated depreciation	42,008,916	3,746,201	2,404,498	43,350,619
Total capital assets being depreciated, net	25,693,544	(2,077,186)	67,848	23,548,510
Total capital assets, net	$ 26,523,363	$ (627,438)	$ 1,604,191	$ 24,291,734

NOTE 4 - DEFINED BENEFIT PENSION PLAN

Plan Description

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

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 the Authority is required to contribute an actuarially determined rate. The employer contribution rate for 2005 and 2004 was 13.55% of annual covered payroll. The contribution requirements of plan members and the Authority are established and may be amended by the OPERS Board of Trustees. The Authority's contributions to OPERS for the years ending December 31, 2005 and 2004 were approximately $1,661,500 and $1,648,600, respectively, equal to the required contributions for each year. Required employer contributions are equal to 100% of the dollar amount billed to each employer.

NOTE 5 - OTHER POSTEMPLOYMENT BENEFITS

OPERS also provides post-retirement health care coverage to age and service retirees with 10 or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. The health care coverage provided by the retirement system is considered an Other Post-employment Benefit (OPEB) as described in GASB Statement No. 12. As required by state statute, a portion of each employer's contribution to OPERS is set aside for the funding of post-retirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The contributions rates of 13.55% to the Plan for the years ended December 31, 2005 and 2004 included a portion (4%) that was used to fund healthcare. The Authority's contributions for post-employment benefits were approximately $490,000 and $487,000 for the years ended December 31, 2005 and 2004, respectively.

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

NOTE 5 - OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Summary of Assumptions

- *Actuarial Review* – The assumptions and calculations below were based on the OPERS' latest actuarial review performed as of December 31, 2004.

- *Funding Method* – An entry-age normal actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of unfunded actuarial accrued liability.

- *Assets Valuation Method* – All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach, assets are adjusted annually to reflect 25% of the unrealized market appreciation or depreciation on investment assets annually.

- *Investment Return* – The investment assumption rate for 2004 was 8%.

- *Active Employee Total Payroll* – An annual increase of 4.0% compounded annually, is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4.0% base increase, were assumed to range from 0.5% to 6.3%.

- *Health Care* – Health care costs were assumed to increase at the projected wage inflation rate plus an additional factor ranging from 1% to 6% for the next eight years. In subsequent years (nine and beyond), health care costs were assumed to increase at 4% (the projected wage inflation rate).

OPEBs are advanced funded on an actuarially determined basis. The number of active participating participants at December 31, 2005 was 376,109. At December 31, 2004 (the latest date information is available), the number of active contributing participants was 355,287 and $10.8 billion represents the actuarial value of the OPERS' net assets available for OPEB. The actuarially accrued liability and the unfunded actuarial accrued liability at December 31, 2004 (the latest date information is available), based on the actuarial cost method used, were $29.5 billion and $18.7 billion, respectively.

The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004, will be effective January 1, 2007. In addition to the HCPP, OPERS has taken additional action to improve the solvency of the Health Care Fund in 2005 by creating a separate investment pool for health care assets. As an additional component of the HCPP, member and employer contribution rates increased as of January 1, 2006, which will allow additional funds to be allocated to the health care plan.

NOTE 6 - RISK MANAGEMENT

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

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

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

The Authority provides hospitalization and medical benefits coverage to all of its full-time employees. During 2004, hospitalization and medical benefits coverage was offered under a professionally administered self-insured plan or HMO provider contracts. Expenses associated with these benefits totalled approximately $2.6 million in 2004. The self-insurance plan had a stop loss of $75,000 per individual. The hospitalization medical claims liability was calculated by reviewing claim lag reports and consulting with the Authority's attorneys. Effective January 1, 2005, the Authority became fully insured for hospitalization and medical benefits coverage and expense totalled approximately $2.3 million in 2005. In addition, the Authority provides life insurance coverage to all full-time employees. Expense associated with this benefit totalled approximately $27,000 in 2005 and $29,000 in 2004.

Changes in the accrued claims liability for the years ended December 31, 2005 and 2004 are as follows:

	2005	2004
January 1, liability	$ 517,750	$ 322,900
Current year claims and changes in estimates	428,725	2,710,870
Claim payments	(577,675)	(2,516,020)
December 31, liability	$ 368,800	$ 517,750

NOTE 7 - PROPERTY TAX REVENUES

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

Property taxes include amounts levied against all real, public utility, and tangible (used in business) property located in the Authority's operating district. Lucas and Wood Counties collect all property taxes on behalf of the Authority. Due and collections dates for the 2004 levy, as established by Lucas and Wood Counties, were February 2005 and July 2005, for those taxes due during 2005.

Real property and tangible personal property taxes collected during fiscal year 2005 had a lien and levy date of December 2004.

NOTE 8 - GRANTS, REIMBURSEMENTS AND SPECIAL FARE ASSISTANCE

Federal operating grants and reimbursements consist of the following for the years ended December 31, 2005 and 2004:

	2005	2004
FTA operating assistance	$ 311,222	$ 540,000
FTA short-range planning and marketing	167,186	230,254
FTA preventive maintenance assistance	3,840,000	3,388,140
Total	$ 4,318,408	$ 4,158,394

State operating grants, reimbursements, and special fare assistance consist of the following for the years ended December 31, 2005 and 2004:

	2005	2004
ODOT operating assistance	$ 390,676	$ 512,166
State fuel tax reimbursement	345,224	309,182
State elderly and handicapped	116,758	120,259
Total	$ 852,658	$ 941,607

NOTE 9 - COMMITMENTS AND CONTINGENCIES

Operating leases

The Authority has cancellable operating leases executed in one-year intervals for revenue vehicle tire utilization. Total rental expense for all operating leases amounted to approximately $146,000 and $148,000 for the years ended December 31, 2005 and 2004, respectively.

Litigation

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

Grants

Under the terms of the Authority's various capital and operating grants, periodic audits are required where certain costs could be questioned as not being an eligible expenditure under the terms of the grants. At December 31, 2005, there were no material questioned costs that had not been resolved with the federal or state agencies. Questioned costs could still be identified during audits to be conducted in the future. Management of the Authority believes there will be no material adjustments to the grants and, accordingly, has not recorded a provision for possible repayments under the above grants.

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

NOTE 10 - SUPPLEMENTAL CASH FLOW DISCLOSURES

Supplemental cash flow disclosures consisted of the following at December 31, 2005 and 2004:

	2005	2004
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES		
Operating loss	$ (25,396,637)	$ (23,952,535)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	3,409,687	3,746,201
Allowance for doubtful accounts	-	(12,981)
Loss on disposal	31,199	63,676
Changes in assets and liabilities:		
Accounts and property tax receivable	49,137	26,135
Inventories	(57,273)	(139,184)
Prepaid expenses and deposits	144,544	(153,562)
Accounts payable	(18,700)	(167,812)
Accrued liabilities and other	65,936	312,669
Deferred revenue	2,233	(25,650)
Net cash used in operating activities	$ (21,769,874)	$ (20,303,043)

This information is an integral part of the accompanying financial statements.

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TOLEDO AREA REGIONAL TRANSIT AUTHORITY
Toledo, Ohio

REPORTS ISSUED PURSUANT TO THE OMB CIRCULAR A-133
December 31, 2005

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Clifton Gunderson LLP
Certified Public Accountants & Consultants

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

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

We have audited the basic financial statements of Toledo Area Regional Transit Authority (the Authority) as of and for the year ended December 31, 2005, and have issued our report thereon dated May 1, 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. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the organization's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. A reportable condition is described in the accompanying schedule of findings and questioned costs as finding 2005-01.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that the reportable condition described above is not a material weakness.

The Board of Trustees
Toledo Area Regional Transit Authority

Compliance and Other Matters

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

We noted certain matters that we reported to management of the Authority in a separate letter dated May 1, 2006.

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

Clifton Gunderson LLP

Toledo, Ohio
May 1, 2006

Clifton Gunderson LLP
Certified Public Accountants & Consultants

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

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

Compliance

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

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

As described in items 2005-2 and 2005-3 in the accompanying schedule of findings and questioned costs, the Authority did not comply with the requirements regarding equipment and real property management and procurement that are applicable to its Federal Transit Cluster. Compliance with such requirements is necessary, in our opinion, for the Authority to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the Authority complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2005.

The Board of Trustees
Toledo Area Regional Transit Authority

Internal Control Over Compliance

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

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

Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of the Authority as of and for the year ended December 31, 2005, and have issued our report thereon dated May 1, 2006. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financials statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

Clifton Gunderson LLP

Toledo, Ohio
May 1, 2006

TOLEDO AREA REGIONAL TRANSIT AUTHORITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended December 31, 2005

Federal Grantor Agency/ Pass-Through Grantor/ Program or Cluster Title	Federal CFDA number	Grant number	Federal expenditures
U. S. Department of Transportation:			
Federal Transit Administration (FTA)			
Federal Transit Cluster:			
Received directly from FTA:			
Capital investment grants	20.500	OH-03-0241	$ 300,066
Capital investment grants	20.500	OH-15-X001	300,498
Subtotal CFDA 20.500			600,564
Formula grants	20.507	OH-90-0456	570,737
Formula grants	20.507	OH-90-0394	675,553
Formula grants	20.507	OH-90-0426	314,207
Formula grants	20.507	OH-90-0501	6,103,532
Subtotal CFDA 20.507			7,664,029
TOTAL FEDERAL TRANSIT CLUSTER			$ 8,264,593

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

TOLEDO AREA REGIONAL TRANSIT AUTHORITY
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended December 31, 2005

NOTE 1 - GENERAL

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

NOTE 2 - BASIS OF PRESENTATION

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

This information is an integral part of the accompanying schedule.

TOLEDO AREA REGIONAL TRANSIT AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I—Summary of Auditor's Results

Financial Statements

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

Federal Awards

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

Identification of major programs:

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

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

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

Section II—Financial Statement Findings

Reference 2005-1 – Accounting Information Systems

Criteria

The Authority must prepare accurate and timely financial statements and the Schedule of Expenditures of Federal Awards which are based on the general ledger account balances.

Condition

The general ledger is prepared manually and payroll is the only accounting system that is automated. The comptroller is the only individual knowledgeable in maintaining the manual general ledger. A manual general ledger limits the ability to establish controls over the recording of journal entries, and does not provide a "back-up" in the event the ledger is inadvertently lost or destroyed.

Effect

A manual general ledger system is inefficient in preparing financial reports used to manage the operations of the Authority.

Recommendation

We recommend the Authority implement an automated general ledger system that interfaces with other key processing systems to improve internal control and efficiency by reducing time and effort required to perform routine accounting functions.

Authority's Response and Planned Corrective Action

A computerized general ledger will be implemented during 2006.

Section III—Federal Award Findings and Questioned Costs

Reference 2005-2 – Equipment and Real Property Management

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

Criteria

Common Rule (49 CFR Part 1u8) and FTA 5010.1C requires grantees to conduct a physical inventory of equipment and to reconcile the results with the equipment records at least once every two years. The grantee must have a control system in place to prevent loss, damage or theft of property.

Condition

Although the Authority performed a physical inventory of equipment as of December 31, 2005, the results of the physical inventory were not reconciled to the equipment records.

Effect

Failure to comply with the physical inventory requirements could result in the unknown loss of equipment.

Recommendation

We recommend the Authority perform a physical inventory of equipment at a minimum every two years and reconcile the results of the physical inventory to the equipment records.

Authority's Response and Planned Corrective Action

The Authority will reconcile the inventory taken in December 2005 with the present detail of fixed assets and make the appropriate adjustments to the fixed asset ledger accounts.

Section III—Federal Award Findings and Questioned Costs, Continued

Reference 2005-3 – Procurement and Suspension and Debarment

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

Criteria

The Federal Transit Authority (FTA) may obligate no funds for a grant unless all steel, iron and manufactured products used in the project are manufactured in the United States as demonstrated by a Buy American certificate. A recipient that purchases rolling stock for transportation of fare-paying passengers must conduct, or cause to be conducted, a pre-award audit before entering a formal contract for the purchase of rolling stock, and that a post-award and post-delivery audits complete before title to the rolling stock is transferred.

Condition

Pre-award and post-delivery audits were not documented as having been performed until after title to all rolling stock was transferred to the Authority.

Effect

Failure to comply with the Buy American requirements could result in loss of funding.

Recommendation

We recommend the Authority establish the necessary controls to ensure pre-award and post-delivery Buy America audits are completed before title to the rolling stock is transferred.

Authority's Response and Planned Corrective Action

This was also a finding by the FTA during their triennial review. Pre-award and post-delivery audits were performed prior to title being transferred; however, it was not documented as such. Audits were also performed subsequent to receiving finding from FTA and documented. The appropriate personnel are now aware of this requirement and it will not occur in the future.

TOLEDO AREA REGIONAL TRANSIT AUTHORITY
SUMMARY OF PRIOR AUDIT FINDINGS

Year Ended December 31, 2005

Reference 2004-1 – Accounting Information Systems

The general ledger is prepared manually and payroll is the only accounting system that is automated. The comptroller is the only individual knowledgeable in maintaining the manual general ledger. A manual general ledger limits the ability to establish controls over the recording of journal entries, and does not provide a "back-up" in the event the ledger is inadvertently lost or destroyed.

Status

This finding will be corrected in 2006.

Reference 2004-2 – Physical Inventory of Equipment

The Authority is required to follow the A-102 Common Rule for equipment. The rule requires:

- Equipment be used in the program which acquired it, or when approved by the cognizant agency, other federal programs.
- Equipment records shall be maintained, a physical inventory of equipment shall be taken at least once every two years and reconciled to equipment records.
- An appropriate control system shall be used to safeguard equipment.

The Authority has not performed a physical inventory of equipment within the last two years. We noted that a physical inventory was last performed for the year ended December 31, 2002.

Status

The Authority will reconcile the inventory taken in December 2005 with the present detail of fixed assets and make the appropriate adjustments to the fixed asset ledger accounts.

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
AUGUST 17, 2006