TOLEDO AREA REGIONAL TRANSIT AUTHORITY
Toledo, Ohio

FINANCIAL STATEMENTS
December 31, 2008 and 2007

Mary Taylor, CPA
Auditor of State

Board of Trustees
Toledo Area Regional Transit Authority
1127 West Central Ave
P. O. Box 792
Toledo, Ohio 43697-0782

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, 2008 through December 31, 2008. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

September 17, 2009

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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 sheets of the Toledo Area Regional Transit Authority (the Authority) as of December 31, 2008 and 2007, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of December 31, 2008 and 2007, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards,* we have also issued a report dated August 13, 2009 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
August 13, 2009

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, 2008 and 2007. 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 2008

- The Authority's total net assets decreased $(413,000), or 1.8%, over the course of the year's operations.

- The Authority's operation expenses, excluding depreciation, in 2008 were $590,000 higher than in 2007. An increase in cost associated with fuel contributed to the increase.

- Operating revenues for the Authority of $6.1 million in 2008 increased $417,000 compared with 2007. Increases in Passenger fares and the Toledo Board of Education contract contributed to the increase.

- Property tax revenues of $18.0 million (2.5 mils) were up $3.0 million compared to 2007. This tax represents 59.8% of all revenues received. This increase is due to the passage of the 1.5 mil replacement levy. Due to foreclosures and property devaluation, this amount is expected to decrease in 2010 by an estimated $1.1 million.

- Total funding from the State of Ohio increased by $9,000.

- The Authority provided no charter services in 2008 in accordance with current federal regulations.

- The Authority has committed to purchase the following revenue vehicles with funds received through the American Recovery and Reinvestment Act Program:

    - The purchase of 18 thirty-five foot buses totaling $6,498,000
    - The purchase of 11 Paratransit buses totaling $825,000
    - The purchase of 10 small Call-A-Ride buses totaling $1,050,000

Financial Highlights in 2007

- The Authority's total net assets decreased $4.6 million, or 17%, over the course of the year's operations.

- The Authority's operation expenses, excluding depreciation, in 2007 were $717,000 higher than in 2006. Increases in costs associated with Paratransit service and fuel contributed to the increase.

- Operating revenues for the Authority of $5.7 million in 2007 were comparable to 2006.

Financial Highlights in 2007, Continued

- Property tax revenues of $15.3 million (2.5 mils) were up $374,000 compared to 2006. This tax represents 57% of all revenues received and will vary little until a levy is replaced.

- Total funding from the State of Ohio decreased by $44,000, or 5%, as the State experienced budgetary restrictions resulting in general cuts in transit funding.

- The Authority provided no charter services in 2007 in accordance with current federal regulations.

Overview of the Financial Statements

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

Required Financial Statements

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

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

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

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

Notes to Financial Statements

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

Financial Analysis of the Authority

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

Regional Transit Authority's Net Assets

	2008	2007	2006
ASSETS			
Current assets	$24,959,032	$25,664,928	$22,227,980
Restricted assets	23,686	24,027	23,603
Long-term investments	803,620	769,495	715,203
Capital assets, net	18,064,141	18,682,286	22,073,113
Total assets	43,850,479	45,140,736	45,039,899
LIABILITIES			
Current liabilities	3,314,144	4,048,435	2,903,302
Property taxes	17,654,000	17,838,000	14,250,000
Other deferred revenue	307,754	267,021	249,890
Total liabilities	21,275,898	22,153,456	17,403,192
NET ASSETS			
Invested in capital assets	18,064,141	18,682,286	22,073,113
Unrestricted	4,486,754	4,280,967	5,539,991
Restricted for capital acquisitions	23,686	24,027	23,603
Total net assets	$22,754,581	$22,987,280	$27,636,707

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, 2008

Investment in capital assets decreased to $18.1 million in 2008 from $18.7 million in 2007, or 3.3%. This decrease was the result of the excess of depreciation expense over capital asset additions, as well as the removal of obsolete assets.

Financial Analysis of the Authority, Continued

Year Ending December 31, 2007

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

Change in Net Assets

	2008	2007	2006
Operating revenues	$ 6,075,596	$ 5,658,116	$ 5,579,740
Operating expenses, excluding depreciation	(28,319,613)	(27,729,972)	(27,296,556)
Depreciation expense	(3,791,878)	(3,680,043)	(3,828,006)
Operating loss	(26,035,895)	(25,751,899)	(25,544,822)
Nonoperating revenues (expenses):			
Property taxes	18,040,538	15,018,267	14,927,641
Federal operating and preventive maintenance grants	5,031,258	4,928,261	4,843,496
State operating and preventive maintenance grants	706,989	698,298	754,888
State special fare assistance	139,355	138,737	126,550
Investment income	116,131	217,120	192,275
Gain/(Loss) on disposal of capital assets	146	(6,117)	(208,016)
Nontransportation revenue	80,958	107,906	16,164
Total nonoperating revenues	24,115,375	21,102,472	20,652,998
Capital contributions	1,507,821	-	739,145
Decrease in net assets	(412,699)	(4,649,427)	(4,152,679)
Net assets:			
Beginning of year	22,987,280	27,636,707	31,789,386
End of year	$ 22,574,581	$ 22,987,280	$ 27,636,707

Financial Analysis of the Authority, Continued

Year Ended December 31, 2008

The Authority's operating revenues for 2008 were up $417,000 over 2007, or 7.4%. Ridership on line service amounted to 4.6 million remaining consistent with 2007. In addition, miles of service of 4.3 million remained consistent with the prior year. Revenues from contract service to the Toledo Public Schools increased 5.6% in 2008. Operating expenses, excluding depreciation, increased by $590,000 or 2.1%, from 2007 primarily from the escalation of fuel costs. The 2008 nonoperating revenues of $24.1 million were higher than revenues in 2007 due to the replacement of the 1.5 mil levy at current property values.

Year Ended December 31, 2007

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

Capital Contributions

Year Ended December 31, 2008

Capital contributions from federal and state agencies in 2008 were $1,508,000. In 2008, the Authority purchased ten air conditioned, low floor, lift equipped, transit buses at a total cost of $2,949,000.

Capital Asset and Debt Administration

Capital Assets 2008

The Authority's investment in capital assets amounts to $18.1 million, net of accumulated depreciation, as of December 31, 2008, a decrease of $618,000 (3.3%) compared with 2007. Capital assets include land and land improvements, revenue producing and servicing equipment, buildings and structures, shop equipment, office furnishings and computer equipment. Major capital expenditures during the year include the purchase of 10 large transit busses for a total of $ 2.9 million.

Capital Asset and Debt Administration, Continued

Capital Assets 2007

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

Long-Term Debt

The Authority has no outstanding long-term debt as of December 31, 2008 and 2007.

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, 2008 and 2007

ASSETS	2008	2007
CURRENT ASSETS		
Cash and cash equivalents (includes approximately $562,147 and $620,380 designated by the Board of Trustees for capital acquisitions in 2008 and 2007, respectively)	$ 4,405,835	$ 5,815,261
Property taxes receivable	17,654,005	17,838,798
Accounts receivable	1,803,305	912,224
Inventories	993,148	931,296
Prepaid expenses and deposits	102,739	167,349
Total current assets	24,959,032	25,664,928
OTHER ASSETS		
Restricted cash and cash equivalents for capital acquisitions	23,686	24,027
Capital assets not being depreciated	858,140	1,082,823
Capital assets being depreciated, net	17,206,001	17,599,463
Long-term investments (designated by the Board of Trustees for capital acquisitions)	803,620	769,495
TOTAL ASSETS	$ 43,850,479	$ 45,140,736
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	$ 925,969	$ 2,172,018
Accrued payroll and vacation pay	903,736	777,899
Accrued workers' compensation insurance	253,359	237,764
Accrued employer's contribution to Public Employees Retirement System	200,711	168,470
Accrued claims, including self-insurance	559,914	615,005
Other	470,455	77,279
Total current liabilities	3,314,144	4,048,435
DEFERRED REVENUE		
Property taxes	17,654,000	17,838,000
Other	307,754	267,021
Total deferred revenue	17,961,754	18,105,021
Total liabilities	21,275,898	22,153,456
NET ASSETS		
Invested in capital assets	18,064,141	18,682,286
Unrestricted	4,486,754	4,280,967
Restricted for capital acquisitions	23,686	24,027
Total net assets	22,574,581	22,987,280
TOTAL LIABILITIES AND NET ASSETS	$ 43,850,479	$ 45,140,736

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

TOLEDO AREA REGIONAL TRANSIT AUTHORITY
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
Years Ended December 31, 2008 and 2007

	2008	2007
OPERATING REVENUES		
Passenger fares	$ 2,647,655	$ 2,402,642
Toledo Board of Education and other contracts	3,227,941	3,055,474
Auxiliary transportation revenue	200,000	200,000
Total operating revenues	6,075,596	5,658,116
OPERATING EXPENSES		
Labor	12,436,784	12,251,881
Fringe benefits	4,441,928	4,570,409
Materials and supplies	3,234,446	3,165,188
Services	3,403,381	3,793,766
Fuel	3,706,979	2,714,952
Taxes	372,025	371,425
Claims and insurance	293,606	319,547
Utilities	399,882	522,766
Miscellaneous	30,582	20,038
Total operating expenses	28,319,613	27,729,972
Operating loss before depreciation	(22,244,017)	(22,071,856)
DEPRECIATION	3,791,878	3,680,043
Operating loss	(26,035,895)	(25,751,899)
NONOPERATING REVENUES (EXPENSES)		
Property taxes	18,040,538	15,018,267
Federal operating and preventive maintenance assistance	5,031,258	4,928,261
State operating and preventive maintenance grants and assistance	846,344	837,035
Investment income	116,131	217,120
Loss on disposal of capital assets	146	(6,117)
Nontransportation revenues	80,958	107,906
Total nonoperating revenues	24,115,375	21,102,472
Net loss before capital contributions	(1,920,520)	(4,649,427)
CAPITAL CONTRIBUTIONS	1,507,821	-
Decrease in net assets	(412,699)	(4,649,427)
NET ASSETS		
Beginning of year	22,987,280	27,636,707
End of year	$ 22,574,581	$ 22,987,280

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

TOLEDO AREA REGIONAL TRANSIT AUTHORITY
STATEMENTS OF CASH FLOWS
Years Ended December 31, 2008 and 2007

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from fares and contracts	$ 5,232,290	$ 5,504,718
Payments to suppliers	(12,291,016)	(9,136,537)
Payments for labor and employee benefits	(16,760,130)	(17,570,816)
Net cash used in operating activities	(23,818,856)	(21,202,635)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Proceeds from:		
Property taxes	18,041,331	15,019,688
Federal operating and preventive maintenance assistance	5,031,258	4,928,261
State operating and preventive maintenance grants and assistance	836,035	975,838
Nontransportation revenues	80,958	107,906
Net cash provided by noncapital financing activities	23,989,582	21,031,693
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Expenditures for capital assets	(3,174,433)	(308,333)
Proceeds received on disposal of capital assets	700	13,000
Proceeds from capital contributions	1,507,697	-
Net cash used in capital and related financing activities	(1,666,036)	(295,333)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of long-term investments	(774,667)	(816,755)
Sale/maturity of long-term investments	740,542	762,463
Interest on investments	119,668	217,856
Net cash provided by investing activities	85,543	163,564
Net decrease in cash and cash equivalents	(1,409,767)	(302,711)
CASH AND CASH EQUIVALENTS		
Beginning of year	5,839,288	6,141,999
End of year	$ 4,429,521	$ 5,839,288

TOLEDO AREA REGIONAL TRANSIT AUTHORITY
STATEMENTS OF CASH FLOWS
Years Ended December 31, 2008 and 2007

	2008	2007
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES		
Operating loss	$ (26,035,895)	$ (25,751,899)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	3,791,878	3,680,043
Changes in assets and liabilities:		
Accounts receivable – trade and other	(884,039)	(170,529)
Inventories	(61,852)	(30,563)
Prepaid expenses and deposits	64,610	(91,951)
Accounts payable	(1,246,049)	1,556,313
Accrued liabilities and other	511,758	(411,180)
Deferred revenue	40,733	17,131
Net cash used in operating activities	$ (23,818,856)	$ (21,202,635)

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The accompanying financial statements comply with the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity* and GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units.* 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.

As of October 1, 2008, the Authority assumed direct management of the Paratransit division, which had previously been outsourced to a third-party since inception.

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

<u>Basis of Accounting</u>

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

Nonexchange transactions, in which the Authority receives value without directly giving equal value in return, include property taxes, grants and entitlements. On an accrual basis, revenue from property taxes is recognized in the period for which the levy is intended to finance, which is the year after the taxes are levied. Taxes levied in 2008 that will be collected in 2009 are recorded as a receivable and deferred revenue. Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Revenue from grants and entitlements is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use its first permitted, matching requirements, in which the Authority must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Authority on a reimbursement basis.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Accounting, Continued

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

Use of Estimates in Preparing Financial Statements

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

Cash Equivalents

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

Inventories

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

Restricted Assets

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

Investments

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

The Authority can invest funds in STAROhio, an investment pool managed by the State Treasurer's office that 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 at which the investment could be sold.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets

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

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

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

Accounting for Impairment of Long-Lived Assets

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

Compensated Absences

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

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

Budgets and Budgetary Accounting

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Budgets and Budgetary Accounting, Continued

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

The Authority had no expenditures in excess of appropriations at the legal level of appropriation for the years ended December 31, 2008 and 2007.

Net Assets

Equity is displayed in three components as follows:

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

Restricted – This consists of net assets that are legally restricted by outside parties or by law through constitutional provisions or enabling legislation. When both restricted and unrestricted resources are available for use, generally it is the Authority's policy to use restricted resources first, and then unrestricted resources when they are needed.

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

Passenger Fares

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

Federal and State Operating and Preventive Maintenance Assistance Funds

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

Capital Contributions

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Classification of Revenues

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

Reclassifications

Certain reclassifications have been made to the 2007 amounts to conform to the 2008 presentation.

NOTE 2 - CASH AND INVESTMENTS

The provisions of the ORC govern the investment and deposit of the Authority's monies. In accordance with these provisions, only banks located in Ohio and domestic building and loan associations are eligible to hold public deposits. The statutes also permit the Authority to invest its monies in certificates of deposit, savings accounts, money market accounts, the State Treasurer's investment pool (STAR Ohio), and obligations of the United States government or certain agencies thereof. The Authority may also enter into repurchase agreements with any eligible depository institution for a period not exceeding 30 days. At the time of making an investment, the Authority's Treasurer must reasonably expect that the investment can be held until maturity. To the extent possible, the Treasurer will attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow requirement, the Treasurer will not directly invest in securities maturing more than five years from the settlement date of purchase.

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 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. State low does not require security for public deposits and investments to be maintained in the Authority's name.

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

NOTE 2 - CASH AND INVESTMENTS (CONTINUED)

Interest rate risk

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

Concentration of credit and custodial credit risk

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

Deposits

Information regarding the Authority's deposits at December 31, 2008 and 2007 is as follows:

	2008	2007
Book/carrying value of deposits	$ 4,429,521	$ 5,839,288
Bank balance:		
Covered by federal depository insurance	$ 845,654	$ 439,996
Uncollateralized as defined by the GASB	3,583,867	5,866,283
Total bank balance	$ 4,429,521	$ 6,306,279

The uncollateralized deposits at December 31, 2008 and 2007, were, however, covered by pledged collateral pools as discussed above.

NOTE 2 - CASH AND INVESTMENTS (CONTINUED)

Long-Term Investments

As of December 31, 2008 and 2007, the Authority had the following long-term investments:

Description	Maturity	Fair value
2008		
U.S. Treasury	May – August 2009	$ 107,177
U.S. Treasury	March – July 2010	470,311
U.S. Treasury	June – September 2011	226,132
Total		$ 803,620
2007		
U.S. Treasury	January – December 2008	$ 302,775
U.S. Treasury	January – August 2009	224,343
U.S. Treasury	March 2010	112,260
U.S. Treasury	June – October 2011	73,871
U.S. Treasury	March – July 2012	56,246
Total		$ 769,495

NOTE 3 - ACCOUNTS RECEIVABLE

Accounts receivable at December 31, 2008 and 2007 consisted of the following:

	2008	2007
State operating and preventive maintenance assistance	$ 350,611	$ 340,032
Trade and other	1,446,480	562,441
Interest	6,214	9,751
Total accounts receivable	$ 1,803,305	$ 912,224

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the years ended December 31, 2008 and 2007 was as follows:

	2008			
	Balance January 1, 2008	**Additions**	**Deductions**	**Balance December 31, 2008**
Capital assets not being depreciated:				
Land	$ 743,224	$ -	$ -	$ 743,224
Construction in progress	339,599	114,916	339,599	114,916
Total capital assets not being depreciated	1,082,823	114,916	339,599	858,140
Capital assets being depreciated:				
Buildings	7,126,291	23,440	-	7,149,731
Land improvements	1,564,362	-	-	1,564,362
Transit stations	4,867,413	-	-	4,867,413
Transportation equipment	42,535,699	3,239,000	98,805	45,675,894
Other equipment (primarily service equipment, furniture and fixtures, computers and computer equipment, software and transit shelters)	7,831,636	136,938	8,483	7,960,091
Total capital assets being depreciated	63,925,401	3,399,378	107,288	67,217,491
Less accumulated depreciation:				
Buildings	4,791,912	263,463	-	5,055,375
Land improvements	1,544,621	2,715	-	1,547,336
Transit stations	2,400,283	167,355	-	2,567,638
Transportation equipment	31,724,033	2,841,355	98,804	34,466,584
Other equipment	5,865,089	516,990	7,522	6,374,557
Total accumulated depreciation	46,325,938	3,791,878	106,326	50,011,490
Total capital assets being depreciated, net	17,599,463	(392,500)	962	17,206,001
Total capital assets, net	$ 18,682,286	$ (277,584)	$ 340,561	$ 18,064,141

NOTE 4 - CAPITAL ASSETS (CONTINUED)

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

NOTE 5 - DEFINED BENEFIT PENSION PLAN

Plan Description

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

OPERS administers three separate pension plans as described below:

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

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

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

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

Funding Policy

The ORC provides statutory authority for employee and employer contributions. In 2008, employees other than law enforcement personnel are required to contribute 10.0% (9.5% in 2007) of their covered payroll to OPERS. The 2008 and 2007 employer contribution rates for local government employer units were 14.00% and 13.85%, respectively, of covered payroll including 7.0% and 5.5% in 2008 and 2007, respectively, that is used to fund postretirement health care benefits. The Authority’s total contributions to OPERS pension benefits (including the amount relating to postretirement health care benefits) for the years ended December 31, 2008, 2007 and 2006 were $1,767,600, $1,712,000, and $1,668,600, respectively, equal to 100% of the required contribution for each year.

NOTE 6 - OTHER POSTEMPLOYMENT BENEFITS

OPERS also provides post-retirement health care coverage to age and service retirees with 10 or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. The health care coverage provided by the retirement system is considered an Other Post-employment Benefit (OPEB), as described in GASB Statement No. 12 and GASB Statement No. 45. As required by state statute, a portion of each employer's contribution to OPERS is set aside for the funding of post-retirement health care. The ORC provides statutory authority for employer contributions. The contributions rates of 14.00% and 13.77% to the Plan for the years ended December 31, 2008 and 2007, respectively, included a portion (7.0% in 2008 and 5% from January 1 through June 30, 2007 and 6% from July 1 through December 31, 2007) that was used to fund health care.

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

Summary of Assumptions

- *Actuarial Review* – The assumptions and calculations below were based on the OPERS' latest actuarial review performed as of December 31, 2007.

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

- *Assets Valuation Method* – All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach, assets are adjusted annually to reflect 25% of the unrealized market appreciation or depreciation on investment assets annually, not to exceed a 12% corridor.

- *Investment Return* – The investment assumption rate for 2007 was 6.5%.

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

- *Health Care* – Health care costs were assumed to increase at the projected wage inflation rate plus an additional factor ranging from 0.5% to 4% for the next seven years. In subsequent years (8 and beyond), health care costs were assumed to increase at 4% (the projected wage inflation rate).

NOTE 6 - OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

OPEB provided through OPERS are advance-funded on an actuarially determined basis. The total number of active contributing participants in the TP and CO Plans was 363,503 and 364,076 at December 31, 2008 and 2007, respectively. The Authority's contributions to OPERS for other post-employment benefits for the years ended December 31, 2008 and 2007 were equal to 100% of the required contributions for each year. The actuarial value of OPERS' net assets available for OPEB at December 31, 2007 was $12.8 billion. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were $29.08 billion and $17.0 billion, respectively.

On September 9, 2004, the OPERS Retirement Board adopted a Health Care Preservation Plan ("HCPP") with an effective date of 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, 2008, January 1, 2007 and January 1, 2006, which will allow additional funds to be allocated to the health care plan.

NOTE 7 - RISK MANAGEMENT

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

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

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

The Authority provides hospitalization and medical benefits coverage to all of its full-time employees. The Authority is self-insured, with certain stop-loss coverage, for hospitalization and medical benefits coverage and expense totalled approximately $2.3 million in 2008 and 2007. In addition, the Authority provides life insurance coverage to all full-time employees.

Changes in the accrued claims liability, including both general liability and medical, for the years ended December 31, 2008, 2007 and 2006 are as follows:

	2008	2007	2006
January 1, liability	$ 615,005	$ 722,125	$ 368,800
Current year claims and changes in estimates	2,296,692	2,308,755	2,824,524
Claim payments	(2,351,783)	(2,415,875)	(2,471,199)
December 31, liability	$ 559,914	$ 615,005	$ 722,125

NOTE 8 - PROPERTY TAX REVENUES

The Authority is subsidized by two annual property tax levies consisting of a 1.0 mill levy in effect through 2011 and a 1.5 mill levy in effect through 2017. Revenues generated from the 1.0 mill and 1.5 mill levies are based on property valuations conducted in 2001 and 2007, respectively, for property located within the Authority's operating district. Property tax revenue may be used for operating or capital purposes. In November 2007, voters in the nine community transit districts approved a 1.5 mill replacement levy which was effective January 2008.

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

Real property and tangible personal property taxes collected during fiscal year 2008 and 2007 had a lien and levy date of December 2007 and 2006, respectively.

NOTE 9 - GRANTS, REIMBURSEMENTS AND SPECIAL FARE ASSISTANCE

Federal operating and preventive maintenance assistance consist of the following for the years ended December 31, 2008 and 2007:

	2008	2007
FTA operating assistance	$ 609,600	$ 556,000
FTA short-range planning and marketing	132,658	132,261
FTA preventive maintenance assistance	4,289,000	4,240,000
Total	$ 5,031,258	$ 4,928,261

State operating and preventive maintenance grants and special fare assistance consist of the following for the years ended December 31, 2008 and 2007:

	2008	2007
ODOT operating assistance	$ 349,611	$ 340,032
State fuel tax reimbursement	357,378	358,267
State elderly and handicapped	139,355	138,736
Total	$ 846,344	$ 837,035

NOTE 10 - COMMITMENTS AND CONTINGENCIES

Operating leases

The Authority has cancellable operating leases executed in one-year intervals for revenue vehicle tire utilization. Total rental expense for all operating leases amounted to approximately $154,500 and $147,700 for the years ended December 31, 2008 and 2007, 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, 2008 and 2007, 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.

TOLEDO AREA REGIONAL
TRANSIT AUTHORITY
Toledo, Ohio

REPORTS ISSUED PURSUANT TO
THE OMB CIRCULAR A-133
December 31, 2008

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

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

We have audited the basic financial statements of Toledo Area Regional Transit Authority (the Authority) as of and for the year ended December 31, 2008, and have issued our report thereon dated August 13, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Authority's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in Item 2008-1 and 2008-2 in the accompanying schedule of findings and responses to be significant deficiencies in internal control over financial reporting.

Internal Control Over Financial Reporting, Continued

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described in 2008-1 is a material weakness.

Compliance and Other Matters

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

We noted certain matters that we reported to management of the Authority in a separate letter dated August 13, 2009.

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

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

Clifton Gunderson LLP

Toledo, Ohio
August 13, 2009

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, 2008. The Authority's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Toledo Area Regional Transit Authority's management. Our responsibility is to express an opinion on the Authority's compliance based on our audit.

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

In our opinion, the Authority complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2008.

Internal Control Over Compliance

The management of the Authority is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Authority's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control over compliance.

Internal Control Over Compliance, Continued

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

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as Item 2008-3 to be a significant deficiency.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. We consider the 2008-3 deficiency described in the accompanying schedule of findings and questioned costs to be a material weakness.

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

Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of the Authority as of and for the year ended December 31, 2008, and have issued our report thereon dated August 13, 2009. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

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

Clifton Gunderson LLP

Toledo, Ohio
August 13, 2009

TOLEDO AREA REGIONAL TRANSIT AUTHORITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended December 31, 2008

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	$ 402,449
Capital investment grants	20.500	OH-15-X001	199,980
Capital investment grants	20.500	OH-03-0281	69,439
Capital investment grants	20.500	OH-03-0268	85,945
Subtotal CFDA 20.500			757,813
Formula grants	20.507	OH-90-X609	4,898,600
Formula grants	20.507	OH-90-0501	79,289
Formula grants	20.507	OH-90-0536	30,537
Formula grants	20.507	OH-90-X586	71,110
Subtotal CFDA 20.507			5,079,536
TOTAL FEDERAL TRANSIT CLUSTER			$ 5,837,349

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

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.

TOLEDO AREA REGIONAL TRANSIT AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I—Summary of Auditor's Results

Financial Statements

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

Federal Awards

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

Identification of major programs:

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

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

Auditee qualified as low-risk auditee?		yes	X	no

Section II—Financial Statement Findings

Reference 2008-1 – Segregation of Duties

Criteria

Segregation of duties is a key component of internal controls.

Condition

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

Effect

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

Recommendation

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

Authority's Response and Planned Corrective Action

The Comptroller serves as the Systems Administrator for the Financial Ledger System. In this capacity the ability to be able to record cash disbursements and record deposits is critical, however, it should be noted that this duty is not performed unless in an emergency, as it is assigned to other staff members. In addition the general ledger system itself has an audit function to track transactions in the system and who performed the task, which is only accessible by the Director of Information Systems. Signature changes relating to approving disbursement vouchers were instituted after the 2006 audit and management has continued to review current assignment of responsibilities to address the segregation of disbursement signing issue. In relation to the bank transfers, the transfer accounts are hard coded into the on-line bank transfer system, which would make it difficult to transfer funds anywhere but TARTA's accounts. The process of opening bank statements has been segregated to the General Manager's Administrative Assistant. The Authority is currently in the process of hiring a part-time Financial Analyst as well as implementing a payroll system. This new position and the re-assignment of duties related to the payroll function will enable the authority to segregate duties to a greater extent as well as institute additional compensating controls. However, due to virtue of staff size and staff technical abilities there will be some areas of lack of segregation of control that will not be able to be avoided.

Section II—Financial Statement Findings, Continued

Reference 2008-2 – Accounting Policies and Procedures Manual

Criteria

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

Condition

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

Effect

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

Recommendation

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

Authority's Response and Planned Corrective Action

Currently there are flowcharts which document the activity and account flow for Accounts Payable and Accounts Receivable. Preliminary work has been done on detailing tasks performed by staff members as well as standardizing reconciliation formats. There has been cross training and further task documentation related to functions within the Authority. Procedures have been created in flowchart as well as in a narrative function. As the new payroll system is implemented during 2009 this process will be fully documented as well. During the year we will pull these items together, expand on the information and create a formal policies and procedures manual.

Section III – Federal Award findings and Questioned Costs

Reference 2008-3 – Other

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

See finding 2008-1 in Section II – Financial Statement Findings.

Reference 2007-1 – Segregation of Duties

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

Status

This finding has not been corrected. See Finding 2008-1.

Reference 2007-2 – Accounting Policies and Procedures Manual

An accounting policies and procedures manual will help ensure Authority transactions are recorded in a consistent manner. The Authority presently does not have an accounting policies and procedures manual.

Status

This finding has not been corrected. See Finding 2008-2.

Reference 2007-3 – Other

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

See finding 2007-1 above.

Mary Taylor, CPA
Auditor of State

TOLEDO AREA REGIONAL TRANSIT AUTHORITY

LUCAS COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
SEPTEMBER 29, 2009