

ALLEN COUNTY REGIONAL TRANSIT AUTHORITY

AUDIT REPORT

For the Year Ended December 31, 2003

CHARLES E. HARRIS & ASSOCIATES, Inc.
Certified Public Accountants



**Auditor of State
Betty Montgomery**

Board of Trustees
Allen County Regional Transit Authority
200 E. High Street
Lima, Ohio 45801-4420

We have reviewed the Independent Auditor's Report of the Allen County Regional Transit Authority, Allen County, prepared by Charles E. Harris & Associates, Inc., for the audit period January 1, 2003 through December 31, 2003. 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 Allen County Regional Transit Authority is responsible for compliance with these laws and regulations.

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

September 16, 2004

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ALLEN COUNTY REGIONAL TRANSIT AUTHORITY
ALLEN COUNTY
AUDIT REPORT
For the Year Ended December 31, 2003

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**ALLEN COUNTY REGIONAL TRANSIT AUTHORITY
ALLEN COUNTY
For the Year Ended December 31, 2003**

Board of Trustees

<u>NAME</u>	<u>TERM OF OFFICE</u>
John Robenalt	1/25/02 to 11/25/05
George Jefferson	12/31/02 to 12/31/05
Mark Malone	11/01/02 to 10/19/05
Dr. Jon Rockhold	11/26/02 to 11/26/05
Dr. Chris Crawford	1/1/02 to 12/31/05

Statutory Legal Council

**John Robenalt
211 North Elizabeth St
Lima, Ohio 45801**

Charles E. Harris & Associates, Inc.
Certified Public Accountants

Rockefeller Building
614 W Superior Ave Ste1242
Cleveland OH 44113-1306
Phone - (216) 575-1630
Fax - (216) 436-2411

REPORT OF INDEPENDENT ACCOUNTANTS

The Board of Trustees
Allen County Regional Transit Authority
Lima, Ohio

We have audited the accompanying financial statements of the Allen County Regional Transit Authority (ACRTA), as of December 31, 2003, as listed in the table of contents. These financial statements are the responsibility of the ACRTA's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As described in Note 1 to the basic financial statements, during 2003, ACRTA adopted Governmental Accounting and Standards Board (GASB) Statement No. 34, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments."

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of ACRTA, as of December 31, 2003, 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.

Management's Discussion and Analysis on pages 3 through 7 is not a required part of the basic financial statements, but is supplementary information the Governmental Accounting Standards Board requires. We applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated June 28, 2004 on our consideration of ACRTA's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

Charles E. Harris & Associates, Inc.
June 28, 2004

**ALLEN COUNTY REGIONAL TRANSIT AUTHORITY
MANAGEMENT'S DISCUSSION & ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2003
(UNAUDITED)**

As management of the Allen County Regional Transit Authority, we offer readers of the Authority's financial statements this narrative overview and analysis of the Authority's financial activities for the fiscal year ended December 31, 2003.

Financial Highlights

- The assets of the Authority exceeded its liabilities at the close of the most recent fiscal year by \$3.6 million (net assets). Of this amount, \$.3 million (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The Authority's net assets increased by \$.8 million, or 29%
- The Authority has current assets of \$.4 million and less than \$.1 million of current liabilities.
- The Authority has no long-term debt.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. The financial statements presented by the Authority are the Balance Sheet, the Statement of Revenues, Expenses and Changes in Net Assets and the Statement of Cash Flows. These statements are presented using the economic resources measurement focus and the accrual basis of accounting. The Authority is structured as a single enterprise fund with revenues recognized when earned and measurable. Expenses are recognized when they are incurred, not when paid. Capitalized assets are depreciated, except land, over their estimated useful lives.

The balance sheet presents the Authority's statement of financial position. GAAP allows the accounts of this statement to be presented in one of two ways:

Assets – liabilities = net assets (net asset approach)

Assets = liabilities + net assets (balance sheet approach)

The resulting difference between assets and liabilities will be called net assets, no matter which approach is taken. Over time, increases and decreases in net assets may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating. Net assets increase when revenues exceed expenses. Increases in assets without a corresponding increase to liabilities also results in increased net assets.

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

**ALLEN COUNTY REGIONAL TRANSIT AUTHORITY
MANAGEMENT'S DISCUSSION & ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2003
(UNAUDITED)**

The Statement of Cash Flows allows financial statement users to assess the Authority's adequacy or ability to generate sufficient cash flows to meet obligations in a timely manner. The statement is classified into four categories:

- A. Cash flows from operating activities;
- B. Cash flows from non-capital financing activities;
- C. Cash flows from capital and related financing activities and;
- D. Cash flows from investing activities.

Notes to the Financial Statements

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

FINANCIAL ANALYSIS OF THE AUTHORITY

Condensed Summary of Net Assets:

Net Assets

	<u>2003</u>	<u>2002</u>
Current and other assets	\$ 364,037	\$ 315,554
Capital assets	<u>\$ 3,260,155</u>	<u>\$ 2,491,142</u>
Total Assets	<u>\$ 3,624,192</u>	<u>\$ 2,806,696</u>
Current liabilities	\$ 59,712	\$ 58,796
Long-term liabilities	<u>\$ -</u>	<u>\$ -</u>
Total Liabilities	<u>\$ 59,712</u>	<u>\$ 58,796</u>
Net Assets:		
Invested in capital assets, net of related debt	\$ 3,260,155	\$ 2,491,142
Unrestricted	<u>\$ 304,325</u>	<u>\$ 256,758</u>
Total Net Assets	<u><u>\$ 3,564,480</u></u>	<u><u>\$ 2,747,900</u></u>

**ALLEN COUNTY REGIONAL TRANSIT AUTHORITY
MANAGEMENT'S DISCUSSION & ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2003
(UNAUDITED)**

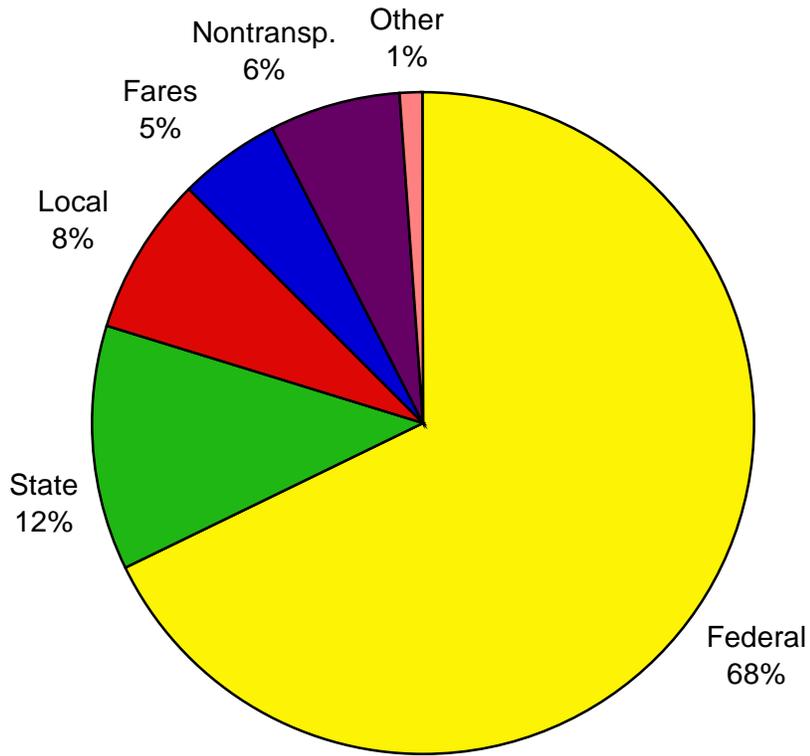
The unrestricted net assets, \$304,325, may be used to meet the government's ongoing obligations to citizens and creditors. The Authority did not have any external restrictions placed on its net assets at this year- end.

At the end of the current fiscal year, the Authority is able to report positive balances in both of its net asset classifications.

The Authority's net assets increased by \$816,580 during the current fiscal year. This increase represents the degree to which increases in ongoing operating revenues and nonoperating revenues have outstripped similar increases in ongoing expenses. Key elements of this increase are as follows:

	<u>2003</u>	<u>2002</u>
Total Operating Revenues	\$ 124,205	\$ 124,033
Total Operating Expenses	<u>1,427,899</u>	<u>1,068,396</u>
Operating Loss	(1,303,694)	(944,363)
Total Other Revenue	<u>2,120,274</u>	<u>1,507,494</u>
Excess of Revenue Over Expenses	816,580	563,131
Net Assets- Beginning of Year	<u>2,747,900</u>	<u>2,184,769</u>
Net Assets- End of Year	<u>\$3,564,480</u>	<u>\$2,747,900</u>

ALLEN COUNTY REGIONAL TRANSIT AUTHORITY
MANAGEMENT'S DISCUSSION & ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2003
(UNAUDITED)



The Authority's reliance upon nonoperating revenues is demonstrated by the graph above indicating 88% of total revenues from federal, state and local grants.

**ALLEN COUNTY REGIONAL TRANSIT AUTHORITY
MANAGEMENT'S DISCUSSION & ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2003
(UNAUDITED)**

Capital Assets

The Authority's investment in capital assets as of December 31, 2003, amounts to \$3,260,155 million (net of accumulated depreciation). This investment in capital assets includes land, land improvements, buildings, equipment, furniture, vehicles, and infrastructure. Total acquisitions for the current fiscal year were \$1,689,179 million, including a \$714,269 transfer from construction in progress, and depreciation was \$320,917. Detailed information regarding capital asset activity is included in the Note 5 to the basic financial statements.

Debt

The Authority had no debt at December 31, 2003.

Request for Information

This financial report is designed to provide a general overview of the Authority's finances for those with an interest in its finances. Questions concerning any of the information in this report or requests for additional financial information should be addressed to the Executive Director, Allen County Regional Transit Authority, 200 E. High Street, Lima, Ohio 45801.

**Allen County Regional Transit Authority
Allen County
Statement of Net Assets
December 31, 2003**

ASSETS:

Current Assets:

Cash	\$ 250,921
Accounts receivable	48,209
Material and supplies inventory	<u>64,907</u>

Total current assets 364,037

Noncurrent Assets:

Property, facilities, and equipment	5,995,688
Less: accumulated depreciation	<u>(2,735,533)</u>

Total noncurrent assets 3,260,155

Total assets **3,624,192**

LIABILITIES:

Current Liabilities:

Accounts payable	36,274
Accrued payroll and benefits	<u>23,438</u>

Total Current Liabilities 59,712

NET ASSETS

Invested in capital assets	3,260,155
Unrestricted	<u>304,325</u>

Total Net Assets **\$ 3,564,480**

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

**Allen County Regional Transit Authority
Allen County
Statement of Revenues, Expenses and Changes in Net Assets
For the year ended December 31, 2003**

OPERATING REVENUES:

Passenger Fares	\$ 114,230
Incidental Charter Service Revenue	<u>9,975</u>
Total Operating Revenues	<u>124,205</u>

OPERATING EXPENSES:

Labor	609,986
Fringe Benefits	122,526
Services	98,825
Materials and Supplies	161,573
Claims and insurance net of settlements	58,734
Utilities	36,386
Miscellaneous	18,952
Depreciation	<u>320,917</u>
Total Operating Expenses	<u>1,427,899</u>

Operating Loss (1,303,694)

NONOPERATING REVENUES:

Interest Income	765
Nontransportation Revenue	146,197
Federal Grants and Assistance	1,527,572
State Grants and Assistance	270,171
Local Grants and Assistance	<u>175,569</u>

Total Nonoperating Revenue 2,120,274

Excess of Revenues Over Expenses 816,580

Net assets-January 1, 2003 2,747,900

Net assets-December 31, 2003 \$ 3,564,480

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

ALLEN COUNTY REGIONAL TRANSIT AUTHORITY
ALLEN COUNTY
Statement of Cash Flows
For the year ended December 31, 2003

CASH FLOWS FROM OPERATING ACTIVITIES:

Cash received from customers	\$ 113,122
Nontransportation revenue	146,197
Cash payments to suppliers for goods and services	(269,135)
Cash payments to employees for services	(614,764)
Cash payments for employee benefits	(122,526)
Cash payments for casualty and liability	<u>(58,734)</u>
Net cash used in operations	<u>(805,840)</u>

CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:

Federal grants	712,842
State grants	64,962
Local grants	<u>175,569</u>
Net cash provided by non-capital financing activities	<u>953,373</u>

CASH FLOW FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

Federal capital grants	814,730
State capital grants	205,159
Acquisition and construction of fixed assets	<u>(1,089,930)</u>
Net cash used by capital and related financing activities	(70,041)

CASH FLOWS FROM INVESTING ACTIVITIES:

Interest	<u>765</u>
Net Increase in cash	78,257
Cash-January 1, 2003	<u>172,664</u>
Cash-December 31, 2003	<u>\$ 250,921</u>

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

ALLEN COUNTY REGIONAL TRANSIT AUTHORITY
ALLEN COUNTY
Statement of Cash Flows- (continued)
For the year ended December 31, 2003

**Reconciliation of Operating Loss to Net
Cash Used In Operating Activities:**

Operating Loss	\$ (1,303,694)
Adjustments to Reconcile Operating Loss to Net Cash Used In Operating Activities:	
Depreciation	320,917
Other Receipts	146,247
Changes in Assets and Liabilities:	
Increase in Accounts Receivable	(11,133)
Increase in Materials and Supplies Inventory	40,907
Increase in Accounts Payable	5,694
Decrease in Accrued Wages and Benefits	<u>(4,778)</u>
Total Adjustments	<u>497,854</u>
Net Cash Used in Operating Activities	<u><u>\$ (805,840)</u></u>

ALLEN COUNTY REGIONAL TRANSIT AUTHORITY
Notes to the Basic Financial Statements
For the Year Ending December 31, 2003

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

A. ORGANIZATION

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

A five-member board that is appointed by the Allen County Board of Commissioners manages the Authority.

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

B. REPORTING ENTITY

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

C. BASIS OF ACCOUNTING

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

ALLEN COUNTY REGIONAL TRANSIT AUTHORITY
Notes to the Basic Financial Statements
For the Year Ending December 31, 2003

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES-continued

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

D. CASH AND INVESTMENTS

The Authority considers highly liquid investments, with an original maturity of three months or less, to be cash equivalents. Investment procedures are restricted by the provisions of the Ohio Revised Code. Purchased investments are valued at cost and are neither charged when purchased nor credited at the time of redemption to their respective fund balances. Interest earned is recognized and recorded when received.

E. EQUIPMENT AND DEPRECIATION

Equipment is stated at historical cost. The costs of normal maintenance and repairs are charged to operations as incurred.

Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets as follows:

<u>Description</u>	<u>Years</u>
Transportation Equipment	10
Other Equipment	5
Facilities	50

F. MATERIALS AND SUPPLIES

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

G. ACCUMULATED UNPAID VACATION AND PERSONAL LEAVE

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

ALLEN COUNTY REGIONAL TRANSIT AUTHORITY
Notes to the Basic Financial Statements
For the Year Ending December 31, 2003

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES-continued

H. INTERGOVERNMENTAL REVENUES

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

I. BUDGETARY ACCOUNTING CONTROL

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

J. USE OF ESTIMATES

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

K. NONEXCHANGE TRANSACTIONS

The Authority has implemented GASB Statement No. 33, Accounting and Financial Reporting for Nonexchange Transactions, and GASB Statement No. 36, Recipient Reporting for Certain Nonexchange Revenues. GASB 33 and 36 establish accounting and financial reporting standards for nonexchange transactions involving financial or capital resources. In a nonexchange transaction, an entity gives (or receives) value without directly receiving or giving equal value in return.

The Authority's principal nonexchange transactions involve the receipt of federal state and local grants for operating assistance as well as the acquisition of property, facilities and equipment. Substantially all of the Authority's grants are reimbursement-type grants, which are recorded as revenue in the period the related expenditures are incurred. Any grants received in advance of the period in which the related expenditures are incurred, are recorded as restricted assets and as deferred revenue.

ALLEN COUNTY REGIONAL TRANSIT AUTHORITY
Notes to the Basic Financial Statements
For the Year Ending December 31, 2003

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES-continued

L. NEW ACCOUNTING PRONOUNCEMENT

The Authority has implemented GASB Statement No. 34, Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments. The Authority will issue a Management's Discussion and Analysis in addition to the basic financial statements. The Authority will also report the equity section of the Balance Sheet as net assets. Net assets will be reported in three sections, invested in capital assets net of related debt, restricted net assets and unrestricted net assets.

The implementation of GASB 34 does not change the basis of accounting or the measurement focus.

2. EQUITY IN POOLED CASH AND CASH EQUIVALENTS

State statutes classify monies held by the Authority into three categories.

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the Authority Treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that the Board has identified as not required for use within the current two-year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits of interim monies. Interim monies are those monies, which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit, or by savings or deposit accounts including passbook accounts.

Interim monies may be invested in the following securities:

1. United States treasury notes, bills, bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal and interest by the United States;

ALLEN COUNTY REGIONAL TRANSIT AUTHORITY
Notes to the Basic Financial Statements
For the Year Ending December 31, 2003

2. EQUITY IN POOLED CASH AND CASH EQUIVALENTS – continued

2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the federal national federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities.

3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;

4. Bonds and other obligations of the State of Ohio;

5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;

6. The State Treasurer's investment pool (STAR Ohio);

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the Authority, and be purchased within the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or, if the securities are not representing the investments to the treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Protection of the Authority's deposits is provided by the Federal Deposit Insurance Corporation, by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the Financial Manager by the financial institution, or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

ALLEN COUNTY REGIONAL TRANSIT AUTHORITY
Notes to the Basic Financial Statements
For the Year Ending December 31, 2003

2. EQUITY IN POOLED CASH AND CASH EQUIVALENTS – (continued)

The following information classifies deposits and investments by categories of risk as defined by GASB Statement No.3, “Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements”.

Deposits: At year-end the Authority had cash balances of \$250,921 of which \$3,295 was on hand. The bank balance was \$272,058. Of the bank balance,

1. \$100,000 was covered by the FDIC.
2. \$172,058 was uninsured, but collateralized with U.S. Government securities pooled by the financial institution but not in the Authority’s name. As with all deposits, there is a risk of loss of resources, but management believes this collateral gives the Authority its safest deposit of money.

Investments: GASB Statement No.3 “Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements” requires that local governments disclose the carrying amounts and market value of investments classified by risk. Category 1 included investments that are insured or registered for which the securities are held in the counter party’s trust department or agent in the Authority’s name. Category 2 includes uninsured and unregistered investments, which are held by the counter-party’s trust department or agent in the Authority’s name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counter party or by its trust department but not in the Authority’s name. At December 31, 2003 the Authority held no investments that would be classified as investments under GASB Statement No.3.

3. DEFINED BENEFIT PENSION PLAN

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

ALLEN COUNTY REGIONAL TRANSIT AUTHORITY
Notes to the Basic Financial Statements
For the Year Ending December 31, 2003

3. DEFINED BENEFIT PENSION PLAN- (continued)

The Ohio Public Employees Retirement System (OPERS) is a cost-sharing multiple-employer defined benefit pension plan. OPERS provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 145 of the Ohio Revised Code. PERS issues a stand-alone financial report. Interested parties may obtain a copy by making a written request to 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 466-2085 or 1-800-222-PERS (7377).

The Ohio Revised Code provides statutory authority for employee and employer contributions. The employee contribution rates are 8.5% for employees other than law enforcement. For local government employer units the rate was 13.55% of covered payroll. The Authority's contributions for the years ending December 31, 2003, 2002, and 2001 were \$77,093, \$103,371, and \$78,653 respectively. The full amount has been contributed for 2003.

4. DEBT

The Authority had no debt at year-end December 31, 2003.

5. PROPERTY, FACILITIES AND EQUIPMENT

The following schedule reflects changes in the Authority's tangible operating property reflected in the financial statements.

	<u>ASSETS</u>			
	<u>Balance</u>			<u>Balance</u>
	<u>1/01/03</u>	<u>Additions</u>	<u>Deletions</u>	<u>12/31/03</u>
Land and Improvements	\$ 293,649	\$ -	\$ -	\$ 293,649
Building and Improvements	1,342,568	1,776,298	-	3,118,866
Equipment	220,948	27,896	-	248,844
Construction In Progress	714,264	-	(714,264)	-
Vehicles	<u>2,334,329</u>	<u>-</u>	<u>-</u>	<u>2,334,329</u>
Totals	<u>\$ 4,905,758</u>	<u>\$1,804,194</u>	<u>\$(714,264)</u>	<u>\$5,995,688</u>

ALLEN COUNTY REGIONAL TRANSIT AUTHORITY
Notes to the Basic Financial Statements
For the Year Ending December 31, 2003

5. PROPERTY, FACILITIES AND EQUIPMENT-continued

ACCUMULATED DEPRECIATION

	<u>Balance</u> <u>1/01/03</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>12/31/03</u>
Building and				
Improvements	\$ (525,782)	\$ (64,022)	\$ -	\$ (589,804)
Equipment	(163,016)	(19,492)	-	(182,508)
Vehicles	<u>(1,725,818)</u>	<u>(237,403)</u>	-	<u>(1,963,221)</u>
Totals	<u><u>\$(2,414,616)</u></u>	<u><u>\$(320,917)</u></u>	<u><u>\$ -</u></u>	<u><u>\$(2,735,533)</u></u>

6. RISK MANAGEMENT

The Authority is a member of the Ohio Transit Insurance Pool (OTIP), a self-insurance pool created under Chapter 2744 of the Ohio Revised Code. The Authority has the following insurance coverages: Commercial Property, Crime, Public Officials and Employees Liability, General Liability, and Auto Liability. There has not been a reduction in coverage from the prior year and claims have not exceeded the coverages in any of the past three years. The Authority pays the State Worker's Compensation System a premium based on a rate per \$100 of salaries.

7. CONTINGENCIES

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

8. SUBSEQUENT EVENTS/PENDING LITIGATION

Management believes there are no pending claims or lawsuits.

ALLEN COUNTY REGIONAL TRANSIT AUTHORITY
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2003

Federal Grantor/Title Grantor Number/Program Title	CFDA #	Grant #	Federal Expenditures
<u>U.S. Department of Transportation:</u>			
<i>Federal Transit Administration (FTA)</i>			
Direct Urbanized Area Formula Program	20.507	OH-90-2244	\$ 26
Direct Urbanized Area Formula Program	20.507	OH-90-4244	23,089
Direct Urbanized Area Formula Program	20.507	OH-90-2307	16,695
Direct Urbanized Area Formula Program	20.507	OH-90-2349	14,630
Direct Urbanized Area Formula Program	20.507	OH-90-0331	52,605
Direct Urbanized Area Formula Program	20.507	OH-90-0374	11,383
Direct Urbanized Area Formula Program	20.507	OH-90-2374	680
Direct Urbanized Area Formula Program	20.507	OH-90-4374	132,100
Direct Urbanized Area Formula Program	20.507	OH-90-0405	90
Direct Urbanized Area Formula Program	20.507	OH-90-4405	273
Direct Urbanized Area Formula Program	20.507	OH-90-2405	511
Direct Urbanized Area Formula Program	20.507	OH-90-0431	231,358
Direct Urbanized Area Formula Program	20.507	OH-90-2431	97,524
Direct Urbanized Area Formula Program	20.507	OH-90-4431	400,249
Direct Urbanized Area Formula Program	20.507	OH-03-0234	<u>519,294</u>
 Total Direct Urbanized Area Formula Program			 1,500,507
 <i>Passed through ODOT:</i>			
Ohio Public Transportation Grant Program	20.507	OH-90-0349	6,929
Ohio Public Transportation Grant Program	20.507	OH-90-0374	<u>165,279</u>
 <i>Total Passed through ODOT</i>			 <u>172,208</u>
 <i>Total U.S. Department of Transportation</i>			 <u>1,672,715</u>
 <i>Total Expenditures of Federal Awards</i>			 <u><u>\$1,672,715</u></u>

See notes to schedule of expenditures of federal awards.

**Allen County Regional Transit Authority
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2003**

1. **Significant Accounting Policies**

The accompanying schedule of federal awards expenditures is a summary of the activity of ACRTA's federal award programs. The schedule has been prepared on the accrual basis of accounting.

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

The Board of Trustees
Allen County Regional Transit Authority
Lima, Ohio

We have audited the financial statements of the Allen County Regional Transit Authority (ACRTA) as of December 31, 2003 and for the year then ended, and have issued our report thereon dated June 28, 2004, wherein we noted the Authority implemented Governmental Accounting Standards Board Statement No. 34. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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

Internal Controls Over Financial Reporting

In planning and performing our audit, we considered ACRTA's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted certain matters involving the internal control over financial reporting, which we have presented to management of ACRTA in a separate letter dated June 28, 2004.

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

Charles E. Harris & Associates, Inc.
June 28, 2004

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

Board of Trustees
Allen County Regional Transit Authority
Lima, Ohio

Compliance

We have audited the compliance of the Allen County Regional Transit Authority (ACRTA) with the types of compliance requirements described in *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended December 31, 2003. ACRTA's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of ACRTA's management. Our responsibility is to express an opinion on the ACRTA'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 program occurred. An audit includes examining, on a test basis, evidence about ACRTA'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 ACRTA's compliance with those requirements.

In our opinion, the ACRTA complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2003. However, the results of our procedures disclosed questioned costs which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 03-ACRTA-01.

Internal Control Over Compliance

The management of the ACRTA 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 ACRTA's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

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

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

Charles E. Harris & Associates, Inc.

June 28, 2004

**ALLEN COUNTY REGIONAL TRANSIT AUTHORITY
ALLEN COUNTY
Schedule of Findings and Questioned Costs
December 31, 2003**

A. Summary of Audit Results

1. The auditor's report expresses an unqualified opinion on the basic financial statements.
2. No reportable condition was disclosed during the audit of the financial statements of ACRTA.
3. No instances of noncompliance material to the financial statements of ACRTA were disclosed during the audit.
4. No reportable conditions in internal control over major programs were disclosed.
5. The auditor's report on compliance for the major federal award program for ACRTA expresses an unqualified opinion.
6. One audit finding relative to the major programs for ACRTA was disclosed during the audit. (See 03-ACRTA-1)
7. The program tested as a major program was the Direct Urbanized Area Formula Program – CFDA# 20.507.
8. The dollar threshold for distinguishing Type A and Type B programs was \$300,000.
9. ACRTA was determined to be a low-risk auditee.

B. Findings-Financial Statement Audit

None

C. Findings and Questioned Costs- Major Federal Award Programs

03-ACRTA-01-Questioned Cost-CFDA 20.507; Grant OH-03-0234

Criteria

OMB Circular A-87 requires allowable costs charged to federal award programs to be necessary and reasonable, properly authorized and net of applicable credits.

**ALLEN COUNTY REGIONAL TRANSIT AUTHORITY
ALLEN COUNTY
Schedule of Findings and Questioned Costs - continued
December 31, 2003**

C. Findings and Questioned Costs- Major Federal Award Programs- (Continued)

Condition

ACTRA made a duplicate payment to a construction contractor in the amount of \$71,328. The contractor has performed additional services, which have not been billed since the overpayment; therefore, we were not able to determine the net effect of the overpayment. The overpayment appeared to be an isolated incident and the ACTRA is in the process of recovering the balance due from the contractor.

Questioned Cost

\$71,328 less an undetermined amount for unbilled services performed by the contractor.

Recommendation

We recommend that the Board of Trustees review their policy for issuing checks and require dual signatures and board approval for checks over a designated amount.

STATUS OF PRIOR YEAR CITATIONS AND RECOMMENDATIONS

The prior audit report, for the period ending December 31, 2002, did not include material citations or recommendations.



**Auditor of State
Betty Montgomery**

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ALLEN COUNTY REGIONAL TRANSIT AUTHORITY

ALLEN 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 30, 2004**