TOLEDO AREA REGIONAL TRANSIT AUTHORITY
Toledo, Ohio

FINANCIAL STATEMENTS
December 31, 2012 and 2011

Dave Yost • Auditor of State

Board of Trustees
Toledo Area Regional Transit Authority
1127 West Central Ave
Toledo, Ohio 43697-0782

We have reviewed the *Independent Auditors' Report* of the Toledo Area Regional Transit Authority, Lucas County, prepared by CliftonLarsonAllen LLP, for the audit period January 1, 2012 through December 31, 2012. 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.

Dave Yost
Auditor of State

July 9, 2013

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CliftonLarsonAllen LLP
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Independent Auditors' Report

Board of Trustees
Toledo Area Regional Transit Authority
Toledo, Ohio

Report on the Financial Statements

We have audited the accompanying financial statements of the Toledo Area Regional Transit Authority (the Authority), as of and for the years ended December 31, 2012 and 2011, and the related notes to the financial statements, which collectively comprise the entity's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions 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 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Board of Trustees
Toledo Area Regional Transit Authority

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Authority as of December 31, 2012 and 2011, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3-8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards,* we have also issued our report thereon dated June 17, 2013, on our consideration of the Authority's internal control over financial reporting and on 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 result of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

CliftonLarsonAllen LLP

Toledo, Ohio
June 17, 2013

TOLEDO AREA REGIONAL TRANSIT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2012 and 2011

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, 2012 and 2011. 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 2012

- The Authority's total net position decreased $3,630,000, or 8%, over the course of the year's operations.
- The Authority's operating expenses, excluding depreciation, in 2012 were $371,000 or 1% more than in 2011. An increase in costs associated with increased paratransit ridership, hospitalization expense, and higher fuel costs contributed to this increase.
- Operating revenues for the Authority of $5,006,000 in 2012 decreased $399,000 compared with 2011. A decrease in the Toledo Board of Education contract and related pass purchases contributed to the decrease.
- Property tax revenues of $16,163,900 (2.5 mils) were down $568,000 compared to 2011. This tax represents 58% of all revenues received. This decrease was due to foreclosures, property devaluation, the Homestead Act reduction. Property tax revenues are expected to decrease by $2.5 million.
- Total funding from the State of Ohio increased slightly and will be used for future fuel use.
- The Authority provided no charter services in 2012 in accordance with current federal regulations.

Financial Highlights in 2011

- The Authority's total net position increased $8,098,000, or 21%, over the course of the year's operations.
- The Authority's operating expenses, excluding depreciation, in 2011 were $1,628,000 or 7% more than in 2010. An increase in costs associated with increased paratransit ridership, hospitalization expense, and higher fuel costs contributed to this increase.
- Operating revenues for the Authority of $5,405,000 in 2011 decreased $464,000 compared with 2010. A decrease in the Toledo Board of Education contract and related pass purchases contributed to the decrease.
- Property tax revenues of $16,732,000 (2.5 mils) were down $614,000 compared to 2010. This tax represents 58% of all revenues received. This decrease was due to foreclosures, property devaluation and Homestead Act reduction.
- Total funding from the State of Ohio increased by $121,000.
- The Authority provided no charter services in 2011 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 position and changes in net position 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 position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating. A net position increase when revenues exceed expenses. Increases to assets without a corresponding increase to liabilities, results in increased net position, which indicate improved financial position.

The statements of revenues, expenses and changes in net position present information showing how the Authority's net position changed during the fiscal year. All changes in net position 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 position 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 position 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 Position

	2012	2011	2010
ASSETS			
Current assets	$27,253,987	$35,514,263	$33,658,875
Restricted assets	70,934	108,729	41,068
Long-term investments	797,521	803,841	801,483
Capital assets, net	35,884,580	33,478,193	25,198,381
Total assets	64,007,022	69,905,026	59,699,807
LIABILITIES			
Current liabilities	7,860,264	6,915,135	4,377,722
Property taxes	13,630,000	16,733,000	16,733,000
Other deferred revenue	185,680	293,411	723,984
Total liabilities	21,675,944	23,941,546	21,834,706
NET POSITION			
Invested in capital assets	35,884,580	33,478,193	25,198,381
Unrestricted	6,375,564	12,376,558	12,625,652
Restricted for capital acquisitions	70,934	108,729	41,068
Total net position	$42,331,078	$45,963,480	$37,865,101

The largest portions of the Authority's net position 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, 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, 2012

Investment in capital assets increased to $35.9 million in 2012 from $33.4 million in 2011, 7%. This increase was the result of construction of the new TARPS facility (completed in 2012), transportation equipment vehicles and software purchases.

Financial Analysis of the Authority, Continued

Year Ending December 31, 2011

Investment in capital assets increased to $33.4 million in 2011 from $25.2 million in 2010, 33%. This increase was the result of construction of the new TARPS facility (completed in 2012), and transportation equipment vehicles and software purchases.

Change in Net Position

	2012	2011	2010
Operating revenues	$ 5,005,990	$ 5,404,628	$ 5,868,690
Operating expenses, excluding depreciation	(26,510,084)	(26,138,638)	(24,510,289)
Depreciation expense	(5,105,473)	(4,134,058)	(3,904,975)
Operating loss	(26,609,567)	(24,868,068)	(22,546,574)
Nonoperating revenues (expenses):			
Property taxes	16,163,857	16,732,300	17,346,044
Federal operating and preventive maintenance grants	4,884,304	5,416,035	6,152,261
State operating and preventive maintenance grants	263,909	958,957	763,304
State special fare assistance	-	89,398	163,991
Investment income (loss)	(654)	11,149	21,182
Gain (loss) on disposal of capital assets	77,124	(33,626)	(87,510)
Nontransportation revenue	21,408	21,374	86,789
Total nonoperating revenues	21,409,948	23,195,587	24,446,061
Capital contributions	1,567,217	9,770,860	11,276,627
Increase (decrease) in net position	(3,632,402)	8,098,379	13,176,114
Net position:			
Beginning of year	45,963,480	37,865,101	24,688,987
End of year	$ 42,331,078	$ 45,963,480	$ 37,865,101

Financial Analysis of the Authority, Continued

Year Ended December 31, 2012

The Authority's operating revenues for 2012 were down $399,000 from 2011, or 7%. Ridership on line service amounted to 3.1 million in 2012, a decrease of 26,000 from 2011. In addition, miles of service of 3.3 million for fixed line service was down from the prior year. Paratransit revenues for 2012 were up by $32,200 from 2011. Revenues from contract service to the Toledo Public Schools decreased by $561,000 or 43% in 2012. Operating expenses, excluding depreciation, increased by $371,000 or 1%, from 2011 primarily from expenses related to increased paratranist service, higher medical expense, and the increase fuel costs. The 2012 nonoperating revenues of $21.4 million were lower than revenues in 2011 due to reductions in property tax revenue and Federal and state operating and preventive maintenance revenue.

Year Ended December 31, 2011

The Authority's operating revenues for 2011 were down $464,000 from 2010, or 8%. Ridership on line service amounted to 3.1 million in 2011, a decrease of 211,000 from 2010. In addition, miles of service of 3.4 million for fixed line service was down from the prior year. Paratransit revenues for 2011 were up by $254,000 from 2010. Revenues from contract service to the Toledo Public Schools decreased by $1,167,000 or 47% in 2011. Operating expenses, excluding depreciation, increased by $1,628,000 or 7%, from 2010 primarily from expenses related to increased paratranist service, higher medical expense and the increase fuel costs. The 2011 nonoperating revenues of $23.2 million were lower than revenues in 2010 due to reductions in property tax revenue and Federal operating and preventive maintenance revenue.

Capital Contributions

Year Ended December 31, 2012

Capital contributions from federal and state agencies in 2012 were $1.6 million. In 2012, the Authority received two air conditioned, low floor, lift equipped hybrid buses at a total cost of approximately $1,200,000 and eight air conditioned, low floor, lift equipped fixed line buses at a total cost of approximately $3,300,000. These vehicles were not in service at December 31, 2012. The TARPS facility was nearly completed at December 31, 2011 and included in construction in progress and was completed during 2012. There were also 31 buses received at December 31, 2011, but not placed in service until 2012.

Year Ended December 31, 2011

Capital contributions from federal and state agencies in 2011 were $9.8 million. In 2011, the Authority purchased seven air conditioned, low floor, lift equipped paratransit buses at a total cost of $572,000 and completed the transit station at the Huntington Center in conjunction with the City of Toledo at a total cost of $2,500,000. The TARPS facility was nearly completed at December 31, 2011 and included in construction in progress. There were also 31 buses received at year end but not placed in service until 2012.

Capital Asset and Debt Administration

Capital Assets 2012

The Authority's investment in capital assets amounts to $35.9 million, net of accumulated depreciation, as of December 31, 2012, an increase of $2.4 million or 7% compared with 2011. 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 eight fixed line vehicles for a total of $3,300,000 million and two hybrid buses for a total of $1,200,000, all of which were placed into service in the beginning of 2013.

Capital Assets 2011

The Authority's investment in capital assets amounts to $33.4 million, net of accumulated depreciation, as of December 31, 2011, an increase of $8.2 million or 33% compared with 2010. 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 seven paratransit vehicles for a total of $572,000 and the completion of a transit station at the Huntington Center for a total of $2,500,000. In addition, construction continued on the new TARPS paratransit facility and there was $12.3 million in construction in progress at December 31, 2011.

Long-Term Debt

The Authority has no outstanding long-term debt as of December 31, 2012 and 2011.

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, 2012 and 2011

ASSETS	2012	2011
CURRENT ASSETS		
Cash and cash equivalents (includes approximately $198,339 and $279,355 designated by the Board of Trustees for capital acquisitions in 2012 and 2011, respectively)	$ 8,561,394	$ 12,351,054
Property taxes receivable	13,630,000	16,733,000
Accounts receivable, net	3,900,432	5,103,900
Inventories	775,538	1,202,080
Prepaid expenses and deposits	386,623	124,229
Total current assets	27,253,987	35,514,263
OTHER ASSETS		
Restricted cash and cash equivalents for capital acquisitions	70,934	108,729
Capital assets not being depreciated	6,303,533	13,080,003
Capital assets being depreciated, net	29,581,047	20,398,190
Long-term investments (designated by the Board of Trustees for capital acquisitions)	797,521	803,841
TOTAL ASSETS	$ 64,007,022	$ 69,905,026
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES		
Accounts payable	$ 6,177,522	$ 4,902,430
Accrued payroll and vacation pay	815,369	915,482
Accrued employer's contribution to Public Employees Retirement System	180,821	318,384
Accrued claims, including self-insurance	651,160	707,809
Other	35,392	71,030
Total current liabilities	7,860,264	6,915,135
DEFERRED REVENUE		
Property taxes	13,630,000	16,733,000
Other	185,680	293,411
Total deferred revenue	13,815,680	17,026,411
Total liabilities	21,675,944	23,941,546
NET POSITION		
Invested in capital assets	35,884,580	33,478,193
Unrestricted	6,375,564	12,376,558
Restricted for capital acquisitions	70,934	108,729
Total net position	42,331,078	45,963,480
TOTAL LIABILITIES AND NET POSITION	$ 64,007,022	$ 69,905,026

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

TOLEDO AREA REGIONAL TRANSIT AUTHORITY
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
Years Ended December 31, 2012 and 2011

	2012	2011
OPERATING REVENUES		
Passenger fares	$ 4,141,166	$ 3,950,640
Toledo Board of Education and other contracts	779,737	1,340,642
Auxiliary transportation revenue	85,087	113,346
Total operating revenues	5,005,990	5,404,628
OPERATING EXPENSES		
Labor	12,435,173	12,716,998
Fringe benefits	4,865,096	5,077,863
Materials and supplies	4,220,731	3,518,220
Services	623,729	589,966
Fuel	3,059,107	3,013,797
Taxes	273,704	289,455
Claims and insurance	615,568	559,223
Utilities	402,402	354,494
Miscellaneous	14,574	18,622
Total operating expenses	26,510,084	26,138,638
Operating loss before depreciation	(21,504,094)	(20,734,010)
DEPRECIATION	5,105,473	4,134,058
Operating loss	(26,609,567)	(24,868,068)
NONOPERATING REVENUES (EXPENSES)		
Property taxes	16,163,857	16,732,300
Federal operating and preventive maintenance assistance	4,884,304	5,416,035
State operating and preventive maintenance grants and assistance	263,909	1,048,355
Investment income (loss)	(654)	11,149
Gain (loss) on disposal of capital assets	77,124	(33,626)
Nontransportation revenues	21,408	21,374
Total nonoperating revenues	21,409,948	23,195,587
Net loss before capital contributions	(5,199,619)	(1,672,481)
CAPITAL CONTRIBUTIONS	1,567,217	9,770,860
Increase (decrease) in net position	(3,632,402)	8,098,379
NET POSITION		
Beginning of year	45,963,480	37,865,101
End of year	$42,331,078	$45,963,480

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

TOLEDO AREA REGIONAL TRANSIT AUTHORITY
STATEMENTS OF CASH FLOWS
Years Ended December 31, 2012 and 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from fares and contracts	$ 6,328,056	$ 3,918,503
Payments to suppliers	(7,806,213)	(5,988,446)
Payments for labor and employee benefits	(17,594,596)	(17,779,058)
Net cash used in operating activities	(19,072,753)	(19,849,001)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Proceeds from:		
Property taxes	16,163,857	16,732,300
Federal operating and preventive maintenance assistance	3,505,428	7,966,868
State operating and preventive maintenance grants and assistance	1,414,509	366,298
Nontransportation revenues	21,408	21,374
Net cash provided by noncapital financing activities	21,105,202	25,086,840
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Expenditures for capital assets	(7,511,860)	(12,479,442)
Proceeds from capital contributions	1,567,217	9,770,860
Proceeds from sale of capital assets	77,124	31,946
Net cash used in capital and related financing activities	(5,867,519)	(2,676,636)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of long-term investments	(343,362)	(343,201)
Sale/maturity of long-term investments	339,084	325,673
Interest on investments	11,893	26,731
Net cash provided by investing activities	7,615	9,203
Net increase (decrease) in cash and cash equivalents	(3,827,455)	2,570,406
CASH AND CASH EQUIVALENTS		
Beginning of year	12,459,783	9,889,377
End of year	$ 8,632,328	$ 12,459,783

TOLEDO AREA REGIONAL TRANSIT AUTHORITY
STATEMENTS OF CASH FLOWS
Years Ended December 31, 2012 and 2011

	2012	2011
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES		
Operating loss	$ (26,609,567)	$ (24,868,068)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	5,105,473	4,134,058
Changes in assets and liabilities:		
Accounts receivable – trade and other	1,429,795	(1,055,552)
Inventories	426,542	(173,088)
Prepaid expenses and deposits	(262,394)	6,809
Accounts payable	1,275,092	2,482,196
Accrued liabilities and other	(329,963)	55,217
Other deferred revenue	(107,731)	(430,573)
Net cash used in operating activities	$ (19,072,753)	$ (19,849,001)

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.

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

Basis of Accounting

The accounting policies of the Authority conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental entities. The accounts of the Authority, which are organized as an enterprise fund, are used to account for the Authority's activities that are financed and operated in a manner similar to a private business enterprise. Accordingly, the Authority maintains its records on the accrual basis of accounting. Revenues from operations, investments, and other sources are recorded when earned. Expenses (including depreciation) 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 2012 that will be collected in 2013 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, 2012 and 2011.

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 of the 2011 amounts have been made to conform to the 2012 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 law 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, 2012 and 2011 is as follows:

	2012	2011
Book/carrying value of deposits	$ 8,632,328	$ 12,459,783
Bank balance:		
Covered by federal depository insurance	$ 886,865	$ 963,438
Uncollateralized as defined by the GASB	8,224,335	11,673,092
Total bank balance	$ 9,111,200	$ 12,636,530

The uncollateralized deposits at December 31, 2012 and 2011, were, however, covered by pledged collateral pools as discussed above.

NOTE 2 - CASH AND INVESTMENTS (CONTINUED)

Long-Term Investments

As of December 31, 2012 and 2011, the Authority had the following long-term investments:

Description	Maturity	Fair value
2012		
U.S. Treasury	February – August 2013	$ 128,474
U.S. Treasury	February 2014	121,392
U.S. Treasury	January 2015	28,590
U.S. Treasury	April 2015	128,230
U.S. Treasury	August 2015	390,835
Total		$ 797,521
2011		
U.S. Treasury	July – September 2012	$ 126,543
U.S. Treasury	February – August 2013	495,677
U.S. Treasury	February 2014	122,466
U.S. Treasury	January 2015	59,155
Total		$ 803,841

NOTE 3 - ACCOUNTS RECEIVABLE

Accounts receivable at December 31, 2012 and 2011 consisted of the following:

	2012	2011
Capital grants	$ 3,404,126	$ 2,025,250
Federal and state operating and preventive maintenance assistance	-	1,150,600
Trade and other	511,357	1,941,152
Interest	2,949	4,898
	3,918,432	5,121,900
Less allowance for doubtful receivables	18,000	18,000
Total accounts receivable, net	$ 3,900,432	$ 5,103,900

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the years ended December 31, 2012 and 2011 was as follows:

	2012			
	Balance January 1, 2012	**Additions**	**Deductions**	**Balance December 31, 2012**
Capital assets not being depreciated:				
Land	$ 743,224	$ -	$ -	$ 743,224
Construction in progress	12,336,779	5,555,309	12,331,779	5,560,309
Total capital assets not being depreciated	13,080,003	5,555,309	12,331,779	6,303,533
Capital assets being depreciated:				
Buildings	7,258,252	10,847,644	-	18,105,896
Land improvements	1,565,705	45,892	-	1,611,597
Transit stations	7,372,438	-	-	7,372,438
Transportation equipment	53,367,640	2,875,428	7,486,660	48,756,408
Other equipment (primarily service equipment, furniture and fixtures, computers and computer equipment, software and transit shelters)	9,360,735	519,366	99,603	9,780,498
Total capital assets being depreciated	78,924,770	14,288,330	7,586,263	85,626,837
Less accumulated depreciation:				
Buildings	5,807,836	497,034	-	6,304,870
Land improvements	1,555,567	4,709	-	1,560,276
Transit stations	3,122,291	292,858	-	3,415,149
Transportation equipment	40,151,380	3,498,990	7,486,660	36,163,710
Other equipment	7,889,506	811,882	99,603	8,601,785
Total accumulated depreciation	58,526,580	5,105,473	7,586,263	56,045,790
Total capital assets being depreciated, net	20,398,190	9,182,857	-	29,581,047
Total capital assets, net	$ 33,478,193	$ 14,738,166	$ 12,331,779	$ 35,884,580

During 2010, the Authority began construction of a new facility for the Toledo Area Regional Paratransit Service (TARPS) operation. The total cost of the facility was approximately $10 million and the new facility opened in February 2012.

NOTE 4 - CAPITAL ASSETS (CONTINUED)

	2011			
	Balance January 1, 2011	Additions	Deductions	Balance December 31, 2011
Capital assets not being depreciated:				
Land	$ 743,224	$ -	$ -	$ 743,224
Construction in progress	3,089,140	9,290,452	42,813	12,336,779
Total capital assets not being depreciated	3,832,364	9,290,452	42,813	13,080,003
Capital assets being depreciated:				
Buildings	7,258,252	-	-	7,258,252
Land improvements	1,565,705	-	-	1,565,705
Transit stations	4,870,015	2,502,423	-	7,372,438
Transportation equipment	55,225,512	571,643	2,429,515	53,367,640
Other equipment (primarily service equipment, furniture and fixtures, computers and computer equipment, software and transit shelters)	9,231,999	157,737	29,001	9,360,735
Total capital assets being depreciated	78,151,483	3,231,803	2,458,516	78,924,770
Less accumulated depreciation:				
Buildings	5,562,227	245,609	-	5,807,836
Land improvements	1,552,776	2,791	-	1,555,567
Transit stations	2,902,370	219,921	-	3,122,291
Transportation equipment	39,519,470	2,995,853	2,363,943	40,151,380
Other equipment	7,248,623	669,884	29,001	7,889,506
Total accumulated depreciation	56,785,466	4,134,058	2,392,944	58,526,580
Total capital assets being depreciated, net	21,366,017	(902,255)	65,572	20,398,190
Total capital assets, net	$ 25,198,381	$ 8,388,197	$ 108,385	$ 33,478,193

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 Ohio Revised Code provides statutory authority for employee and employer contributions. In 2012 and 2011, employees other than law enforcement personnel were required to contribute 10.0% of their covered payroll to OPERS. The 2012 and 2011 employer contribution rates for local government employer units were 14.0% of covered payroll including 4.0% for 2012 and 2011, that is used to fund postretirement health care benefits. The Authority's total contributions to OPERS for pension benefits (excluding the amount relating to postretirement health care benefits discussed in Note 6) for the years ended December 31, 2012 and 2011 were $1,249,000 and $1,270,000, respectively, equal to 100% of the required contribution for each year.

NOTE 6 - OTHER POSTEMPLOYMENT BENEFITS

Benefits Provided Through OPERS

The Authority provides health care benefits as a post-employment benefit (as defined by GASB Statement No. 45) through its contributions to OPERS. In addition to the pension benefit previously described, OPERS maintains a cost-sharing multiple employer defined benefit post-employment healthcare plan, which includes a medical plan, prescription drug program and Medicare Part B premium reimbursement, to qualifying members of both the TP and the CO Plans. Members of the MD Plan do not qualify for ancillary benefits, including post-employment health care coverage. In order to qualify for post-employment health care coverage, age-and-service retirees under the TP and CO Plans must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post-Employment Benefit (OPEB) as described in GASB Statement No. 45.

A portion of each employer's contribution to OPERS is set aside for the funding of postretirement health care. For the Authority, 4.0% for calendar year 2012 and 2011 of covered payroll was the portion of the 14.0% total contribution rate for 2012 and 2011 that was used to fund health care. The Ohio Revised Code provides the statutory authority requiring public employers to fund postretirement health care through their contributions to OPERS.

OPEB provided through OPERS are advance-funded on an actuarially determined basis. The Authority's total contributions to OPERS for postretirement health care benefit for the years ended December 31, 2012 and 2011 were $500,000 and $508,000, respectively, equal to 100% of the required contribution for each year.

Changes to the health care plan were adopted by the OPERS Board of Trustees on September 19, 2012, with a transition plan commencing January 1, 2014. With the recent passage of pension legislation under SB 343 and the approved health care changes, OPERS expects to be able to consistently allocate 4% of the employer contributions toward the health care fund after the end of the transition period.

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB No. 27*. This statement makes significant changes to the manner in which governments, include the Authority, must account for and report the pensions provided to their employees. Among other requirements, Statement No. 68 will require the Authority to record a liability equal to its proportionate share of the total net pension liability of all participating employers in OPERS, and it will require the Authority to record expense equal to its proportionate share of total pension expense of all participating employers in OPERS. Currently, the Authority's pension expense is equal to its required contributions to OPERS, and a liability is recorded only when actual contributions are less than the required amount. Statement No. 68 will require additional footnote disclosures as well. This statement is effective for the Authority in the year ended December 31, 2015, and as such, the Authority has not yet determined the impact that this statement will have on its financial statements.

NOTE 7 - RISK MANAGEMENT

Property and Liability

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.

Health Insurance

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 totaled approximately $2.9 million in 2012 and 2011, and $2.7 million in 2010. In addition, the Authority provides life insurance coverage to all full-time employees.

Workers' Compensation

Effective January 1, 2011, the Authority has elected to take advantage of the workers' compensation plan offered by the State of Ohio. This plan, called retrospective rating, allows the Authority to pay a fraction of the premium it would pay as an experience-rated risk.

Retrospective rating constitutes a step closer to self-insurance. In the retrospective rating plan, the Authority agrees to assume a portion of the risk in return for a possible reduction in premiums. The greater the percentage of the risk the Authority assumes, the greater the potential reduction in the premium. If the Authority's loss experience is better than predicted by the experience-rating system, its premium obligation will be less than what it would have paid under experience rating. If its experience is worse than predicted, its premium obligation will be more than it would have been assessed under experience rating, limited to a maximum premium. The Authority has assumed the risk of individual claims up to a maximum of $100,000.

The Authority has agreed to pay all claims up to a maximum of 150% of what the Authority would have paid had the Authority remained an experience-rated risk. Claims exceeding these limits will be paid by the State. Each year, the Authority pays the State a "minimum premium" for retaining the risk of having to pay claims which exceed the Authority's maximum claim limits. Ten years after each year the Authority elected the retrospective plan for workers' compensation, the Authority settles up for the reserve on any claims that are still open. The accrued claims liability amounted to $239,000 and $205,000 at December 31, 2012 and 2011, respectively.

NOTE 7 - RISK MANAGEMENT (CONTINUED)

Changes in the accrued claims liability, including general liability, medical, and workers' compensation, for the years ended December 31, 2012, 2011 and 2010 are as follows:

	2012	2011	2010
January 1, liability	$ 707,809	$ 471,600	$ 624,960
Current year claims and changes in estimates	3,123,025	3,173,003	2,518,221
Claim payments	(3,179,674)	(2,936,794)	(2,671,581)
December 31, liability	$ 651,160	$ 707,809	$ 471,600

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 2020 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. The valuation performed in 2012 will affect levy proceeds beginning in 2013. 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. In November 2010, voters approved a ten year 1.0 mill renewal levy.

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 2012 and 2011 had a lien and levy date of December 2011 and 2010, respectively.

On the March 6, 2012 ballot, voters in the City of Perrysburg decided to opt out of transit service provided by the Authority. This is expected to reduce annual property tax revenue by an estimated $1.2 to $1.4 million beginning in calendar 2013.

NOTE 9 - GRANTS, REIMBURSEMENTS AND SPECIAL FARE ASSISTANCE

Federal operating and preventive maintenance assistance consist of the following for the years ended December 31, 2012 and 2011:

	2012	2011
FTA preventive maintenance assistance	$ 3,603,534	$ 4,181,382
FTA bio fuel grant	1,201,579	1,234,653
FTA operating assistance	53,000	-
FTA short-range planning and marketing	26,191	-
Total	$ 4,884,304	$ 5,416,035

State operating and preventive maintenance grants and special fare assistance consist of the following for the years ended December 31, 2012 and 2011:

	2012	2011
State fuel tax reimbursement	$ 263,909	$ 276,900
ODOT operating assistance	-	682,057
State elderly and handicapped	-	89,398
Total	$ 263,909	$ 1,048,355

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 $273,500 and $228,800 for the years ended December 31, 2012 and 2011, 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.

NOTE 10 - COMMITMENTS AND CONTINGENCIES (CONTINUED)

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, 2012 and 2011, 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.

Union Contracts

The Authority's three union contracts, which cover drivers, mechanics, administrative and TARPS employees, expired in the fall of 2010. The Authority and two of the unions have reached agreement and the Authority and unions have entered into new contracts during 2011. One union and the Authority are currently in negotiations.

TOLEDO AREA REGIONAL TRANSIT AUTHORITY
Toledo, Ohio

REPORTS ISSUED PURSUANT TO THE OMB CIRCULAR A-133
December 31, 2012

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INDEPENDENT AUDITORS' 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, in accordance with the 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, the financial statements of Toledo Area Regional Transit Authority (the Authority), as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated June 17, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A *deficiency in internal* control 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 and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in Item 2012-1 in the accompanying schedule of findings and questioned costs that we consider to be significant deficiency.

The Board of Trustees
Toledo Area Regional Transit Authority

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from 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.*

The Authority's Response to Findings

The Authority's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

CliftonLarsonAllen LLP

Toledo, Ohio
June 17, 2013

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR FEDERAL PROGRAM, ON INTERNAL CONTROL OVER COMPLIANCE, AND ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS IN ACCORDANCE WITH OMB CIRCULAR A-133

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

Report on Compliance for Each Major Federal Program

We have audited Toledo Area Regional Transit Authority's (the Authority) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Authority's major federal programs for the year ended December 31, 2012. The Authority's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Authority's major federal programs based on our audit of the types of compliance requirements referred to above. 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the Authority's compliance.

The Board of Trustees
Toledo Area Regional Transit Authority

Opinion on Each Major Federal Program

In our opinion, the Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2012.

Report on Internal Control Over Compliance

Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Authority's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 Authority's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a certain deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as Item 2012-2, that we consider to be a significant deficiency.

The Authority's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Authority's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the result of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

The Board of Trustees
Toledo Area Regional Transit Authority

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of the Authority as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements. We issued our report thereon dated June 17, 2013, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the basic financial statements. 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 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

CliftonLarsonAllen LLP

Toledo, Ohio
June 17, 2013

TOLEDO AREA REGIONAL TRANSIT AUTHORITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended December 31, 2012

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-03-0268	$ 1,016,989
Capital investment grants	20.500	OH-96-X076	505,043
Capital investment grants	20.500	OH-03-0281	239,724
Capital investment grants	20.500	OH-04-0050	79,441
Capital investment grants	20.500	OH-04-0040	8,183
Capital investment grants	20.500	OH-04-0062	4,000
Subtotal CFDA 20.500			1,853,380
Formula grants	20.507	OH-90-X769	3,404,126
Formula grants	20.507	OH-95-X024	3,260,088
Formula grants	20.507	OH-95-X077	1,200,000
Formula grants	20.507	OH-95-X055	1,065,347
Formula grants	20.507	OH-90-X690	650,084
Formula grants	20.507	OH-95-X096	524,286
Formula grants	20.507	OH-90-X096	336,274
Formula grants	20.507	OH-95-X071	108,986
Formula grants	20.507	OH-90-X609	27,896
Formula grants – ARRA	20.507	OH-90-X730	8,468
Subtotal CFDA 20.507			10,585,555
Total Federal Transit Cluster			12,438,935
U. S. Department of Transportation:			
Federal Transit Administration (FTA)			
Transit Services Program Cluster:			
Received directly from FTA:			
Job Access – Reverse Commute	20.516	OH-37-X047	59,496
	20.516	OH-37-X061	7,056
Subtotal CFDA 20.516			66,552
New Freedom Program	20.521	OH-57-X009	13,596
Total Transit Services Cluster			80,148
TOTAL EXPENDITURES OF FEDERAL AWARDS			$ 12,519,083

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

TOLEDO AREA REGIONAL TRANSIT AUTHORITY
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended December 31, 2012

NOTE 1 - GENERAL

The accompanying schedule of expenditures of federal awards presents the activity of federal award programs of the Authority.

NOTE 2 - BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (Schedule) 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.

For purposes of the Schedule, federal awards include the following:

- Direct federal awards

- Pass-through funds received from non-federal organizations made under federally sponsored programs conducted by those organizations.

There are no noncash federal awards, loans or guarantees.

This information is an integral part of the accompanying schedule.

TOLEDO AREA REGIONAL TRANSIT AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I – Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	Unmodified			
Internal control over financial reporting:				
• Material weakness(es) identified?		yes	X	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?		yes	X	no
• Significant deficiency(ies) identified that are not considered to be material weakness(es)?	X	yes		none reported
Type of auditor's report issued on compliance for major programs:	Unmodified			
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: $ 375,573

Auditee qualified as low-risk auditee?		yes	X	no

Section II – Financial Statement Findings

Reference 2012-1 – Segregation of Duties

Criteria

Segregation of duties is a key component of internal controls.

Condition

The Authority has 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 also 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.

Section II – Financial Statement Findings, Continued

Reference 2012-1 – Segregation of Duties, Continued

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, daily processing 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. A journal entry list and reconciliation list both containing completion dates and review dates has been initiated. Purchase orders are reviewed for availability of funds only. The signature of the Comptroller alone, without any other signatures would not signify the approval of a purchase order. During 2012 the majority of disbursement orders that should have been signed by the Comptroller where signed by the Comptroller as well as another staff member, department head or the General Manager. Beginning in 2013, the Comptroller will not sign any disbursement orders without having another staff member sign off on the order. During 2012, a monthly disbursement report listing all disbursements was prepared and signed off by the General Manager. During 2013 as an additional control this report will be tied out to the general ledger. 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 established venues and TARTA's accounts. These transfers are also reviewed by the General Manager when the monthly disbursement report is approved. The process of opening mail has been segregated to the General Manager's Administrative Assistant and in her absence the Administrative Manager. The Financial Analyst posts cash, reconciles payroll, and performs payroll tax transfers and payment requests. The staff accountants and financial analyst reconciles and but one bank account, the remaining bank reconciliation will be transferred to a staff accountant in 2013. Beginning in June 2011, the doc-link program went live. Only items scanned into the system are able to be uploaded into Accounts Payable for payment. This process is completed by a clerk who does not have access to enter items into the accounts payable system.

Section III – Federal Award Findings and Questioned Costs

Reference 2012-2 – Other

All Federal Grants

See Finding 2012-1.

TOLEDO AREA REGIONAL TRANSIT AUTHORITY
SUMMARY OF PRIOR AUDIT FINDINGS

Reference 2011-1 – Segregation of Duties

Segregation of duties is a key component of internal controls. 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 2012-1.

Reference 2011-2 – 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 have policies and procedures but has not documented them in a formal accounting policies and procedures manual.

Status

This finding has been corrected.

Reference 2011-3 – Equipment and Real Property Management

For grantees with 50 or more fixed route buses, a reasonable spare ratio should not exceed 20% of the vehicles operated in maximum service according to FTA C9030.1C. Maximum service means the revenue vehicle count during the peak season of the year, on the week and day that maximum services are provided.

Status

This finding has been corrected.

Reference 2011-4 – Other

All Federal Grants

See Finding 2011-1 above.

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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
JULY 23, 2013

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