HILLSBOROUGH TRANSIT AUTHORITY
a/k/a HILLSBOROUGH AREA REGIONAL TRANSIT AUTHORITY

FINANCIAL STATEMENTS,
SUPPLEMENTARY INFORMATION,
AND
REGULATORY REPORTS

SEPTEMBER 30, 2005

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Hillsborough Transit Authority
a/k/a Hillsborough Area Regional Transit Authority

We have audited the accompanying statements of net assets of the Hillsborough Transit Authority, a/k/a Hillsborough Area Regional Transit Authority ("the Authority") as of September 30, 2005 and 2004, and the related statement of revenues, expenses, and changes in fund net assets, and of cash flows for the years then ended, which collectively comprise the Authority's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Authority, as of September 30, 2005 and 2004, and the changes in financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 2, 2005 on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. 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 our audit.

The Management's Discussion and Analysis on pages 3 through 6 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board of the Financial Accounting Foundation (GASB). We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements taken as a whole. The supplementary information on pages 23 and 24, consisting of the schedule of expenditures of federal awards and state financial assistance projects, is not a required part of the basic financial statements and is presented for additional analysis as required by U.S Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Nonprofit Organizations*, the Florida Single Audit Act, and Chapter 10.550, Rules of the Auditor General of the State of Florida. Such supplementary information is the responsibility of the Authority's management and has been subjected to auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, when considered in relation to the basic financial statements taken as a whole.

Valente Hernandez, P.A.
CERTIFIED PUBLIC ACCOUNTANTS
Tampa, Florida

December 2, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following management's discussion and analysis (MD&A) of the Hillsborough Transit Authority's, a/k/a Hillsborough Area Regional Transit Authority ("the Authority"), financial performance provides an overview of the financial activities for the fiscal year ended September 30, 2005. Please read it in conjunction with the basic financial statements, which follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial section of this report consists of three parts: management's discussion and analysis (this section), the basic financial statements and notes to the basic financial statements, and other required supplementary information.

The Authority's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America as applied to an enterprise fund using an accrual basis of accounting. Under this basis, revenues are recognized in the period in which they are earned and expenses are recognized in the period in which they are incurred.

Included in the financial statements are the Statement of Net Assets, the Statement of Revenues, Expenses, and Changes in Net Assets, the Statement of Cash Flows, and the related notes.

The Statement of Net Assets presents information on the Authority's assets and liabilities, of which the difference is net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial health of the Authority is improving or deteriorating.

The Statement of Revenues, Expenses, and Changes in Net Assets presents information on the Authority's operating revenues and expenses and non-operating revenue and expenses for the fiscal year. The net income or loss when combined with capital grant revenue determines the net change in assets for the year. The net change in assets is combined with the previous year-end's net asset total to arrive at the net asset total for this fiscal year.

The Statement of Cash Flows presents information on the Authority's cash and cash equivalent activities for the fiscal year resulting from operating activities, capital and related financing activities, non-capital and related financing activities and investing activities. The net result of these activities added to the beginning of the year cash balance reconciles to the cash and cash equivalent balance at the end of the current fiscal year.

FINANCIAL HIGHLIGHTS

- Net assets of the Authority increased by $791,611, of which $924,009 represented a decrease in the amount invested in capital assets and $1,715,620 represented an increase in unrestricted assets.
- The one percent decrease in capital assets (net of depreciation) is largely attributable to depreciation and disposals during fiscal year 2005.

- The Authority's total operating revenues increased $1,093,932 or by 13%. Operating expenses increased by $4,581,571 or 10.9%. The largest portion of the increase in operating expenses was due to increases in salaries and benefits, and fuel and lubricant costs.

FINANCIAL ANALYSIS OF THE AUTHORITY

Statement of Net Assets

As noted earlier, net assets serve as a measurement of the Authority's financial position over a period of time. The Authority's assets exceeded liabilities by $103,684,850 as of September 30, 2005.

The largest portion of the Authority's net assets each year, 87.8% and 89.4% at September 30, 2005 and 2004, respectively, represents its investment in capital assets (i.e., land, buildings and improvements, buses, paratransit vans, streetcars). The Authority uses these capital assets to provide services to its customers. These assets are not available for spending in future years.

Table 1
Condensed Statement of Net Assets

Assets:	2005	2004	Percentage Change
Current assets	$ 23,521,582	$ 20,057,167	17.3
Capital assets	91,029,537	91,953,546	-1.0
Total assets	114,551,119	112,010,713	2.3
Liabilities:			
Current liabilities	10,866,269	9,117,474	19.2
Total liabilities	10,866,269	9,117,474	19.2
Net assets:			
Investment in capital assets	91,029,537	91,953,546	-1.0
Unrestricted	12,655,313	10,939,693	15.7
Total net assets	$ 103,684,850	$ 102,893,239	0.8

A portion of the Authority's assets, 4% at September 30, 2005 and 3.9% at September 30, 2004, represents resources that are restricted for the Authority's self insurance program. An additional portion of the Authority's net assets, 12.2% and 10.6% at September 30, 2005 and 2004, respectively, represents resources that that are unrestricted. These funds may be used to meet the ongoing obligations of the Authority.

Statements of Revenues, Expenses, and Changes in Net Assets

The Authority operates as a single enterprise fund providing public transportation to the community. User charges, in the form of passenger fares, provided funding for approximately 19% of the service in both fiscal years 2005 and 2004. The cost of providing the remainder of the service was subsidized by ad valorem tax revenue collections and federal, state, and local funding. The Authority's millage rate for the 2005 tax year was 0.5 mill. This rate has not changed since 1980.

Table 2
Condensed Statement of Revenues, Expenses, and Changes in Net Assets

	2005	2004	Percentage Change
Operating revenues	$ 9,518,040	$ 8,424,108	13.0
Operating expenses	(46,572,806)	(41,991,235)	10.9
Depreciation	(7,400,882)	(7,641,164)	-3.1
Operating loss	(44,455,648)	(41,208,291)	7.9
Federal, state grants, and local grants	11,885,488	8,127,185	46.2
Property tax proceeds	25,740,799	23,180,746	11.0
Other non-operating revenues and expenditures	785,178	496,024	58.3
Capital grants	6,835,794	10,112,326	-32.4
Increase in net assets	$ 791,611	$ 707,990	11.8

As noted above, fiscal year 2005 operating revenues increased by 13%, while operating expenses prior to the recognition of depreciation increased by 10.9%. Marketing and promotion expenses increased by 31% in fiscal 2005.

Non-operating revenues of the Authority increased by 20.8% in fiscal year 2005. Most of the $6.6 million increase was from proceeds from federal operating assistance grants and from property taxes.

Net assets increased in fiscal 2005 by over $791,000. This is a slightly larger increase compared to the increase in fiscal 2004, mostly due to the increase in available cash.

Capital Assets

The Authority's investment in capital assets for the fiscal year ended September 30, 2005, included land, buildings and improvements, revenue and other vehicles and equipment. Major capital asset activities during the year included completion of environmental studies for Net Park, with the final design process underway. Revisions to the Environmental Assessment for the Northwest Transit Center as requested by the Federal Transit Administration (FTA) have been submitted, and a task order has been issued to complete the design to the 30% level of completion. The Authority is currently negotiating with the high scoring respondent to the RFP for programming, architectural and engineering services for rehabilitation to the Operations Center on 21st Avenue. Preliminary design is underway for the Tampa Bay Transit Center and coordination meetings are being held with the city to identify permitting requirements. Comprehensive procurements have been ongoing in the development of the Intelligent Transportation System, and a consulting firm has been providing technical support for the project as needed. A firm has been contracted, and has begun their study, to provide financial software consulting services to assist in the acquisition and installation of a new financial system. The Authority's acquisition of revenue vehicles and related equipment included the purchase of nine paratransit vans, two streetcars, and eight buses.

Long Term Debt Administration

The Authority has no long-term debt. Stringent capital funding and project implementation requirements have enabled the Authority to avoid issuing long-term debt instruments for the construction of capital projects.

REQUESTS FOR INFORMATION

This financial report is intended to provide an overview of the finances of the Authority for those with an interest in this organization. If you have questions concerning information contained within this report, contact Deborah J. Ward, General Manager of Finance, Hillsborough Area Regional Transit Authority, Administration and Finance Division, 4305 East 21st Avenue, Tampa, FL 33605.

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BASIC FINANCIAL STATEMENTS

HILLSBOROUGH TRANSIT AUTHORITY
a/k/a HILLSBOROUGH AREA REGIONAL TRANSIT AUTHORITY

STATEMENTS OF NET ASSETS

	September 30, 2005	September 30, 2004
ASSETS		
Current assets:		
Cash and cash equivalents (Note 3)	$ 18,260,911	$ 11,387,136
Accounts receivable:		
Trade and other, net of allowance for uncollectible accounts of $94,906 in 2005 and $110,980 in 2004	636,519	757,424
Federal grants	2,085,488	6,166,783
State grants	339,218	284,475
Local grants	579,374	313,735
Inventory of replacement parts and supplies	1,356,646	933,542
Prepaid expenses	263,426	214,072
Total current assets	23,521,582	20,057,167
Capital assets, net of accumulated depreciation (Note 4)	91,029,537	91,953,546
Total assets	114,551,119	112,010,713
LIABILITIES		
Current liabilities:		
Accounts payable	3,066,116	2,044,989
Accrued expenses	2,523,976	2,192,328
Self insurance and loss contingencies (Notes 3 and 6)	4,667,297	4,346,623
Deferred revenue	608,880	533,534
Total current liabilities	10,866,269	9,117,474
NET ASSETS		
Net Assets:		
Invested in capital assets (Note 4)	91,029,537	91,953,546
Unrestricted (Note 7)	12,655,313	10,939,693
Total net assets	$ 103,684,850	$ 102,893,239

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

HILLSBOROUGH TRANSIT AUTHORITY
a/k/a HILLSBOROUGH AREA REGIONAL TRANSIT AUTHORITY

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS

	For the Years Ended September 30, 2005	2004
OPERATING REVENUES:		
Passenger fares	$ 9,041,498	$ 7,987,861
Charter fares	13,432	92,426
Advertising	463,110	343,821
Total operating revenues	9,518,040	8,424,108
OPERATING EXPENSES:		
Salaries	22,092,721	18,140,615
Payroll taxes, fringe benefits and workers' compensation	9,442,857	6,899,164
Fuel and lubricants	3,515,541	2,022,337
Contracted services	2,279,214	4,483,635
Parts and supplies	2,805,589	1,819,765
Insurance premiums, self insurance costs and settlements	1,949,227	2,663,215
Utilities	601,353	570,692
Marketing and promotion	843,638	642,438
Other	1,628,148	1,537,634
Operating expenditures reimbursed by grants	1,414,518	3,211,740
Total operating expenses before depreciation	46,572,806	41,991,235
Operating (loss) before depreciation	(37,054,766)	(33,567,127)
Depreciation	7,400,882	7,641,164
Operating (loss)	(44,455,648)	(41,208,291)
NONOPERATING REVENUES AND (EXPENSES):		
Operating assistance grants		
Federal	5,385,927	2,694,133
State	3,574,740	3,600,063
Local	2,924,821	1,832,989
Property tax proceeds, net	25,740,799	23,180,746
Interest income	498,345	171,635
Interest expense	-	(58,726)
Other income	286,833	383,115
Net nonoperating revenues and (expenses)	38,411,465	31,803,955
(Loss) before capital grants	(6,044,183)	(9,404,336)
CAPITAL GRANTS:		
Federal	5,116,600	9,618,018
State	968,857	193,503
Local	750,337	300,805
Total capital grants	6,835,794	10,112,326
Increase in net assets	791,611	707,990
Net assets, beginning of year	102,893,239	102,185,249
Net assets, end of year	$ 103,684,850	$ 102,893,239

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

HILLSBOROUGH TRANSIT AUTHORITY
a/k/a HILLSBOROUGH AREA REGIONAL TRANSIT AUTHORITY

STATEMENTS OF CASH FLOWS

	For the Years Ended September 30, 2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	$ 9,714,291	$ 8,229,194
Cash paid to employees	(31,203,930)	(25,739,204)
Cash paid to suppliers	(14,183,473)	(16,230,561)
Net cash (used) in operating activities	(35,673,112)	(33,740,571)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITES:		
Operating grants received	11,487,464	11,224,954
Property tax proceeds	25,740,799	23,180,746
Increase in allowance for doubtful accounts	(16,074)	65,246
Other	252,907	376,968
Net cash provided by noncapital financing activites	37,465,096	34,847,914
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from the issuance of debt	-	-
Repayment of notes payable debt	-	(2,655,611)
Interest paid on loans and leases	-	(58,726)
Purchase of capital assets	(6,527,425)	(5,886,114)
Capital assistance grants	11,044,731	11,697,873
Proceeds from the sale of revenue vehicles	66,140	67,796
Net cash provided by in capital and related financing activities	4,583,446	3,165,218
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest income	498,345	171,635
Net cash provided by investing activities	498,345	171,635
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	6,873,775	4,444,196
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	11,387,136	6,942,940
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 18,260,911	$ 11,387,136
RECONCILIATION OF OPERATING EXPENSES IN EXCESS OF OPERATING REVENUES TO NET CASH USED IN OPERATING ACTIVITIES:		
Operating (loss)	$ (44,455,648)	$ (41,208,291)
Adjustments to reconcile operating expenses in excess of operating revenues to net cash used in operating activities:		
Depreciation	7,400,882	7,641,164
Gain on sale of capital assets	(15,588)	
Increase (decrease) in accounts receivable	136,980	(46,354)
Increase (decrease) in allowance for doubtful accounts	(16,074)	65,246
(Increase) decrease in inventories	(423,104)	10,742
(Increase) in prepaid expenses	(49,355)	(27,470)
Increase (decrease) in accounts payable	1,021,127	(1,349,710)
Increase (decrease) in accrued expenses	331,648	(699,425)
Increase (decrease) in deferred revenue	75,346	(213,806)
Increase (decrease) in self-insurance	320,674	2,087,333
Total adjustments	8,782,536	7,467,720
Net cash (used) in operating activities	$ (35,673,112)	$ (33,740,571)

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

NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 1 - ORGANIZATION AND REPORTING ENTITY:

Description

Hillsborough Transit Authority, operating and also known as Hillsborough Area Regional Transit Authority, or HARTline, ("the Authority"), was created as a body politic and corporate under Chapter 163, Part V, Sections 163.567, et seq., Florida Statutes, on October 3, 1979. It was chartered for the purpose of providing mass transit service to its two charter members, the City of Tampa ("the City") and the unincorporated areas of Hillsborough County, Florida ("the County"). The Authority may admit to membership any county or municipality contiguous to a member of the Authority upon application and after approval by a majority vote of the entire Board of Directors. The City of Temple Terrace has been admitted as a member of the Authority.

The Authority's Board of Directors is comprised of two directors appointed by the Governor of the State of Florida and a minimum of one director from each member of the Authority. Members are allowed an additional director for each 150,000 persons, or major fraction thereof, resident in those members' jurisdictional limits.

The Authority has been determined to be an "Independent Special District" as described in Section 189.403, Florida Statutes, and is authorized to levy an ad valorem tax of up to one-half mill ($.500000) on the taxable value of real and tangible personal property within the jurisdiction of its members. Chapter 165.570, Florida Statutes, allows the Authority to levy up to a three mill levy, subject to public referendum. The Authority's ad valorem taxes are assessed as part of the annual assessment of Hillsborough County, which levies its taxes November 1 of each year. Collection of taxes is scheduled for November through the following March. Taxes become delinquent April 1 and tax certificates placing liens on the property are sold May 31.

Additional revenues and funding are received from passenger fares, charter services, other revenue services and grants from the United States Government, the State of Florida, the City and the County.

Basis of Presentation

The Authority operates the transit system as a single enterprise fund with operational cost centers to account for costs of services: Operations, maintenance, and administrative. Ad valorem tax income, operating grants and other non-capital grant revenue are classified as nonoperating revenue. Capital grants are separately presented in the statements of revenue, expenses and changes in fund net assets.

NOTE 1 - ORGANIZATION AND REPORTING ENTITY (continued):

Basis of Accounting

The Authority's financial statements are presented in accordance with accounting principles generally accepted in the United States of America. The Authority applies all applicable pronouncements of the Financial Accounting Standards Board of the Financial Accounting Foundation ("FASB") issued on or before November 30, 1989, and all applicable pronouncements required by the Governmental Standards Board of the Financial Accounting Foundation ("GASB") subsequent to that date.

The accompanying financial statements are reported on the accrual basis of accounting, under which, revenues are recognized when earned and measurable.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The Authority's significant financial and accounting policies utilized in formulating these financial statements are as follows:

Cash and Cash Equivalents

For the purposes of the statements of cash flows, cash equivalents are defined as short-term, highly liquid debt instruments that are both readily convertible to known amounts of cash and have original maturities of three months or less.

Inventory

Inventory, principally consisting of vehicle replacement parts and operating supplies, is stated at average cost.

Capital Assets

Capital assets are recorded at cost and are depreciated using the straight-line method over the estimated useful lives as follows:

	Useful lives (years)
Building and improvements	5 - 40
Revenue vehicles	4 - 30
Operating transit and related equipment	3 - 7
Other equipment, fixtures, and other vehicles	3 - 7

On an annualized basis, the Authority evaluates the useful lives of the capital assets and writes off net capitalized costs of assets with no future value.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

Donated capital assets are valued at their fair market value on the date received. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Accounts Receivable

The Authority provides for an allowance for doubtful accounts based on the expected collectibility of outstanding balances.

Net Assets

Net assets present the difference between assets and liabilities in the statements of net assets. Net assets are reported as restricted when there are legal limitations imposed on their use by laws or regulations of other governments or external restrictions by creditors or grantors. Unrestricted net assets may be designated for specific purposes as the option of the Authority Board of Directors. If restricted and unrestricted net assets are available for the same purpose, then restricted assets will be used before unrestricted assets.

Compensated Absences

Vacation pay is accrued when earned; vested or accumulated vacation leave up to a maximum of 240 hours, per employee, is reported as expenditure and a fund liability of the general fund; the employee is allowed to transfer accumulated hours in excess of 240 to the sick leave pool. The portion of sick leave that is payable at retirement is accrued when vested; the Authority allows employees to accumulate unused sick leave at varying rates depending on several factors, including the employee's union representation and length of employment.

In accordance with GASB Statement No. 16, *Accounting for Compensated Absences*, the compensated absences liability is calculated based on the pay or salary rates in effect at the balance sheet date, September 30, 2005. Additionally, accruals have been made for salary-related payments associated with the payment of compensated absences, using the rates in effect at the balance sheet date. The salary-related payments subject to this accrual are those items for which an employer is liable to make a payment directly and incrementally associated with payments made for compensated absences on termination. Accordingly, the Authority has also recognized 7.65% of the compensated absences liability, representing its share of the Social Security and Medicare taxes. An accrual is also made for the pension cost related to the compensated absences amount because the Authority's employees are covered under the Florida Retirement System.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

Property Tax Revenue

The Authority is deemed a special taxing district and is authorized to levy an ad valorem tax on the taxable real and personal property in the transit area at a rate not to exceed three mills, subject to approval by a vote of the electors in the taxing district. The approved ad valorem tax rate in arrears for the calendar years 2005 and 2004 was 0.5 mill.

Chapter 197, Florida Statutes, governs property tax collections. The Hillsborough County Tax Collector ("Tax Collector") bills and collects all property taxes levied within the County. Discounts are allowed for early payment of 4% in November, 3% in December, 2% in January, and 1% in February. If property taxes are not paid by April 1, the County adds a 3% penalty to the delinquent real estate taxes.

The Tax Collector advertises and sells tax certificates on all real property for delinquent taxes. Certificates not sold revert to the County. The Tax Collector must receive payment before the certificates are issued. Any person owning land on which a tax certificate has been sold may redeem the tax certificate by paying the Tax Collector the face amount of the tax certificate plus interest and other costs. The owner of the tax certificate may, at any time after taxes have been delinquent (April 1) for two years, file an application for tax deed sale. The County, as a certificate owner, may exercise similar procedures two years after taxes have been delinquent. Tax deeds are issued to the highest bidder for the property, which is sold at public auction.

The Tax Collector remits current taxes collected through four distributions to the Authority. The Authority recognizes property tax revenue on a cash basis as it is received from the Tax Collector since virtually all taxes levied will be collected through the tax collection process, and the remittances in October and November for prior fiscal year taxes are insignificant.

Passenger and Charter Fares

Fares are recorded as revenue at the time services are performed.

Accounting Pronouncements

The Authority implemented the provisions of the GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, GASB Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Omnibus, an Amendment to GASB Statements No. 21 and No. 34*, and Statement No. 38, *Certain Financial Statement Note Disclosures* October 1, 2002.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates that affect certain reported amounts and disclosures. These estimates are based on management's knowledge and experience. Accordingly, actual results could differ from these estimates.

Classification

Amounts in the 2004 statement of revenues, expenses and changes in net assets were classified differently from the 2005 presentation. Such classification changes do not alter the result for operations for either year.

NOTE 3 – CASH, CASH EQUIVALENTS AND INVESTMENTS:

Deposits

At September 30, 2005, the bank balance (restricted and unrestricted) of the Authority's deposits was $967,324 and the book balance was $710,741. At September 30, 2004, the bank balance (restricted and unrestricted) of the Authority's deposits was $1,568,304 and the book balance was $1,101,472. Of the September 30, 2005 bank balance, $100,000 was covered by federal depository insurance and $867,324 was collateralized by the State of Florida collateral pool. Of the September 30, 2004 bank balance, $100,000 was covered by federal depository insurance and $1,393,304 was collateralized by the State of Florida collateral pool. Required collateral is defined under Chapter 280 of the Florida Statutes, *Security for Public Deposits*. The difference between the Authority's books and bank balance is due to outstanding checks and deposits in transit in these accounts. The Authority's procedures have been to replenish the bank accounts with transfers from the interest bearing accounts at the Florida State Board of Administration (FSBA) Local Government Surplus Trust Fund Investment Pool ("the Surplus Funds Investment Pool") to cover cash needs.

Cash on Hand

The Authority had cash on hand totaling $35,155 and $32,627 as of September 30, 2005 and 2004, respectively.

Investments

Florida Statute 218.415, and the Authority's investment policy authorize the Authority to invest surplus funds in the following:

NOTE 3 – CASH, CASH EQUIVALENTS AND INVESTMENTS (continued):

a. the Local Government Surplus Funds Trust Fund, an investment pool, under the sponsorship of the FSBA;

b. negotiable direct obligations of, or obligations of which the principal and interest are unconditionally guaranteed by, the US Government;

c. interest bearing time deposits or savings accounts in qualified public depositories as defined in Section 280.02, Florida Statutes;

d. obligations of the Federal Home Loan Mortgage Corporation;

e. obligations of the Federal National Mortgage Association;

f. securities of, or other interest in open-end or closed-end management type investment company or investment trust registered under the Investment Company Act of 1940, 15 U.S.C ss.80a-1 et seq., as amended from time to time, provided the portfolio of such investment company or trust fund is limited to obligations of the United States Government or any agency or instrumentality thereof and to repurchase agreements fully collateralized by such United States Government obligations, and provided such an entity takes delivery of such collateral either directly or through an authorized custodian;

g. prime commercial paper with the highest credit quality rating from a nationally recognized agency;

h. tax exempt obligations rated "AA" or higher and issued by state and local governments.

There were no violations to this policy during the fiscal year. The Authority's investments at September 30, 2005 and 2004 consisted of the following:

The Autbority invests funds throughout the year with the Surplus Funds Investment Pool, an investment pool administered by the FSBA under the regulatory oversight of the State of Florida. Throughout the year and as of September 30, 2005, the FSBA contained certain floating and adjustable rate securities which were indexed based on prime rate and/or one and three month London Inter Bank Offering Rate ("LIBOR") rates. These investments were purchased to add relative value to the portfolio. There is a risk of loss of interest on the investments if there are changes in the underlying indexed base. Tbese investments represented 49% of the SBA's portfolio at September 30, 2005. The FSBA met the criteria to be a "2a-7Like" pool as defined in GASB Statement No. 31 at September 30, 2005 and 2004. Therefore the investment was valued at share value, which approximates fair value at September 30, 2005. The totals (restricted and unrestricted) invested through the Surplus Funds Investment Pool are $17,515,015 and $10,253,036 at September 30, 2005 and 2004, respectively. These investments are not classified as to credit risk as they are not evidenced by securities that exist in book or entry form.

NOTE 3 – CASH, CASH EQUIVALENTS AND INVESTMENTS (continued):

Restricted cash and cash equivalents of $4,667,297 and $4,346,632, as of September 30, 2005 and 2004, respectively, represent an amount equal to the sum of the two self-insurance programs of the Authority (See Note 6). This amount represents the accrual by the Authority of measurable liabilities on claims made as of September 30, 2005 and 2004, respectively.

NOTE 4 – CAPITAL ASSETS:

Capital asset activity for the year ended September 30, 2005 and 2004 is summarized as follows:

Description	Balance at September 30, 2004	Additions and Reclasses	Deletions and Reclasses	Balance at September 30, 2005
Land	$ 13,011,608	$ 78,260	$ -	$ 13,089,868
Buildings and improvements	40,764,695	304,001	49,131	41,019,565
Revenue vehicles	56,461,610	4,569,434	1,435,335	59,595,709
Operating and transit related equipment	13,690,325	666,141	251,552	14,104,914
Other equipment, fixtures and other vehicles	21,291,810	294,531	211,224	21,375,117
Construction in progress	108,206	615,058		723,264
Total capital assets	145,328,254	6,527,425	1,947,242	149,908,437
Less: Accumulated depreciation	53,374,709	7,400,882	1,896,691	58,878,900
Total capital assets, net	$ 91,953,545	$ (873,457)	$ 50,551	$ 91,029,537

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NOTE 4 – CAPITAL ASSETS (continued):

Description	Balance at September 30, 2003	Additions and Reclasses	Deletions and Reclasses	Balance at September 30, 2004
Land	$ 13,011,608	$ -	$ -	$ 13,011,608
Buildings and improvements	40,443,450	321,245	-	40,764,695
Revenue vehicles	55,664,511	4,402,040	3,604,941	56,461,610
Operating and transit related equipment	12,840,114	926,988	76,777	13,690,325
Other equipment, fixtures and other vehicles	21,164,174	127,636	-	21,291,810
Construction in progress	-	108,206	-	108,206
Total capital assets	143,123,857	5,886,115	3,681,718	145,328,254
Less: Accumulated depreciation	49,388,366	7,641,164	3,654,821	53,374,709
Total capital assets, net	$ 93,735,491	$ (1,755,049)	$ 26,897	$ 91,953,545

Depreciation expense during the years ended September 30, 2005 and 2004, were $7,400,882 and $7,641,164, respectively.

NOTE 5 - PENSION PLANS:

Defined Benefit Pension Plan

Substantially, all full-time employees of the Authority are participants in the Florida Retirement System ("the System"), a multiple-employer, cost-sharing public retirement system. The System, which is controlled by the State Legislature and covers approximately 662,300 full-time employees of various governmental units within the State of Florida.

The System provides for vesting benefits after six years of creditable service. Normal retirement benefits are available to employees who retire at or after 62 years with six or more years of service. Early retirement is available after six years of service with a 5% reduction of benefits for each year prior to the normal retirement age. Retirement benefits are based on age, average compensation and years-of-service credit where the average compensation is computed as the average of an individual's highest five highest years of earnings. Employees are not required to contribute to this retirement system.

NOTE 5 - PENSION PLANS (continued):

The Authority has no responsibility to the System other than to make the periodic payments required by State Statutes. The Florida Division of Retirement issues a publicly available financial report that includes financial statements and required supplementary information for the System. The report may be obtained by writing to Florida Division of Retirement, 2639 Monroe Street, Building C, Tallahassee, Florida 32399-1560.

Participating employer contributions are based upon statewide rates established by the State of Florida. For the System's fiscal year commencing July 1, 2004, these rates are applied to employee salaries as follows: Regular employees, 6.28%, and senior management, 8.26%. The Authority's contributions during the years ended September 30, 2005, 2004, and 2003 were $1,843,690, $1,604,247 and $1,257,429, respectively, equal to the required contributions for each year.

Effective July 1, 1998, the Florida Legislature established a Deferred Retirement Option Program ("DROP"). This program allows eligible employees to defer receipt of monthly retirement benefit payments while continuing employment with a System employer for a period not to exceed 60 months after electing to participate. Deferred monthly benefits are held in the Florida Retirement System Trust Fund and accrue interest.

Defined Contribution Plan

Beginning December 1, 2002, the System offered a second retirement plan option, the Florida Retirement System Investment Plan ("FRS Investment Plan".) Under this plan the employer pays all contributions, which are a percentage of salary based on the System's Membership Class. The employee makes investment elections within the investment funds chosen by the FSBA. The retirement benefit is based on the account balance, and the benefit is vested after one year of service. If an employee leaves the job, he or she can keep the benefit in the System, or transfer his or her account to another retirement plan. The employee can also elect to cash out the benefit when leaving but could be subject to tax penalties for taking early withdrawal. The employee in this plan is not eligible for DROP. All employees in the System's defined benefit pension plan were given a choice of switching to the FRS Investment Plan within a designated time period.

NOTE 6 - SELF INSURANCE AND LOSS CONTINGENCIES:

The Authority is exposed to various risks of loss related to tort; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During 1987, the Authority established a self-insurance program for general liability claims. Additionally, during 1990 the Authority established a self-insurance program for its workers' compensation

NOTE 6 - SELF INSURANCE AND LOSS CONTINGENCIES (continued):

claims. Workers' compensation claims are administered internally by the Authority and a third party administrator.

The liabilities currently provided are based upon the Authority's estimate after considering the available facts. The claims estimation process involves substantial uncertainties, including the ultimate outcome of certain legal actions that may affect the adequacy of amounts provided; however, management feels the amounts provided are appropriate.

Self-insured claims, liability limitations and methods used to limit the exposures are as follows:

> General liability claims - The Authority's exposure for general liability, including vehicle, property and bodily injury, is subject to the State of Florida sovereign immunity laws, which provide loss limits of $100,000 per person and $200,000 per occurrence.
>
> Workers' compensation claims - The Authority self-insures workers' compensation claims; however, claims exceeding $500,000 are covered by an excess workers' compensation liability policy.
>
> Property damage insurance coverage – The Authority has an excess insurance policy for vehicles with a self-insured retention ("SIR") of $500,000.
>
> Unemployment compensation - The Authority is fully self-insured and charges are made quarterly as the Florida Department of Revenue, Florida Unemployment Compensation Fund, assesses the Authority based on actual claims.
>
> Group medical - Effective January 1, 2003, employees of the Authority are covered under United Health Care, an independent insurance provider.

Settled claims have not exceeded commercial coverage in any of the past three years. The liability of $4,667,297 and $4,346,623 in self-insurance and loss contingencies reported at September 30, 2005 and 2004, respectively, are based on the requirements of GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues,* which requires liability for claims be reported if information prior to the issuance of the financial statements indicate that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated.

Changes in the claims liability amount in fiscal year 2005 and 2004 were:

NOTE 6 - SELF INSURANCE AND LOSS CONTINGENCIES (continued):

	General Liability	Workers' Compensation	Total
Balance at September 30, 2003	$ 1,077,683	$ 1,181,607	$ 2,259,290
Current year claims and changes in estimates	1,912,293	1,639,998	3,552,291
Claim payments	(951,745)	(513,213)	(1,464,958)
Balance at September 30, 2004	2,038,231	2,308,392	4,346,623
Current year claims and changes in estimates	1,200,332	215,298	1,415,630
Claim payments	(622,213)	(472,743)	(1,094,956)
Balance at September 30, 2005	$ 2,616,350	$ 2,050,947	$ 4,667,297

NOTE 7 – UNRESTRICTED NET ASSETS:

Designated Reserves

Unrestricted net assets includes reserves which have been designated by the Authority for capital projects in the amounts of $1,938,336 and $1,666,002 as of September 30, 2005 and 2004, respectively. These amounts are not externally restricted and do not represent measurable liabilities as of September 30, 2005 and 2004.

NOTE 8 – OPERATING LEASES:

Lease Commitments

On December 12, 2000, the Authority entered into a five-year operating lease (cancelable by the Authority under certain specific conditions) for 10,168 square feet of space at a base rent starting of $13.50, escalating annually, plus 3.6182% of common area costs. The rent for the year ended September 30, 2005 included three months at $19.89 per square foot and nine months at $19.12, for a total of $192,556. Certain operating costs, storage space, and parking totaling $19,903 were added to the base rent. The Authority has exercised its option to extend the term of the lease for an additional five years, and the new expiration date is May 10, 2011. Lease expenditures for all operating leases recognized for the year ended September 30, 2005 were $281,084 of which $212,459 was for office rent, plus estimated operating costs, storage space, and parking, plus a pro rata share for the previous year's estimated versus actual operating costs. The difference of $68,625 was leasing expenditures for office and maintenance equipment.

NOTE 8 – OPERATING LEASES (continued):

The minimum annual lease payments under these agreements are as follows:

Fiscal Year Ended September 30,	Minimum Annual Rental
2006	$ 218,576
2007	217,864
2008	226,589
2009	235,669
2010	245,119
2011	142,263
Total	$ 1,286,080

NOTE 9 – COMMITMENTS AND CONTINGENCIES:

Environmental Clean-Up Costs

During the year ended September 30, 1988, the Authority discovered and began the clean-up of major underground diesel and unleaded gasoline fuel spills. Clean-up and associated costs incurred during the year ended September 30, 2005 and 2004 totaled approximately $9,232 and $17,047, respectively. Of the total costs incurred to date, $325,601 has been recouped from the State of Florida Department of Environmental Protection. The Authority is unable to reasonably estimate the additional clean-up costs, if any, that will be incurred in the future relating to this incident; therefore no liability has been accrued.

Legal Actions

The Authority is a defendant in various legal actions, which in the opinion of management will not have a significant effect on the financial position of the Authority.

Resolution of Claim by the City of Tampa

The City and the Authority entered into a multi-year Interlocal Agreement dated September 30, 2004, effective through September 30, 2009, ("the Agreement") whereby the City agrees to construct Pedestrian Access Improvement ("PAI") projects which are mutually agreed upon for a total not to exceed $1,700,000. The Agreement further details the annual obligations by the Authority through the fiscal year ending September 30, 2009. The Authority agreed to pay from available federal funding through grants and City impact fees for these PAI projects.

NOTE 9 – COMMITMENTS AND CONTINGENCIES (continued):

PAIs are defined as new, repair or replacement sidewalk construction, landing pads and any mutually agreed upon new construction bus stop access and bus landing bays or improvements to existing bus stops and bus loading bays. The City is responsible for the construction and maintenance of these projects. Both entities concurred that the Agreement constitutes an in lieu funding mechanism that fulfills all obligations of the Authority to provide funding for the remaining balance of the streetcar project.

The payments stipulated in the Agreement were as follows:

Immediate upon execution of agreement	$ 450,000
After October 1, 2004	250,000
After October 1, 2005	250,000
After October 1, 2006	250,000
After October 1, 2007	250,000
After October 1, 2008	250,000
Total	$ 1,700,000

Funds not expended in a particular fiscal year shall carry over to the next fiscal year. At September 30, 2005, approximately $265,000 of funding had been accrued by the Authority relating to these PAIs. A balance of approximately $435,000 has been approved by the Authority but not expended.

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SUPPLEMENTARY INFORMATION

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PROGRAM OR AWARD AMOUNT	ACCRUED OR (DEFERRED) REVENUE 09/30/04	RECEIPTS	PROGRAM EXPENDITURES	ACCRUED REVENUE 09/30/05
$ 261,474	$ -	$ -	$ 11,474	$ 11,474
6,888,239	10,027	2,153	(9,303)	(1,429)
2,780,058	3,857	1,844,367	1,965,510	125,000
239,462	67,168	83,612	16,444	-
118,403	-	21,114	21,114	-
19,041,993	195,312	379,704	634,220	449,828
5,803,175	15,004	86,457	67,996	(3,457)
16,366,000	(21,728)	-	32,340	10,612
6,273,966	246,285	433,208	216,373	29,450
7,539,218	31,252	-	8,976	40,228
7,401,004	451,290	-	(134,383)	316,907
8,084,316	837,428	1,199,367	421,520	59,581
7,808,040	508,188	1,436,816	1,354,942	426,314
6,627,169	1,966,143	2,575,829	769,590	159,904
7,983,873	-	3,494,371	3,838,411	344,040
25,000	25,000	25,000	-	-
991,307	4,449	4,449	-	-
3,327,769	-	79,103	111,525	32,422
1,909,000	620,137	728,722	116,818	8,233
900,000	900,000	900,000	-	-
693,470	129,251	693,470	564,219	-
	5,989,063	13,987,742	10,007,786	2,009,107
	104,624	106,610	3,912	1,926
	6,093,687	14,094,352	10,011,698	2,011,033
253,393	-	192,602	253,393	60,791
600,000	21,254	74,112	65,554	12,696
300,000	4,248	175,160	171,880	968
	25,502	441,874	490,827	74,455
	6,119,189	14,536,226	10,502,525	2,085,488
3,060,788	-	3,060,788	3,060,788	-
150,000	33,065	33,541	476	-
500,000	27,718	94,879	124,747	57,586
350,000	-	151,961	203,100	51,139
275,000	38,844	162,685	169,666	45,825
800,000	149,131	-	-	149,131
50,000	-	50,000	50,000	-
900,000	181	900,000	899,819	-
	248,939	4,453,854	4,508,596	303,681
1,071,000	35,537	-	-	35,537
	284,476	4,453,854	4,508,596	339,218
	$ 6,403,665	$ 18,990,080	$ 15,011,121	$ 2,424,706

REGULATORY REPORTS

ValienteHernandez
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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF BASIC FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Directors
Hillsborough Transit Authority
a/k/a Hillsborough Area Regional Transit Authority

We have audited the accompanying basic financial statements of the Hillsborough Transit Authority, a/k/a Hillsborough Area Regional Transit Authority ("the Authority"), as of September 30, 2005 and for the year then ended and have issued our report thereon dated December 2, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Authority's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs, pages 29 through 32.

A *material weakness* is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of basic 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*.

This report is intended solely for the information and use of the Board of Directors, management, federal awarding agencies, and state funding agencies, and is not intended to be and should not be used by anyone other than these specified parties.

Valiente Hernandez P.A.
CERTIFIED PUBLIC ACCOUNTANTS

Tampa, Florida
December 2, 2005

ValienteHernandez P.A.

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND STATE PROJECT AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 AND THE FLORIDA SINGLE AUDIT ACT

Board of Directors
Hillsborough Transit Authority
a/k/a Hillsborough Area Regional Transit Authority

Compliance

We have audited the compliance of Hillsborough Transit Authority, a/k/a Hillsborough Area Regional Transit Authority ("the Authority"), with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement*, and the requirements described in the *Executive Office of the Governor's State Projects Compliance Supplement*, that are applicable to its major program and state financial assistance project for the year ended September 30, 2005. The Authority's major federal programs and state financial assistance projects are identified in Section I, Summary of Auditors' Results, of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to the major federal programs and state financial assistance projects is the responsibility of the Authority's management. Our responsibility is to express an opinion on the Authority's compliance based on our audit.

We conducted our audit 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, the provisions of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, the Florida Single Audit Act, and Chapter 10.550, Rules of the Auditor General of the State of Florida. Those standards, OMB Circular A-133, the Florida Single Audit Act, and Chapter 10.550, Rules of the Auditor General of the State of Florida, require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program or state project occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Authority's compliance with those requirements.

In our opinion, the Authority complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs and state financial assistance projects for the year ended September 30, 2005.

Internal Control Over Compliance

The management of the Authority is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to its federal programs and state financial assistance projects. In planning and performing our audit, we considered the Authority's internal control over compliance with requirements that could have a direct and material effect on to its major federal programs and state financial assistance projects 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, the Florida Single Audit Act, and Chapter 10.550, Rules of the Auditor General of the State of Florida.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect Authority's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs, pages 29 through 32.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.

This report is intended solely for the information and use of the Board of Directors, management, federal awarding agencies, and state funding agencies, and is not intended to be and should not be used by anyone else other than these specified parties.

Valente Hernandez, P.A.
CERTIFIED PUBLIC ACCOUNTANTS

Tampa, Florida
December 2, 2005

HILLSBOROUGH TRANSIT AUTHORITY
a/k/a HILLSBOROUGH AREA REGIONAL TRANSIT AUTHORITY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FEDERAL AWARDS PROGRAM AND STATE FINANCIAL ASSISTANCE PROJECT
YEAR ENDED SEPTEMBER 30, 2005

SECTION I – SUMMARY OF AUDITORS' RESULTS

Financial Statements	**Results**	
Type of auditors' report issued:	Unqualified	
Internal control over financial reporting:		
Material weakness(es) indentified?	No	
Reportable condition(s) identified not considered to be a material weakness(es)	Yes, one.	
Noncompliance material to financial statements noted?	No	
Awards and Financial Assistance	**Federal**	**State**
Internal control over major programs:		
Material weakness(es) indentified?	No	No
Reportable condition(s) identified not considered to be a material weakness(es)	None reported [1]	None reported [1]
Type of auditors' report issued on compliance for major programs?	Unqualified	Unqualified
Any audit findings disclosed that are required to be reported in accordance with –		
Circular A-133 section .501 (a)	None reported	-
Florida Single Audit Act	-	None reported

Identification of Major Programs

Federal	**Name of Program or Cluster**
CFDA 20.500	Federal Transit – Capital Investment Grants
CFDA 20.516	Job Access Reverse Commute

State	**Name of Program or Cluster**
CSFA 55.012	Public Transit Service Development Program
CSFA 55.017	Urban Capital

Dollar threshold used to distinguish between Type A and Type B programs: $ 315,076

Auditee qualified as low-risk auditee? Yes

[1] See above section on internal control over financial reporting.

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FEDERAL AWARDS PROGRAM AND STATE FINANCIAL ASSISTANCE PROJECT
YEAR ENDED SEPTEMBER 30, 2005**

SECTION II – FINANCIAL STATEMENT FINDINGS

This section identifies the reportable conditions, material weaknesses, and instances of noncompliance related to the financial statements that are required to be reported in accordance with paragraph 5.18 through 5.20 of *Government Auditing Standards*.

CURRENT YEAR COMMENTS

There are no material weaknesses, or instances of noncompliance related to the financial statements that require disclosure. However, we noted a reportable condition on the internal control over financial reporting, which is shown in Exhibit A, pages 31 and 32.

PRIOR YEARS' COMMENTS

There was one reportable condition, from 2003, which has been successfully cleared. There were no instances of noncompliance or reportable conditions in 2004.

SECTION III – FEDERAL AWARD AND STATE FINANCIAL ASSISTANCE PROJECT FINDINGS AND QUESTIONED COSTS

There were no findings or questioned costs applicable to federal awards or state financial assistance projects required to be reported in accordance with OMB A – 133, the Florida Single Audit Act, or Chapter 10.550, Rules of the Auditor General of the State of Florida.

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EXHIBIT A

REPORTABLE CONDITIONS

Previous Years' Findings (2003):

Finding 03-02:

Condition:

The Authority's capital (also called 'fixed') assets are tracked in an *Excel* spreadsheet. The listing includes the original cost, acquisition date (the date placed in service), useful life and accumulated depreciation. Capitalization of new assets and disposal of unusable, sold or inoperative assets, and depreciation expense is booked at fiscal year's end.

Result:

The condition resulted in a once-a-year analysis of expenditures with the effect of an annual decision as to whether or not, and how much, to capitalize expenditures; capital assets were underreported during the year and accounting records were not used as a management tool to determine the extent of year-to-date expenditures.

Additionally, depreciation was not reported during interim closings of the accounting books, thereby significantly distorting the results of operations during the interim period (fiscal year to date, before a full year.)

Recommendation:

Finding has been cleared.

Current Year's Finding:

Finding 05-01:

Condition:

The Authority's internal control procedures were not followed, which lead to a breach in financial monitoring of the accounting and reporting thereon of a significant transaction. This condition does not include federal or state funding.

The Authority has an agreement with the City of Tampa (the City) calling for the Authority to reimburse, during a five-year period ending September 30, 2009, up to $1.7 million for certain pedestrian access improvements (as defined). The City is responsible for carrying out these projects; the Authority's responsibility is to provide funding based on previously agreed specific projects. The City would seek reimbursement by providing evidence that an approved segment or a complete project has been finished.

The Authority failed to monitor from a fiscal angle the progress of authorized projects totaling approximately $700,000. Consequently, an invoice from the City of approximately $265,000, effective as of September 30, 2005, was submitted during the first week of December 2005 for which an accrual had not been booked.

Result:

Communication between the Authority's Engineering and Development Department (E&D), responsible for monitoring the agreement with the City, and the Authority's Finance Department was breached when E&D failed to obtain a purchase order (PO) through the established channels for the total amount of approved projects, $700,000. Had a PO been issued, the Finance Department could have followed up before September 30, 2005 with the appropriate E&D personnel as to the financial status of the project, therefore avoiding missing recording of a material expenditure.

Recommendation:

We recommend that adherence with established procedures whereby a PO is issued as soon as a project is identified be followed in non-traditional contractual engagements such as currently exists with the City.

Management's Response:

Management concurs with the above recommendation and such procedures have been implemented.

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"MANAGEMENT LETTER"
BASED ON RULE 10.554(1)(h) OF THE
AUDITOR GENERAL OF THE STATE OF FLORIDA

To the Board of Directors
Hillsborough Transit Authority
a/k/a Hillsborough Area Regional Transit Authority
Tampa, Florida

We have audited the basic financial statements of the Hillsborough Transit Authority, a/k/a Hillsborough Area Regional Transit Authority ("the Authority"), as of and for the fiscal year ended September 30, 2005 and have issued our report thereon dated December 2, 2005. These basic financial statements are the responsibility of the Authority. Our responsibility is to express an opinion on these basic financial statements as a result of 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.

As required under *Governmental Auditing Standards*, we have issued an Independent Auditors' Report on Internal Control Over Financial Reporting and Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* dated December 2, 2005. Disclosures in this report should be considered in conjunction with this "Management Letter".

Additionally, our audit was conducted in accordance with the provisions of Chapter 10.550, Rules of the Auditor General, which govern the conduct of local government entity audits performed in the State of Florida and require that certain items be addressed in this letter.

The Rules of the Auditor General (Section 10.554(1)(h)1.) state that we address in the Management Letter, if not already addressed in our report on compliance and internal controls, whether or not corrective actions have been taken to address significant findings and recommendations made in the preceding annual financial audit report. There was one such recommendation made in the preceding annual financial audit report and its clearance was mentioned in our report.

The Rules of the Auditor General (Section 10.554(1)(h)2.) state that a Management Letter shall have a statement as to whether or not the Authority complied with Section 218.415, Florida Statutes (1999), regarding the investment of its public funds. In connection with our audit of basic financial statements of the Authority, the results of our tests did not indicate the Authority was not in compliance with Section 218.415, regarding the investment of public funds. However, our audit was not directed toward obtaining knowledge regarding the Authority's compliance with this requirement.

The Rules of the Auditor General (Section 10.554(1)(h)3.) require that the Management Letter include any recommendations to improve the local governmental entity's financial management, accounting procedures, and internal control. In addition to what has been disclosed in our report related to *Government Auditing Standards,* there are two matters to be reported in the audit period which is disclosed in Attachment 1 to this Management Letter.

The Rules of the Auditor General (Section 10.554(1)(h)4.) require disclosure in the Management Letter of the following matters that are not clearly inconsequential considering both quantitative and qualitative factors, if not already addressed in the auditors' reports on compliance and internal controls or schedule of findings or questioned costs: (a) violations of laws, rules, regulations and contractual provisions that have occurred or are likely to have occurred and were discovered within the scope of the audit; (b) improper or illegal expenditures discovered within the scope of the audit that may not materially affect the financial statements; (c) deficiencies in the internal control that are not reportable conditions, including but not limited to: (1) improper or inadequate accounting procedures (e.g., the omission of required disclosures from the financial statements); (2) failures to properly record financial transactions; and (3) other inaccuracies, shortages, defalcations, and instances of fraud discovered by, or that come to the attention of the auditor. Our audit disclosed certain matters required to be disclosed by the Rules of Auditor General (Section 10.554(1)(h)4.), which are mentioned in Attachment 1 to this letter.

The Rules of the Auditor General (Section 10.554(1)(h)5.) also require that the name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed in the Management Letter, unless disclosed in the notes to the basic financial statements. This information has been included in the notes to the basic financial statements.

The rules of the Auditor General (Section 10.554(1)(h) 6a.) state that a Management Letter shall include a statement as to whether or not a unit of local government is in a state of financial emergency as a consequence of conditions described in Section 218.503(1), Florida Statutes, which states that a local governmental entity is in a state of financial emergency when any of the following conditions occur:

a) Failure within the same fiscal year in which due to pay short-term loans from banks or failure to make bond debt service payments when due.

b) Failure to transfer at the appropriate time, due to lack of funds: (1) taxes withheld on the income of employees; or (2) employer and employee contributions for a) federal social security, or b) any pension, retirement, or benefit plan of an employee.

c) Failure for any one pay period to pay, due to lack of funds: (1) wages and salaries owed to employees; or (2) retirement benefits owed to former employees.

d) An unreserved or total fund balance or retained earnings deficit for which sufficient resources of the local governmental entity are not available to cover the deficit for two successive years.

e) Noncompliance of the local government retirement system with actuarial conditions provided by the law.

Section 218.503(2) states that a local governmental entity shall notify the Governor and the Legislative Auditing Committee when one or more of the conditions specified in Section 218.503(1) have occurred or will occur if action is not taken to assist the local governmental entity.

Management of the Authority has determined that the Authority is not in a state of financial emergency under Section 218.503(1). In connection with our audit of the basic financial statements of the Authority, the results of our tests did not indicate that the Authority is in a state of financial emergency as a consequence of the conditions in Section 218.503(1). However, our audit does not provide a legal determination on the Authority's compliance with this requirement.

The Rules of the Auditor General (Section 10.554(1)(h) 6b.) state that a Management Letter shall include a statement as to whether or not the financial report filed with the Florida Department of Financial Services, pursuant to Section 218.32(1)(a), Florida Statutes, is in agreement with the annual financial audit report for the current audit period and, if not, explanations of any significant differences. In accordance with Chapter 10.550, paragraph 4 of the Rules of the Auditor General, State of Florida, we have compared the financial information contained in the Authority's annual financial report for the year ended September 30, 2005, filed in accordance with Section 218.32 Florida Statutes, to the Authority's 2005 audited financial statements. Our comparison resulted in no material differences.

The Rules of the Auditor General (Section 10.554(1)(h) 6c.1.) state that a Management Letter shall include a statement that the auditor applied financial condition assessment procedures pursuant to rule 10.556(8). In connection with our audit of the basic financial statements of the Authority, we applied financial condition assessment procedures pursuant to rule 10.556(8.)

This "Management Letter" is intended solely for the information of the Board of Directors, management and applicable state agencies and is not intended to be and should not be used by anyone other than these specified parties.

Valiente Hernandez P.A.
CERTIFIED PUBLIC ACCOUNTANTS

Tampa, Florida
December 2, 2005

ATTACHMENT 1
"MANAGEMENT LETTER"
BASED ON RULE 10.554(1)(h) OF THE
AUDITOR GENERAL OF THE STATE OF FLORIDA
SEPTEMBER 30, 2005

COMMENT NO. 05-01:

CONDITION:

During the fiscal year ended September 30, 2005 it was noted that continuing variances existed between the actual cash deposited and fares collected according to General Farebox, Inc. (GFI) reports which summarize transactions originated from each bus's fare box. Cumulative variances for the fiscal year were 3.03% negative. Such variances are possible because the boxes do not count bills larger than $5; the high volume of small change that pass through the fare boxes; mechanical failures; operator errors; and count room errors. Industry standards allow for 3% variances. Consequently, the Authority's cumulative variances are not considered unusual.

RESULT:

Notwithstanding that variances are within acceptable industry standards, variances should be continuously investigated and steps should be taken to correct or minimize those factors causing the variances.

The Authority's Finance Department has recently undertaken a proactive program to identify reasons for these variances and to reduce them to a minimal level.

RECOMMENDATION:

We recommend that the Finance Department conduct unscheduled test counts in order to document weaknesses within the system. We further recommend that management consider enhancing the security aspects of the count room, such as adding more video taping cameras and having tapes pulled and reviewed by independent personnel for those days when variances exceed 1%.

MANAGEMENT'S RESPONSE:

Unscheduled test counts by the Accounting Department are conducted on a random basis, including a verification of one hundred percent of the bus fleet on an individual basis. Cash control procedures have been implemented for improvements in internal controls. An update to the security system is underway. Tapes will be reviewed by independent personnel when a negative variance of greater than 1% is identified between the daily cash flow vault sheet and daily summary report for farebox data. The Authority's internal audit firm will be conducting a cash control audit once the scope of work is finalized.

ATTACHMENT 1
"MANAGEMENT LETTER"
BASED ON RULE 10.554(1)(h) OF THE
AUDITOR GENERAL OF THE STATE OF FLORIDA
SEPTEMBER 30, 2005

COMMENT NO. 05-02:

CONDITION:

General liability claims and changes in self-insurance reserves during the past three fiscal years have averaged $1,205,000 per year. Payments and settlements over the same three year period averaged $692,000 per year. Liabilities, representing estimated losses at September 30th of each of the past three years, were:

2003	$ 1,078,000
2004	$ 2,038,000
2005	$ 2,616,000

At September 30, 2005, this account (at $2.616 million) represents the largest single liability account on the Authority's statement of net assets. During the past three fiscal years, the related expense equals 2.9% of annualized operating expenses excluding depreciation, and comprises a significant portion of the Authority's operating budget.

The increase over the two-year period from October 1, 2003 to September 30, 2005 of $1,538,000 represents a 142.7% increase in this liability. Payments and settlements have increased from $502,000 in 2003 to $622,000 in 2005, or 24%.

The increase during fiscal year ended September 30, 2004 was due, to a significant extent, to year-end adjustments augmenting reserves for both general liability and workers' compensation. Most of the increase affecting the general liability reserve was due to incurred-but-not-reported ("INR") incidents, which were found to be under-reserved by an independent actuarial study conducted in 2004.

During fiscal year 2005, management decided to document INR incidents by opening a claim file for each incident. Some of these incidents may not result in a claim; however, reserves were established for these incidents. Reserve amounts depend on management's estimates of liability exposure.

Certain internal procedures within the risk management area were established during 2005 giving the Risk Manager higher discretion over setting reserves that this position had had in the past. In order to maintain checks/balances over this sensitive area, periodic reviews of reserves are made by the General Manager of Finance who has supervisory capacity over risk management.

This condition does not apply to the workers' compensation self-insurance because there is a third-party administrator that monitors these claims and acts in conjunction with the risk management staff. In addition, there is commercial insurance coverage for claims over $500,000.

RESULT:

This trend may lead into unanticipated negative financial results. Continued increases in this expense category will require a higher demand of the Authority's financial resources.

RECOMMENDATION:

We recommend that the Authority's board of directors be monthly appraised as to the fluctuations in self-insurance reserves. In addition, we recommend that the balances in both the general liability and workers' compensation reserves be closely monitored to detect and study reasons for incidents to occur, and propose corrective actions. We further recommend that management research whether the current number of incidents and the associated dollar amounts are within industry standards.

MANAGEMENT'S RESPONSE:

Management concurs with the recommendation. An actuarial study will be conducted in fiscal year 2006. Staff will review the feasibility of conducting an annual actuarial study rather than the current process whereby a study is conducted every two to three years.

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