HILLSBOROUGH TRANSIT AUTHORITY
d/b/a HILLSBOROUGH AREA REGIONAL TRANSIT AUTHORITY

FINANCIAL STATEMENTS,
SUPPLEMENTARY INFORMATION,
AND
REGULATORY REPORTS

SEPTEMBER 30, 2003

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Hillsborough Transit Authority
d/b/a Hillsborough Area Regional Transit Anthority

We have audited the accompanying statements of net assets of the Hillsborough Transit Authority, d/b/a Hillsborough Area Regional Transit Authority ("the Authority") as of September 30, 2003, and the related statement of revenues, expenses, and changes in fund net assets, and of cash flows for the year then ended, 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 audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 audit provides 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, 2003, and the changes in financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 2 to the financial statements, during 2003, the Authority adopted Governmental Accounting Standards Board ("GASB") Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments Omnibus*, and GASB Statement No. 38, *Certain Financial Statement Note Disclosures.*

Management's Discussion and Analysis is not a required part of the financial statements, but is supplementary information required by GASB Statement No. 34. We 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 performed for the purpose of forming an opinion on the financial statements taken as a whole. The supplementary information listed in the foregoing table of contents of pages 23 to 24 are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The accompanying supplementary schedules of Expenditures of Federal Awards and State Financial Assistance 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*, and Chapter 10.550, Rules of the Auditor General of the State of Florida. This supplementary information and schedule is the responsibility of the Authority's management. Such schedules has been subjected to auditing procedures applied in our audit of the basic financial statement and, in our opinion, is fairly stated, in all material respects, when considered in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 28, 2003 on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering our audit.

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

November 28, 2003
Except for Note 11, which is,
dated January 14, 2004

Management's Discussion and Analysis

The following management's discussion and analysis (MD&A) of the Hillsborough Transit Authority's ("the Authority"), d/b/a Hillsborough Area Regional Transit, financial performance provides an overview of the financial activities for the fiscal year ended September 30, 2003. Please read it in conjunction with the 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 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 Statements of Net Assets, the Statements of Revenues, Expenses, and Changes in Net Assets, the Statements of Cash Flows, and the related notes.

The Statements 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 Statements 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 Statements 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 $16,795,854, of which $12,928,549 represented the amount invested in capital assets and $3,867,305 was unrestricted.

- The 16 percent increase in capital assets (net of depreciation) is largely attributable to bus replacements and construction of the Marion Transit Center, Southern Transportation Plaza, Ybor Station, and the Streetcar Line.

- The Authority's total operating revenues increased $930,171 or by 14.4%. Operating expenses increased by $4,783,334 or 15.2%. The largest portion of the increase in operating expenses was due to increases in salaries and benefits, marketing related to the opening of new facilities, and non-operating expenditures reimbursed by capital grants.

FINANCIAL ANALYSIS OF THE AUTHORITY

Statements 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 $102,185,249 as of September 30, 2003.

The largest portion of the Authority's net assets each year, 91.7% and 94.6% at September 30, 2003 and 2002, 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 Statements of Net Assets

	2003	2002	Percentage Change
Assets:			
Current assets	$ 20,398,451	$ 25,578,163	-20.2%
Capital assets	93,735,491	80,806,942	16.0%
Total assets	114,133,942	106,385,105	7.3%
Liabilities:			
Current liabilities	11,948,693	20,995,710	-43.1%
Total liabilities	11,948,693	20,995,710	-43.1%
Net assets:			
Investment in capital assets	93,735,491	80,806,942	16.0%
Unrestricted	8,449,758	4,582,453	84.4%
Total net assets	$ 102,185,249	$ 85,389,395	19.7%

A portion of the Authority's assets, 2% at September 30, 2003 and 2002, represent resources that are restricted for the Authority's self insurance program. An additional portion of the Authority's net assets, 8.3% and 5.4% at September 30, 2003 and 2002, 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 20 percent of the service in both fiscal years 2003 and 2002. 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 2003 tax year was 0.5 mills. This rate has not changed since 1980.

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

	2003	2002	Percentage Change
Operating revenues	$ 7,409,689	$ 6,479,518	14.4%
Operating expenses	(36,273,648)	(31,490,314)	15.2%
Depreciation	(7,741,655)	(6,597,718)	17.3%
Operating loss	(36,605,614)	(31,608,514)	15.8%
Federal, state grants, and local grants	8,152,038	5,408,982	50.7%
Property tax proceeds	21,124,567	19,604,163	7.8%
Other non-operating revenue and expenditures	551,803	979,551	-43.7%
Capital grants	23,573,060	25,023,666	-5.8%
Increase in net assets	$ 16,795,854	$ 20,134,554	-16.6%

As noted above, fiscal year 2003 operating revenues increased by 14.4%, while operating expenses prior to the recognition of depreciation increased by 15.2%. Contracted service costs increased by 28.8% over fiscal 2002. Marketing and promotions expenses increased by 40% in fiscal 2003 as a result of the grand openings of the Marion Transit Center, Southern Transportation Plaza, and the Streetcar line.

Non-operating revenues of the Authority increased by 11.6% in fiscal 2003. The increase of $1.5 million, representing approximately half of the increase in non-operating revenues, relates to property tax proceeds due to increased property values in the County.

Net assets increased in fiscal 2003 by $16.8 million. This is a slower increase compared to fiscal 2002 due to the substantial completion of the streetcar line and Ybor Station in fiscal 2002. This resulted in a corresponding reduction of Federal Transportation Administration capital grant funding in fiscal 2003.

Capital Assets

The Authority's investment in capital assets for the fiscal year ended September 30, 2003, included land, buildings and improvements, revenue and other vehicles and equipment. As previously mentioned, major capital asset activities during the year included the completion of construction at the Marion Transit Center, Southern Transportation Plaza, Ybor Station, the Streetcar Line, and the purchase of revenue vehicles and related equipment.

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 Administration and Finance, Hillsborough Area Regional Transit Authority, Administration and Finance Division, 4305 East 21st Avenue, Tampa, FL 33605.

BASIC FINANCIAL STATEMENTS

HILLSBOROUGH TRANSIT AUTHORITY
d/b/a HILLSBOROUGH AREA REGIONAL TRANSIT AUTHORITY

STATEMENTS OF NET ASSETS

SEPTEMBER 30, 2003 AND 2002

ASSETS		2003		2002
Current unrestricted assets:				
Cash and cash equivalents (Note 3)	$	4,683,650	$	8,034,037
Accounts receivable:				
Trade and other, net of allowance for uncollectible accounts of $45,734 in 2003 and $7,976 in 2002		776,316		876,760
Federal grants		5,915,574		10,278,553
State grants		4,934,564		2,860,372
Local grants		698,171		256,548
Inventory of replacement parts and supplies		944,284		940,520
Prepaid expenses		186,602		245,070
Total current unrestricted assets		18,139,161		23,491,860
Current restricted assets:				
Cash and cash equivalents (Note 3)		2,259,290		2,086,303
Capital assets, net of accumulated depreciation (Note 4)		93,735,491		80,806,942
Total capital assets, net				
Total assets		114,133,942		106,385,105
LIABILITIES				
Current liabilities payable from unrestricted assets:				
Accounts payable		3,394,699		8,166,538
Accrued expenses		2,891,753		2,623,098
Notes payable (Note 7)		2,655,611		7,671,557
Deferred revenue		747,340		448,214
Total current liabilities payable from unrestricted asssets		9,689,403		18,909,407
Current liabilities payable from restricted assets:				
Self insurance and loss contingencies (Note 6)		2,259,290		2,086,303
Total liabilities		11,948,693		20,995,710
NET ASSETS				
Net Assets:				
Invested in capital assets (Note 4)		93,735,491		80,806,942
Unrestricted (Note 8)		8,449,758		4,582,453
Total net assets	$	102,185,249	$	85,389,395

See accompanying Notes to Financial Statements

HILLSBOROUGH TRANSIT AUTHORITY
d/b/a HILLSBOROUGH AREA REGIONAL TRANSIT AUTHORITY

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

FOR THE YEARS ENDED SEPTEMBER 30, 2003 AND 2002

	2003	2002
OPERATING REVENUES:		
Passenger fares	$ 7,149,636	$ 6,295,113
Charter fares	17,886	13,572
Advertising	242,167	170,833
Total operating revenues	7,409,689	6,479,518
OPERATING EXPENSES:		
Salaries	16,563,410	15,297,839
Payroll taxes, fringe benefits and workers' compensation	4,815,278	4,021,481
Fuel and lubricants	1,627,750	1,668,579
Contracted services	4,354,562	3,379,722
Parts and supplies	1,645,891	1,612,760
Insurance premiums, self insurance costs and settlements	1,374,196	1,837,682
Utilities	546,780	423,071
Marketing and promotion	868,880	622,672
Other	1,131,925	1,182,733
Operating expenditures reimbursed by grants	3,344,976	1,443,775
Total operating expenses before depreciation	36,273,648	31,490,314
Operating (loss) before depreciation	(28,863,959)	(25,010,796)
Depreciation	7,741,655	6,597,718
Operating (loss)	(36,605,614)	(31,608,514)
NONOPERATING REVENUES AND (EXPENSES):		
Operating assistance grants		
Federal	3,569,651	1,142,205
State	3,523,230	3,505,580
Local	1,059,157	761,197
Property tax proceeds, net	21,124,567	19,604,163
Interest income	153,425	237,541
Interest expense	(77,547)	(87,790)
Sale of land	-	829,800
Other income	475,925	726,706
Net nonoperating revenues and (expenses)	29,828,408	26,719,402
(Loss) before capital grants	(6,777,206)	(4,889,112)
CAPITAL GRANTS:		
Federal	19,957,940	20,930,833
State	3,103,855	3,211,733
Local	511,265	881,100
Total capital grants	23,573,060	25,023,666
Increase in net assets	16,795,854	20,134,554
Net assets, beginning of year	85,389,395	65,254,841
Net assets, end of year	$ 102,185,249	$ 85,389,395

See accompanying Notes to Financial Statements

HILLSBOROUGH TRANSIT AUTHORITY
d/b/a HILLSBOROUGH AREA REGIONAL TRAN SIT AUTHORITY

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED SEPTEMBER 30, 2003 AND 2002

	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	$ 7,809,259	$ 6,812,811
Cash paid to employees	(21,110,033)	(19,210,243)
Cash paid to suppliers	(19,439,108)	(7,688,271)
Net cash (used) in operating activities	(32,739,882)	(20,085,703)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITES:		
Operating grants received	5,350,920	5,831,046
Property tax proceeds	21,124,567	19,604,163
Other	475,925	1,556,506
Net cash provided by noncapital financing activites	26,951,412	26,991,715
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from the issuance of debt	2,655,611	7,671,557
Repayment of notes payable debt	(7,671,557)	(8,871,259)
Interest paid on loans and leases	(77,547)	(87,790)
Purchase of capital assets	(20,670,204)	(24,850,498)
Capital assistance grants	28,221,342	24,469,625
Proceeds from the sale of land	-	829,800
Net cash provided by (used in) in capital and related financing activities	2,457,645	(838,565)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest income	153,425	237,541
Net cash provided by investing activities	153,425	237,541
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(3,177,400)	6,304,988
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	10,120,340	3,815,352
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 6,942,940	$ 10,120,340

RECONCILIATION OF OPERATING EXPENSES IN EXCESS OF OPERATING REVENUES TO NET CASH USED IN OPERATING ACTIVITIES:

	2003	2002
Operating (loss)	$ (36,605,614)	$ (31,608,514)
Adjustments to reconcile operating expenses in excess of operating revenues to net cash used in operating activities:		
Depreciation	7,741,655	6,597,718
Decrease in accounts receivable	100,444	244,255
(Increase)decrease in inventories	(3,764)	279,611
Decrease in prepaid expenses	58,468	45,166
Increase (decrease) in accounts payable	(4,771,839)	4,193,045
Increase in accrued expenses	268,655	109,077
Increase in deferred revenue	299,126	89,039
Increase (decrease) in self-insurance	172,987	(35,100)
Total adjustments	3,865,732	11,522,811
Net cash (used) in operating activities	$ (32,739,882)	$ (20,085,703)

See accompanying Notes to the Financial Statements

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - ORGANIZATION AND REPORTING ENTITY:

Description - Hillsborough Transit Authority, operating and doing business as Hillsborough Area Regional Transit Authority ("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 that member's 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 mil ($.5000000) 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 mil 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 multiple cost centers to account for the costs of services. Costs are recorded in the form of charges to users for such services.

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 ("FASB") issued on or before November 30, 1989, and all applicable pronouncements required by the Governmental Standards Board of the Financial Accounting Foundation ("GASB").

The accompanying financials statements are reported using the flow of economic resources measurement focus on the accrual basis of accounting, under which revenues are recognized when earned and measurable, in the preparation of its annual financial statements.

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 averaged cost.

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

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

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

Donated capital assets are valued at their fair market value on the date received. The cost 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 an 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

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

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, 2003. 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 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.

Property Tax Revenue - The Authority is deemed a special taxing district and is authorized to levy an ad valorem tax on the taxable real 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 2003 and 2002 was 0.5 mills.

Property tax collections are governed by Chapter 197, Florida Statutes. 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 on 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.

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

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.

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.

Reclassifications - Amounts in the 2002 financial statements have been reclassified to conform to the presentation of the 2003 financial statements.

NOTE 3 – CASH, CASH EQUIVALENTS AND INVESTMENTS:

Deposits - At September 30, 2003, the bank balance (restricted and unrestricted) of the Authority's deposits was $1,329,501 and the book balance was $983,265. At September 30, 2002, the bank balance (restricted and nnrestricted) of the Authority's deposits was $843,596 and the book balance was $15,311. Of the September 30, 2003 bank balance, $100,000 was covered by federal depository insurance and $1,154,501 was collateralized by the State of Florida collateral pool. Of the September 30, 2002 bank balance, $100,000 was covered by federal depository insurance and $743,596 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 State Board of Administration (SBA) Local Government Surplus Funds Trust Fund Investment Pool ("the Surplus Funds Investment Pool") to cover cash needs.

Cash on hand - The Authority had cash on hand totaling $22,547 and $39,168 as of September 30, 2003 and 2002, respectively.

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

a. the Local Government Surplus Funds Trust Fund, an investment pool, under the sponsorship of the State Board of Administration

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

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 s.280.02

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, 2003 and 2002 consisted of the following:

The Authority invests funds throughout the year with the Local Government Surplus Trust Fund, an investment pool administered by the Florida State Board of Administration, ("SBA") under the regulatory oversight of the State of Florida. Throughout the year and as of September 30, 2003, the SBA 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 to the portfolio. There is a risk of loss of interest on the investments if there are changes in the underlying indexed base. These investments represented 14% of the SBA's portfolio at September 30, 2003. The SBA met the criteria to be a "2a-7Like" pool as defined in GASB Statement No. 31 at September 30, 2003 and 2002. Therefore the investment was valued at share value, which approximates fair value at September 30, 2003. The total (restricted and unrestricted) invested through the Local Government Surplus Trust Fund are $5,937,128 and $10,100,696 at September 30, 2003 and 2002, respectively. These investments are not classified as to credit risk as they are not evidenced by securities that exist in book or entry form.

Restricted cash and cash equivalents of $2,259,290 and $2,086,303, as of September 30, 2003 and 2002, 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, 2003 and 2002, respectively.

NOTE 4 – CAPITAL ASSETS:

Capital asset activity for the year ended September 30, 2003 and 2002 is summarized as follows:

Description	Balance at September 30,	Additions and Reclasses	Deletions and Reclasses	Balance at September 30,
Land	$ 12,698,192	$ 313,416	$ -	$ 13,011,608
Buildings and improvements	27,211,431	351,268	12,880,751	40,443,450
Revenue vehicles	50,239,976	10,156,957	(4,732,422)	55,664,511
Operating and transit related equipment	12,466,198	508,253	(134,337)	12,840,114
Other equipment, fixtures and other vehicles	3,357,791	2,802,522	15,003,861	21,164,174
Construction in progress	21,366,866	6,537,790	(27,904,656)	-
Total capital assets	127,340,454	20,670,204	(4,886,803)	143,123,857
Less: Accumulated depreciation	46,533,512	7,741,655	4,886,803	49,388,366
Total capital assets, net	$ 80,806,942	$ 12,928,549	$ -	$ 93,735,491

Description	Balance at September 30,	Additions and Reclasses	Deletions and Reclasses	Balance at September 30,
Land	$ 12,919,539	$ 18,874	$ 240,221	$ 12,698,192
Buildings and improvements	28,641,014	394,674	1,824,257	27,211,431
Revenue vehicles	55,930,400	2,103,355	7,793,779	50,239,976
Operating and transit related equipment	13,024,131	644,743	1,202,677	12,466,197
Other equipment, fixtures and other vehicles	4,337,257	321,986	1,301,451	3,357,792
Construction in progress	-	21,366,866	-	21,366,866
Total capital assets	114,852,341	24,850,498	12,362,385	127,340,454
Less: Accumulated depreciation	50,898,341	6,597,718	10,962,547	46,533,512
Total capital assets, net	$ 63,954,000	$ 18,252,780	$ 1,399,838	$ 80,806,942

Depreciation expense during the years ended September 30, 2003 and 2002, were $7,697,332 and $6,597,718, 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 640,000 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.

The Authority has no responsibility to the System other than to make the periodic payments required by the 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, 2003, these rates are applied to employee salaries as follows: Regular employees, 7.39%, and senior management, 9.37%. The Authority's contributions during the years ended September 30, 2003, 2002, and 2001 were $1,257,429, $1,363,758, $1,566,761 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 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 State Board of Administration. 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

NOTE 5 - PENSION PLANS (continued):

when leaving but is 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 with 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 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. The Authority also has a first dollar policy for property damage with a deductible of $5,000.

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 $2,259,290 and $2,086,303 in self insurance and loss contingencies reported at September 30,

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

2003 and 2002, respectively, are based on the requirements of GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues,* which requires a 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 2003 and 2002 were:

	General Liability	Workers' Compensation	Total
Balance at October 1, 2001	$ 826,185	$ 1,295,218	$ 2,121,403
Current year claims and changes changes in estimates	710,490	330,782	1,041,272
Claim payments	(459,039)	(617,033)	(1,076,072)
Balance at September 30, 2002	1,077,636	1,008,967	2,086,603
Current year claims and changes in estimates	501,719	567,645	1,069,364
Claim payments	(501,672)	(395,005)	(896,677)
Balance at September 30, 2003	$1,077,683	$ 1,181,607	$ 2,259,290

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NOTE 7 - NOTES PAYABLE:

Notes payable consist of the following components:

	Balance at September 30, 2003	Balance at September 30, 2002
Tax Anticipation Notes	$ 2,651,111	$ 3,410,000
Florida Deparment of Transportation Grant Promissory Note	4,500	4,500
Florida Deparment of Transportation State Infrastruture Bank Loan	-	4,257,057
Total	$ 2,655,611	$ 7,671,557

Tax Anticipation Note - The Authority had outstanding on September 30, 2003 a Tax Anticipation Note, dated September 2, 2003, in the principal amount of $2,651,111. This note was issued by the Authority pursuant to Article VII, Section 12, of the Constitution of the State of Florida; Chapter 163.565, et seq., Florida Statutes, as amended, and Resolution #R2003-06-25 adopted by the Authority on June 2, 2003. This note bears interest from its date at the prime rate equal to 59.5% of the rate announced by SunTrust Bank from time to time as its "prime rate."

Interest accrued on the outstanding principal balance shall be payable monthly, in arrears, on the first day of each month, commencing October 1, 2003, and all accrued and unpaid interest shall be paid in full, together with the entire outstanding principal balance on September 1, 2004. The note is secured by liens upon and pledges of the ad valorem tax revenues of the Authority for the fiscal year beginning on October 1, 2003, as such taxes are collected by the office of the Tax Collector of Hillsborough County and received by the Authority, any other revenues legally available for the payment of the note, and proceeds of the note and earnings thereon, until applied in accordance with this Resolution.

The note constitutes a "qualified tax-exempt obligation" pursuant to the Internal Revenue Code Section 265(b)(3). The Authority is not obligated in any manner for special assessment debt.

Florida Department of Transportation State Infrastructure Bank (SIB) Loan Agreement (Grant Anticipation Note) – The Authority had outstanding on September 30, 2002 an Urban Grant Anticipation note, dated November 16, 2001, in the principal amount of $4,257,057. The note was settled and cancelled during the 2003 fiscal year by the receipt of grants from the U.S. Department of Transportation (USDOT), CMAQ and Florida Department of Transportation, Urban Transit.

NOTE 8 – UNRESTRICTED NET ASSETS:

Designated Reserves - Unrestricted net assets includes reserves which have been designated by the Authority for capital projects in the amounts of $980,884 and $1,526,217 as of September 30, 2003 and 2002, respectively. These amounts are not externally restricted and do not represent measurable liabilities as of September 30, 2003 and 2002.

NOTE 9 – 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, 2003 included two months at $17.00 per square foot and 10 months at $17.68, for a total of $178,618. Certain other operating costs, storage space, and parking totally $12,891 was added to the base rent. The term may be extended at the Authority's option for an additional five years.

Lease expenditures for all operating leases recognized for the year ended September 30, 2003 was $272,549 of which $191,509 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 $81,040 was leasing expenditures for office and maintenance equipment. The minimum annual lease payments under these agreements are as follows:

Fiscal year ended September 30,	Minimum Annual Rental
2004	$ 185,786
2005	193,175
Total	$ 519,463

NOTE 10 – 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, 2003 and 2002 totaled approximately $26,500 and $6,100, 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.

Claim by the City of Tampa – Subsequent to September 30, 2003, the City has made claims for capital expenditures totaling $1,602,232 which, in management's opinion is invalid. See Note 11 below.

NOTE 11 – SUBSEQUENT EVENT:

Subsequent to September 30, 2003, the Authority received five invoices, without adequate support, related to the construction of the Tampa-Ybor Historic Electric Streetcar project ("the project", as

NOTE 11 – SUBSEQUENT EVENT (continued):

defined below) from the City totaling $1,602,232. The Authority did not receive adequate details for such claim, nor does the Authority acknowledge liability for it, since it did not approve nor did it have an understanding that the project had exceeded its estimated costs.

In accordance with an interlocal agreement between the City and the Authority, the City is responsible for the management of the construction efforts of the project. The Authority was responsible for procuring acceptable streetcar vehicles. The Authority did not maintain nor did it have access to the financial records to make a determination of actual expenditures approved by City personnel.

In connection with the project, as defined below, the Authority paid $12,025,115 and recognized as accounts payable $1,572,180 as of September 30, 2003, for a total of $13,597,295. For internal accounting purposes, the project is defined as having three components: Southern Transportation Plaza, Ybor Station Streetcar Mall, and the main line of the streetcar system.

The Authority's sources for financing its share for the construction, engineering and design of the project was as follows:

	Project Expenditures Paid or Accrued to City of Tampa	
Source of Funding	From Inception of Project	During Fiscal Year 2002-03
Federal Grants		
FL-03-0161	$ 608,210	$ 2,390
FL-03-0167-01	148,185	-
FL-03-0167-02	4,714	-
FL-90-X295	125,000	-
FL-90-X295-02	2,800,000	-
FL-90-X295-03	2,058,600	740,349
FL-90-X396	139,992	-
FL-90-X424	766,180	140,821
FPN 410651	92,203	-
FPN 410721	28,402	-
Total	6,771,486	883,560
State Grants		
FPN 403117	220,988	191,487
FPN 403120	3,629,213	634,579
FPN 403126	1,200,000	1,200,000
FPN 403138	344,924	-
FPN 408374	921,115	-
FPN 408488	150,000	150,000
Total	6,466,238	2,176,065
Local Grants		
City of Tampa-Rail Contribution	66,275	66,275
City of Tampa-Impact Fees	255,170	255,170
Tampa Port Authority	38,125	38,125
Total	359,570	359,570
Total Federal, State and Local Funding Souces	$ 13,597,295	$ 3,419,195

NOTE 11 – SUBSEQUENT EVENT (continued):

No additional funding is available from these sources for this project other than the $13,597,295, as shown above.

In order to promote and maintain the historically mutually advantageous relationship with the City, the Authority's Board of Directors has appointed a committee consisting of, among others, one of its board members, the Executive Director and support staff to work with the City to reach a mutually agreeable method of funding or assisting the City so that they can replenish the extra gas tax that they spent on the project. Such a tentative method is proposed by the committee members and will need to be approved by the Authority's Board of Directors and the Tampa City Council. The methodology agreed-upon spells out a 5-year program to create bus stops, bus stop access improvements and bus bays along City streets to benefit bus patrons and the public transit system. Said projects are to be those that are coincidental with high city priorities that would have been implemented by the City over time using gas tax proceeds. These expenditures are consistent with historical projects the Authority has funded through federal block grants and impact fees.

SUPPLEMENTARY INFORMATION

HILLSBOROUGH TRANSIT AUTHORITY
D/B/A HILLSBOROUGH AREA REGIONAL TRANSIT AUTHORITY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE PROJECTS

YEAR ENDED SEPTEMBER 30, 2003

FEDERAL GRANTOR PROGRAM TITLE	FEDERAL CFDA NUMBER	FEDERAL GRANT NUMBER	PROGRAM OR AWARD AMOUNT	ACCRUED OR (DEFERRED) REVENUE 09/30/02	RECEIPTS	PROGRAM EXPENDITURES	ACCRUED REVENUE 09/30/03
FEDERAL TRANSIT ADMINISTRATION							
Southern Transportation Plaza *	20.205	FL-90-X430	$ 5,000,000	$ 220,248	$ 384,941	$ 382,645	$ 217,952
FY 97 Program of projects, purchase Streetcar and Streetcar Construction *	20.507	FL-90-X295-01/02/03	17,041,993	784,072	874,942	1,081,497	990,627
Streetcar Construction/Electrification *	20.500	FL-03-0161	1,400,000	-	31,527	41,799	10,272
12 Small Buses *	20.507	FL-90-X119-02	4,887,321	185,761	287,886	102,125	-
FY 00 Program of Projects *	20.507	FL-90-X396	7,539,218	132,076	756,744	625,096	428
FY 94 Program of Projects *	20.507	FL-90-X238	8,691,827	3,672	226,608	225,383	2,448
CMAQ/Bus Purchases *	20.507	FL-90-X251	6,800,000	-	1,564,854	1,564,854	-
FY03 Program of Projects *	20.507	FL-90-X481	7,808,040	-	-	2,357,625	2,357,625
Intermodal Project and Bus Purchase *	20.507	FL-90-X333	16,366,000	3,520	2,286,403	2,569,450	286,567
Mobility Enhancement *	20.500	FL-03-0166	4,956,441	(547)	-	547	-
FY 01 Program of Projects *	20.507	FL-90-X424	7,401,004	457,520	1,682,830	1,523,015	297,705
FY 98 Program of Project *	20.507	FL-90-X331	5,803,175	23,694	81,224	60,265	2,736
Bus Purchase and Ybor Station *	20.500	FL-03-0167	6,477,918	144,474	1,663,755	1,522,364	3,082
FY 99 Program of Projects *	20.507	FL-90-X360	6,273,966	(144,936)	788,517	934,058	605
Jobs Access/Reverse Commute *	20.516	FL-37-X003	500,000	500,000	500,000	-	-
Jobs Access/Reverse Commute *	20.516	FL-37-X011	1,909,000	2,119	886,036	1,184,262	300,345
Purchase Replacement Buses *	20.500	FL-03-0221	2,780,058	-	2,740,058	2,740,058	-
Historical Streetcar Mobility Study *	20.507	FL-90-X461	1,000,000	735,806	892,218	156,411	(1)
FY 02 Program of Projects *	20.507	FL-90-X453	8,084,316	685,490	2,095,860	1,749,407	339,037
Fixed Guideway Funds *	20.500	FL-03-0237	239,462	-	-	2,850	2,850
Total direct federal assistance				3,732,970	17,744,403	18,823,711	4,812,278
FLORIDA DEPARTMENT OF TRANSPORTATION (pass through)							
Section 18 - FPN 40225018401 *	20.509	FL-18-X019	220,697	-	-	-	-
Section 18 - FPN 40225018402 *	20.509	FL-18-X019	218,178	149,321	57,093	59,400	151,628
Section 18 - FPN 40225018403 *	20.509	CM-8888(95)	249,848	-	-	177,043	177,043
Ridership Development - FPN 405531 *	20.509	4047098	200,000	20,014	90,076	200,842	130,780
Roadway Bus Bays - FPN 405532 *	20.509	4047085c	300,000	-	-	4,900	4,900
Downtown Transit Service - FPN 402282 *	20.509	4047085C	995,000	226,671	647,844	421,172	-
Southern Transportation Plaza - FPN 410651 8 *	20.500	CM-4047-(63)	1,028,125	169,253	1,028,125	858,872	-
Marion Street Terminal - FPN 409072 *	20.500	7777075A	2,253,125	1,655,709	1,945,033	289,324	-
Ybor Station Phase II - FPN 410721 *	20.205	TCSP 018	1,982,615	1,394,889	1,982,615	587,726	-
Ybor Station Intermodal Terminal - FPN 403140 *	20.205	4047126	3,250,000	2,616,714	3,250,000	633,286	-
South County Transfer Center - FPN 402284 *	20.509	FL-18-X020	900,000	-	-	-	-
Streetcar Operations - FPN 405526 *	20.205	4047097	2,100,000	256,459	821,990	1,174,477	608,946
FLORIDA DEPARTMENT OF TRANSPORTATION (pass through) CITY OF PLANT CITY							
City of Plant City - FPN 408213 *	20.507		1,000,000	56,553	323,392	296,839	30,000
Total pass through federal assistance				6,545,583	10,146,167	4,703,880	1,103,297
Total Federal Awards				$ 10,278,553	$ 27,890,570	$ 23,527,591	$ 5,915,574

* Denotes major program

(continued)

HILLSBOROUGH TRANSIT AUTHORITY
D/B/A HILLSBOROUGH AREA REGIONAL TRANSIT AUTHORITY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE PROJECTS

YEAR ENDED SEPTEMBER 30, 2003

STATE GRANTOR PROGRAM TITLE	STATE CSFA NUMBER	STATE GRANT NUMBER	PROGRAM OR AWARD AMOUNT	ACCRUED OR (DEFERRED) REVENUE 9/30/2002	RECEIPTS	PROGRAM EXPENDITURES	ACCRUED REVENUE 9/30/2003
STATE OF FLORIDA DEPARTMENT OF TRANSPORTATION							
Direct State Financial Assistance							
State Block Grant FY 02/03 *	55.010	402251-3	$ 3,116,508	$ -	$ -	$ 3,116,508	$ 3,116,508
Courtney Campbell Causeway (200X) **	55.013	410693	275,000	87,474	176,107	129,781	41,148
U. S. 41 Corridor **	55.013	402276	300,000	275,000	275,000	-	-
Coach Maintenance Training Program *	55.012	411540	500,000	12,461	77,170	92,993	28,284
Event Mgt. Shuttle Service *	55.012	406165	80,000	7,963	24,576	16,614	-
Transit Accessibility Plus *	55.012	402277	90,000	5,068	5,068	-	-
Park and Rides **	55.011	410593	150,000	(4,066)	-	17,647	13,581
Tampa-Ybor City Historic Electric Streetcar *	55.014	403120	2,800,000	-	634,579	634,579	-
Tampa-Ybor City Historic Electric Streetcar - Terminal and Track *	55.022	403126	1,200,000	-	343,646	1,200,000	856,354
Transportation Plaza *	55.014	403117	500,000	29,502	220,988	191,487	1
Southern Intermodal Terminal *	55.014	403138	800,000	365,258	429,388	217,131	153,001
Tampa Electric Streetcar *	55.014	408488	400,000	250,000	400,000	150,000	-
Electric Bus *	55.012	402254	100,000	-	24,530	24,530	-
CMAQ Bus Purchase *	55.012	402204	1,700,000	-	391,214	391,214	-
Marion Street Northern Terminal Relocation *	55.014	409072	600,000	440,911	517,956	77,046	-
Urban Transit Capital - Bus Purchase *	55.010	408369	800,000	-	25,614	25,614	-
Urban Transit Capital - Ybor Station **	55.020	408374	1,007,057	1,007,057	1,007,057	-	-
Streetcar Line Phase II *	55.014	408488	100,000	-	-	65,000	65,000
Total Direct State Grants and Aids Appropriations				2,476,627	4,552,893	6,350,144	4,273,877
PINELLAS COUNTY METROPOLITAN PLANNING ORGANIZATION (pass through)							
Oldsmar to Tampa Express/WAGES	55.012	408509	$ 1,071,000	383,746	-	276,941	660,687
Total Pass Through State Financial Assistance Project				383,746	-	276,941	660,687
Total State Financial Assistance Projects				$ 2,860,368	$ 4,552,893	$ 6,627,085	$ 4,934,564
Total Federal Awards and State Financial Assistance Projects				$ 13,138,921	$ 32,443,463	$ 30,154,676	$ 10,850,138

* Denotes Type A Program
** Denotes Type B Program

REGULATORY REPORTS

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

Board of Directors
Hillsborough Transit Authority
d/b/a Hillsborough Area Regional Transit Authority

We have audited the financial statements of the Hillsborough Transit Authority, d/b/a Hillsborough Area Regional Transit Authority ("the Authority"), as of September 30, 2003, and for the year then ended, and have issued our report thereon dated November 28, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A *material weakness* is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. As shown on Exhibit A to the Schedule of Findings and Questioned Costs, we noted an instance of a material weakness and a second finding that resulted in a reportable condition. No other matters of an immaterial nature, which are required to be disclosed following the Rules of the Auditor General of the State of Florida, in a separate "Management Letter" were reported.

This report is intended solely for the information and use of the Board of Directors, management, and federal awarding agencies, and state financing 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

November 28, 2003
Except for Note 11 which is
dated January 14, 2004

ValienteHernandez P.A.
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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND INTERNAL CONTROL OVER COMPLIANCE APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND STATE FINANCIAL ASSISTANCE PROJECT

Board of Directors
Hillsborough Transit Authority
d/b/a Hillsborough Area Regional Transit Authority

Compliance

We have audited the compliance of Hillsborough Transit Authority d/b/a Hillsborough Area Regional Transit Authority ("the Authority") with the types of compliance reqirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement, and the requirements described in the State of Florida's Executive Office of the Governor's State Projects Compliance Supplement for the year ended September 30, 2003. The Authority's major federal programs and state financial assistance projects are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its 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; the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* and Chapter 10.550, Rules of the Auditor General of the State of Florida. Those standards, OMB Circular A-133, 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 hve 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.

Board of Directors
Hillsborough Transit Authority
d/b/a Hillsborough Area Regional Transit Authority

In our opinion, the Authority complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs and state financial assistance projects for the year ended September 30, 2003.

Internal Control Over Compliance

The management of the Authority is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs 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 a major federal program or state financial assistance project 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 and Chapter 10.550, Rules of the Auditor General of the State of Florida.

Our consideration of the internal control over compliance would not necesarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that non-compliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program or state project being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted one instance involving in the internal control over compliance and its operation that we consider to be material weaknesses. In addition, we noted one additional matter that is considered a "reportable condition." See Exhibit A to the Schedule of Findings and Questioned Costs. However, we noted certain immaterial matters that are required to be disclosed, following the Rules of the Auditor General of the State of Florida, in a separate "Management Letter".

This report is intended solely for the information and use of the Board of Directors, managment, 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.

Valiente Hernandez P.A.
CERTIFIED PUBLIC ACCOUNTANTS
Tampa, Florida
November 28, 2003
Except for Note 11 which is
dated January 14, 2004

HILLSBOROUGH TRANSIT AUTHORITY
d/b/a HILLSBOROUGH AREA REGIONAL TRANSIT AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FEDERAL AWARDS PROGRAM AND STATE FINANCIAL ASSISTANCE PROJECT
YEAR ENDED SEPTEMBER 30, 2003

SECTION I – SUMMARY OF AUDITORS' RESULTS

Financial Statements	Results
Type of auditors' report issued:	Unqualified
Internal control over financial reporting:	
Material weakness(es) indentified?	Yes (one)[a]
Reportable condition(s) identified not considered to be a material weakness(es)?	Yes (one)[a]
Noncompliance material to financial statements noted?	No

Topic	Federal	State
Internal control over major programs:		
Material weakness(es) indentified?	Yes (one)[a]	No
Reportable condition(s) identified not considered to be material weakness(es)?	Yes (one)[a]	None reported
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)	Yes (two)[a]	-
Florida Single Audit Act		None reported

a = See Exhibit A to the Schedule of Findings and Questioned Costs.

Identification of Major Programs:

Federal	Name of Program or Cluster
CFDA 20.205	Highway Planning and Construction
CFDA 20.500	Federal Transit-Capital Grants

HILLSBOROUGH TRANSIT AUTHORITY
d/b/a HILLSBOROUGH AREA REGIONAL TRANSIT AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FEDERAL AWARDS PROGRAM AND STATE FINANCIAL ASSISTANCE PROJECT
YEAR ENDED SEPTEMBER 30, 2003

State	Name of Program or Cluster
CSFA 55.010	Public Transit Block Grant
CSFA 55.022	Transportation Outreach Program

Dollar threshold used to distinguish between Type A and Type B programs: $ 300,000
Auditee qualified as low-risk auditee? Yes

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 is one reportable condition and one material weakness, and no instances of noncompliance related to the financial statements that require disclosure. See Exhibit A

PRIOR YEAR'S COMMENTS

There were no reportable conditions, material weaknesses, and instances of noncompliance that were previously disclosed in the prior year.

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

There were no findings or questioned costs applicable to federal award or state financial Assistance project required to be reported in accordance with OMB – 133 or Chapter 10.550, Rules of the Auditor General of the State of Florida

EXHIBIT A

MATERIAL WEAKNESS

Finding 03-01:

Condition:
Several invoices from the City of Tampa ("the City") related to the Tampa-Ybor Historic Electric Streetcar project construction during the period October 31, 2001 through December 31, 2001 were not timely forwarded to the Finance Department ("Finance") prior to the end of the fiscal year ended September 30, 2002. The related expenditures are reimbursable to the Authority from federal and state capital grants.

These invoices were submitted during March 2002 by City personnel to the Authority's Engineering and Development Department ("E&D) and were not forwarded to Finance to be duly recorded and processed for payment.

Finance had no knowledge of the existence of these invoices when received nor upon inquiries made at the end of the fiscal year for unrecorded liabilities and, consequently, could not account the related expenditures.

The Authority has recorded these invoices during fiscal year 2002-2003 as capital expenditures, accounts payable to the City, and recognized the related income and accounts receivable during this fiscal year.

Result
The condition reveals a serious break down in the internal control over expenditures due to inadequate communications between the originating point (E&D) with the recording unit, Finance. As a result of this break down in procedures, expenditures were not properly recorded as construction in progress and the related income from these capital grants was not shown in the period when they occurred, neither were accounts receivable and accounts payable recorded for these amounts as of September 30, 2002.

This break down in procedures was isolated to this project due to its peculiarities. The project's capital expenditures were negotiated, approved, supervised and accounted for by City personnel. The Authority's involvement as a pass-through of federal and state grants to assist in the construction of the project makes it necessary for the Authority to obtain required support of compliance with its contractual obligations with granting entities and the timeliness of this reporting is essential to its fiscal responsibilities. The Authority no longer employs the E&D accountable person principally responsible for the omission; however, the procedures in place for

Finding 03-01 – Result (continued)

other capital projects were not followed in this case and, regardless of the particular circumstances, the procedures in place for capital grants were not adequately followed.

Recommendation:

We recommend that the Authority improve the controls over the expenditures related to capital grants and construction projects by its E&D personnel whereby each project is carefully analyzed, followed and documented with adequate evidentiary matter to protect the Authority's fiscal integrity and provide adequate accounting.

Additionally, we recommend that communications between E&D and Finance, including timely submission (within the month when the invoice or other form of payment request is received from external sources) of evidentiary matter related to capital projects.

The process will be further improved by a monthly reconciliation between the accounting function and E&D needs to take place to properly determine the status of funds expended and the balance remaining under the grant. Any deviation from the original, approved, budget needs to be reviewed and agreed to by senior management.

Management Response:

Management concurs.

Management has reviewed the processes that were in place when this event occurred. The Authority's standard procedure had been for the Finance department to receive invoices with the exception of construction projects. Invoices related to major construction projects were forwarded to project managers for verification that the work had been completed and all supporting documentation had been provided by the contractor. The project manager would then authorize the invoice for payment. The agreement between the Authority and the City was handled in the same manner. Under normal circumstances, management would have discovered the unrecorded liabilities if the contractor had sent a statement to the Authority indicating a past due status on the Authority's account. Since this did not occur in this case, management has implemented the following steps to ensure that the Accounting department directly receives invoices from the Authority's vendors, including those invoices related to major construction projects.

Finding 03-01 - Response (continued)

The Authority has conducted a mass mail-out to all vendors (approximately 5,200) providing goods and/or services, notifying them to forward invoices directly to the Accounts Payable office within the Accounting Department. In addition, the Authority has incorporated a procedure into the purchasing process whereby vendors are advised to forward all invoices directly to the Accounts Payable office.

The Authority has taken an additional step by filling a position in fiscal 2004 within the Grants' Accounting office. This person is a liaison between the Accounting department and all project managers, but will primarily assist the Engineering and Development department. This position reports to Accounting and will primarily reside at the Administrative offices at 201 East Kennedy.

REPORTABLE CONDITION

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 lives 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. During fiscal year 2002-2003 approximately $1.9 million remained (after the year-end recording of capital assets) as period expenditures that were not capitalized during the year. The condition was discovered after our inquiries through an analytical review of non-capitalized expenditures.

Result:

The condition results 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.

Furthermore, capital ('fixed') assets are underreported during the year and accounting records are not used as a management tool to determine the extent of year-to-date expenditures.

Additionally, depreciation is 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).

Finding 03-02: (continued)

Recommendation:

We recommend that the Authority design and implement procedures to ensure proper periodic (preferably monthly, but no less often than quarterly) analysis and recording of capital assets in the general ledger and ancillary depreciation schedule (*Excel* worksheet) rather than doing the same once at fiscal year end.

Furthermore, the Authority needs to establish procedures to monthly reconcile its *Excel* spreadsheet of capital assets to the general ledger, thereby avoiding lengthy year-end research and adjustments, with the added benefit of spreading the work in 12 (or four) installments during the fiscal year which will provide a more systematically managed environment.

Management's Response:

Management concurs.

The Authority has implemented procedures to record capital assets as well as depreciation into general ledger on a quarterly basis. Management is designing a Capital Asset Manual that will incorporate procedures for recording capital assets and depreciation on a monthly basis. The implementation of recording capital assets and depreciation on a monthly basis, as well as the completion of the Capital Asset Manual, will occur no later than March 31, 2004.

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"MANAGEMENT LETTER"
BASED ON RULE 10.550(1)(g) OF THE
AUDITOR GENERAL OF THE STATE OF FLORIDA

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

We have audited the financial statements of the Hillsborough Transit Authority, d/b/a Hillsborough Area Regional Transit Authority ("the Authority"), as of and for the fiscal year ended September 30, 2003, and have issued our report thereon dated November 28, 2003. These financial statements are the responsibility of the Authority. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

As required under *Governmental Auditing Standards*, we have issued an Independent Auditors' Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* dated November 28, 2003. Disclosures in those reports, if any, 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 10.550(1)(g)1.a.) require that we address in the Management Letter, if not already addressed in our report on compliance and internal controls or schedule of findings or questioned costs, whether or not inaccuracies, shortages, defalcations, fraud, and/or violations of laws, rules, regulations, and contractual provisions reported in the preceding annual financial audit report have been corrected. There were no such matters reported in the preceding annual financial report.

The Rules of the Auditor General (Section 10.550(1)(g)1.b.) state that the Management Letter shall include a statement as to whether or not recommendations made in the preceding annual financial audit report have been followed. There were no such recommendations made in the preceding annual financial audit report.

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

The Rules of the Auditor General (Section 10.550(1)(g)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 the general purpose 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 10.550(1)(g)4.) require disclosure in the "Management Letter" of the following matters if not already addressed in the auditors' reports on compliance and internal controls or schedule of findings or questioned costs: (1) violations of laws, rules, regulations and contractual provisions that have occurred or are likely to have occurred; (2) improper or illegal expenditures; (3) improper or inadequate accounting procedures (e.g., the omission of required disclosures from the financial statements); (4) failures to properly record financial transactions; and (5) other inaccuracies, shortages, defalcations, and instances of fraud discovered by, or that come to the attention of the auditor. Our audit disclosed no matters required to be disclosed by the Rules of Auditor General (Sections 10.550 (1) (g).

The Rules of the Auditor General (Section 10.550(1)(g)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 financial statements. This information has been included in the notes to the financial statements.

The rules of the Auditor General (Section 10.550(1)(g) 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. Section 218.503(1) 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 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 10.550(1)(g) 6b.) state that a management letter shall include a statement as to whether or not the financial report filed with the Florida Department of Banking and Finance, 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, 2003, filed in accordance with Section 218.32 of the Florida Statutes, to the Authority's 2003 audited financial statements. Our comparison resulted in no material differences.

The Rules of the Auditor General (Section 10.550(1)(g) 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 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.

Valente Fernandez P.A.
CERTIFIED PUBLIC ACCOUNTANTS
Tampa, Florida
November 28, 2003
Except for Note 11 which is
dated January 14, 2004

ValienteHernandez P.A.

CERTIFIED PUBLIC ACCOUNTANTS

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LETTER TO BOARD OF DIRECTORS REQUIRED UNDER STATEMENT OF AUDITING STANDARDS (SAS) No. 61

Board of Directors
Hillsborough Transit Authority
d/b/a Hillsborough Area Regional
Transit Authority (HARTline)
Tampa, Florida 33602

Good morning,

We have audited the financial statements of the Hillsborough Transit Authority, d/b/a Hillsborough Area Regional Transit Authority, a/k/a HARTline, ("the Authority") as of September 30, 2003, and for the year then ended, and have issued our report thereon dated November 28, 2003 except for Note 11, to the financial statements, which is dated January 14, 2004.

Our professional standards, particularly Statement No. 61, "Communications with Audit Committees," Statement No. 90, "Audit Committe Communications," and, when applicable, Statement No. 89, "Audit Adjustments," of the *Statements on Auditing Standards* (SAS) require that we communicate with you concerning certain matters that may be of interest to you in fulfilling your obligation to oversee the financial reporting and disclosure process for which management of the Authority is responsible. We previously made a presentation to the Finance Committee of the Board of Directors ("the Board") on this subject. We have prepared the following comments to assist the Board in fulfilling the obligation.

OUR RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES OF AMERICA

Standards and Additional Procedures Undertaken:

Our responsibility under auditing standards generally accepted in the United States of America ("generally accepted auditing standards", or "GAAS") has been described to you in the engagement letter dated June 13, 2003. Our audit was conducted following the following standards and additional procedures:

- GAAS, issued by the American Institute of Certified Public Accountants, and the first tier of standards utilized in all financial audits in the United States of America.
- A second tier of auditing standards, which follow *Government Auditing Standards*, published by the Comptroller General of the United States (sometimes referred to as "Yellow Book"), mandated by Section 11.45, Florida Statutes, and Chapter

10.550, *Local Governmental Entity Audits*, of the Rules of the Auditor General of the State of Florida, as well as being required under federal grant agreements.

- Additional procedures for federal grants required under the *Single Audit Act* of 1984, as amended, and implemented by the U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.*
- Additional procedures under the *Florida Single Audit Act*, Section 215.97, Florida Statutes, applied to state grants and appropriations.

As described in the engagement letter, standards followed to conduct this audit require, among other things, that we obtain a sufficient understanding of the Authority's internal control to enable us to properly plan our audit and to determine the nature, timing, and extent of audit procedures to be performed. We have issued a separate report, in accordance with Government Auditing Standards, to you dated November 28, 2003 except for Note 11, to the financial statements, which is dated January 14, 2004, containing our comments on the Authority's internal control.

The Rules of the Auditor General of the State of Florida [Chapter 10.550, Rule 10.554(1)(g)] requires that the auditors prepare a "Management Letter" with certain specified disclosures. This letter does not set additional standards; however, it does provide additional reporting requirements.

Reporting Made by Us as Independent Auditors:
The following reports were issued as a result of our audit, and are included in the annual reporting package:

Report Issued	Result
• Financial Statements.	Unqualified Opinion.
• Supplementary Information in Relation to the Financial Statements.	Unqualified Opinion.
• Independent Auditors' Report on Compliance and on Internal Control Over Financial Reporting Based Upon the Audit Performed in Accordance With *Government Auditing Standards*.	We had two findings under these standards. Report is required under federal and state laws. Findings are called "reportable conditions," and if material enough, sub-categorized as "material weaknesses." There was one material weakness and one reportable condition.
• Independent Auditors' Report on Compliance and on Internal Control Over Compliance Applicable to Each Major Federal Program and State Project.	A required report under the federal *Single Audit Act* and the *Florida Single Audit Act*. Requires additional attestation steps for federal grants of

$300,000 or more, and similarly of $300,000 or more for state grants. We had no findings in performing these additional steps.

- Schedule of Findings and Questioned Costs.

There were two findings and no questioned costs. Mandatory by the above two reports. The title implies that there are "questioned costs". However, it has to have this title regardless of findings.

- "Management Letter."

This is not an "Auditors' Report", as defined by GAAS, *Government Auditing Standards* and the federal and state *Single Audit Acts*. It is, however, required by Rule 10.554(1)(g) of the Rules of the Auditor General of the State of Florida, mandatory under Section 11.45, Florida Statutes, and codified by the Rules of the Auditor General of the State of Florida. These rules mandate that any condition, regardless of materiality, be conveyed to the Authority's management and be disclosed in this letter. Had these conditions been on the federal guidelines, applicable under *Government Auditing Standards*, condition(s) would have been reported under the above mentioned auditors' reports.

SIGNIFICANT ACCOUNTING POLICIES

The Authority has adopted the following mandatory standards issued by the Governmental Accounting Standards Board of the Financial Accounting Foundation ("GASB"): Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. GASB followed with Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus, an amendment of GASB Statements No. 21 and No. 34*, and Statement No. 38, *Certain Financial Statement Note Disclosures*. These statements are effective for the Authority's fiscal year beginning October 1, 2002 and ending September 30, 2003. Management believes that the adoption of these statements will have no effect on its financial position or results of operations; however, there will be significant changes to the format and disclosures in the financial statements.

MANAGEMENT JUDGEMENTS AND ACCOUNTING ESTIMATES

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and on assuptions about future events.

During the year ended September 30, 2003, we are not aware of any significant changes in accounting estimates or in management's judgments relating to such estimates.

AUDIT ADJUSTMENTS

There were audit adjustments that were proposed during the audit which cumalatively had a material effect. Several, material, adjustments were proposed and booked to correct certain balances. See Appendix A to this letter.

DISAGREEMENTS WITH MANAGEMENT

There were no disagreements with management of any kind.

DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT

There were no difficulties encountered in performing our audit. To the contrary, we received excellent cooperation in the part of the Executive Director, all members of her staff, and those most directly involved in the audit, the General Manager of Finance and Administration and her subordinates, particularly the Accounting Manager who worked extra hours in preparation for the audit and in answering our inquiries.

This letter is intended solely for the information and use of the Board of Directors, management, and others within the Authority and is not intended to be and should not be used by anyone other than these specified parties.

We will be pleased to discuss this report with you further at your convenience.

Respectfully submitted,

ValienteHernandez P.A.

ValienteHernandez P.A.
Certified Public Accountants

Tampa, Florida
January 26, 2004