



Dave Yost • Auditor of State

**SOUTH EAST AREA TRANSIT
MUSKINGUM COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

South East Area Transit
Muskingum County
375 Fairbanks Street
Zanesville, Ohio 43701

To the Board of Trustees:

Report on the Financial Statements

We have audited the accompanying financial statements of the South East Area Transit, Muskingum County, Ohio (the Authority), as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the Authority's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the Authority's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the South East Area Transit, Muskingum County, Ohio as of December 31, 2014, and the changes in its financial position and its cash flows for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

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Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require this presentation to include *Management's Discussion and Analysis*, listed in the Table of Contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

Supplementary and Other Information

Our audit was conducted to opine on the Authority's basic financial statements taken as a whole.

The Schedule of Federal Awards Expenditures (the Schedule) presents additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations and is also not a required part of the financial statements.

The Schedule is management's responsibility, and derives from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. We subjected this Schedule to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling the Schedule directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves in accordance with auditing standards generally accepted in the United States of America. In our opinion, this Schedule is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 3, 2015, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.



Dave Yost
Auditor of State
Columbus, Ohio

September 3, 2015

**SOUTH EAST AREA TRANSIT
MUSKINGUM COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2014
(UNAUDITED)**

As management of South East Area Transit ("Authority"), we offer readers of the Authority's basic financial statements this narrative overview and analysis of the financial activities of the Authority for the year ended December 31, 2014. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities and to identify any significant changes in financial position. We encourage readers to consider the information presented here in conjunction with the basic financial statements taken as a whole.

Financial Highlights

- ⤴ The Authority has net position of \$1,475,137. Net position results from a difference between total assets of \$1,840,600 and total liabilities of \$365,463.
- ⤴ Current assets of \$572,063 primarily consist of Cash and Cash Equivalents of \$217,247; Accounts Receivable of \$12,847 and Intergovernmental Receivable of \$306,039.
- ⤴ Current liabilities of \$323,181 primarily consist of Notes Payable of \$143,738, Accounts Payable of \$102,067, and Payroll related items of \$68,563.

Basic Financial Statements and Presentation

The financial statements presented by the Authority are the Statement of Net Position, the Statement of Revenues, Expenses and Changes in Net Position and the Statement of Cash Flows. These statements are presented using the economic resources measurement focus and the accrual basis of accounting. The Authority is structured as a single enterprise fund with revenues recognized when earned and measurable, not when received. Expenses are recognized when they are incurred, not when paid. Capital assets are capitalized and depreciated, except land, over their estimated useful lives.

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

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

The Statement of Cash Flows allows financial statement users to assess the Authority's adequacy or ability to generate sufficient cash flows to meet its obligations in a timely manner. The statement is classified into four categories: 1) Cash flows from operating activities, 2) Cash flows from non-capital financing activities, 3) Cash flows from capital and related financing activities, and 4) Cash flows from investing activities.

Notes to the Financial Statements

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

**SOUTH EAST AREA TRANSIT
MUSKINGUM COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2014
(UNAUDITED)**

Financial Analysis of the Authority

Table 1 provides a summary of the Authority's net position for 2014 and 2013:

**Table 1
Condensed Summary of Net Position**

	2014	2013
Assets:		
Current Assets	\$ 572,063	\$ 396,672
Capital Assets (net of accumulated depreciation)	1,268,537	1,262,124
Total Assets	<u>1,840,600</u>	<u>1,658,796</u>
Liabilities:		
Current Liabilities	323,181	281,155
Long-Term Liabilities	42,282	43,965
Total Liabilities	<u>365,463</u>	<u>325,120</u>
Net Position:		
Invested in Capital Assets	1,268,537	1,262,124
Unrestricted	206,600	71,552
Total Net Assets	<u>\$ 1,475,137</u>	<u>\$ 1,333,676</u>

Current Assets increased \$175,391 primarily due to increases in cash on hand caused by regular payment of payables offset by increased receivables caused by an increase in services provided.

Capital assets increased \$6,413 as a net result of annual depreciation of assets offset by asset purchases and sales.

Current liabilities increased \$42,026 primarily due to increased accounts payable due to timing of the payment of payables.

The largest portion of the Authority's net position reflect investment in capital assets consisting of buildings, buses, and equipment less any related debt used to acquire these assets still outstanding. The Authority uses these capital assets to provide public transportation services for the counties of Muskingum and Guernsey; consequently, these assets are not available for future spending.

The Authority maintains a loan to pay current operating expenses. At December 31, 2014, the balance of the loan was \$143,738, and unrestricted net position had a surplus balance of \$206,600.

Working capital is an organization's current assets less its current liabilities. Working capital is an indicator of liquidity or an organization's ability to pay current operating expenses on time. At December 31, 2014, the Authority had a positive working capital balance of \$248,882.

**SOUTH EAST AREA TRANSIT
MUSKINGUM COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2014
(UNAUDITED)**

Table 2 shows the highlights of the Authority's revenues and expenses. These two main components are subtracted to yield the changes in net position. This table uses the full accrual method of accounting.

**Table 2
Condensed Summary of Revenues, Expenses and Changes in Net Position**

	2014	2013
Operating Revenues (Expenses)		
Operating Revenues	\$ 2,735,410	\$ 2,589,654
Operating Expenses (excluding depreciation)	(2,848,296)	(2,705,238)
Depreciation Expenses	<u>(236,740)</u>	<u>(232,745)</u>
Operating Loss	(349,626)	(348,329)
 Non Operating Revenues		
Capital Grant Revenue	420,281	400,899
Other Non-Operating Income	<u>70,806</u>	<u>68,208</u>
Total Non-Operating Revenues	491,087	469,107
 Change in Net Position During Year	141,461	120,778
 Net Position, Beginning of Year	<u>1,333,676</u>	<u>1,172,898</u>
 Prior Period Restatement	-	40,000
 Adjusted Net Position, Beginning of Year	<u>1,333,676</u>	<u>1,212,898</u>
 Net Position, End of Year	<u><u>\$ 1,475,137</u></u>	<u><u>\$ 1,333,676</u></u>

Financial Operating Activities

Operating revenues increased by \$145,756 caused by an increase in contract services provided to Muskingum County & Guernsey County JFS along with growth in general public fares collected.

Non-Operating Revenues increased by \$21,980 due to the acquisition of capital assets.

Operating expenses (Including Wages, Fringe Benefits, and, Purchased Transportation) increased \$143,058 which is consistent with the increases of contract revenue.

**SOUTH EAST AREA TRANSIT
MUSKINGUM COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2014
(UNAUDITED)**

Capital Assets and Debt Administration

The Authority's investment in capital assets as of December 31, 2014 is \$1,268,537 (net of accumulated depreciation). This investment in capital assets includes land, buildings, buses, and equipment.

Additional information concerning the Authority's capital assets can be found in note 5 of the notes to the basic financial statements.

As of December 31, 2014, long term liabilities consist entirely of compensated absences for accrued sick pay of \$42,282.

The Authority has no long term debt, but does have a loan of which \$143,738 was outstanding at December 31, 2014.

Contacting the Authority's Financial Management

This financial report is designed to provide our citizens, customers, and creditors with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. If you have questions about this report or need additional financial information, contact our Transit Director at 375 Fairbanks Street, Zanesville, Ohio 43701.

**South East Area Transit
Muskingum County
Statement of Net Position
For the Year Ended December 31, 2014**

Assets

Current Assets:

Cash and Cash Equivalents	\$ 217,247
Accounts Receivable	12,847
Intergovernmental Receivable	306,039
Materials & Supplies Inventory	34,180
Prepaid Expenses	1,750
Total Current Assets	<u>572,063</u>

Non-Current Assets:

Property, Facilities and Equipment	
Land - Non Depreciable	334,255
Operating Facilities	1,748,824
Buses & Other Vehicles	1,644,734
Furniture, Fixtures, & Equipment	524,280
Subtotal	<u>4,252,093</u>
Less Accumulated Depreciation	<u>(2,983,556)</u>
Total Property, Facility and Equipment (net of accumulated depreciation)	<u>1,268,537</u>
Total Assets	<u><u>1,840,600</u></u>

Liabilities

Current Liabilities

Notes Payable	143,738
Accounts Payable	102,067
Accrued Payroll	11,509
Accrued Payroll Taxes & Withholdings	3,446
Accrued Vacation Time	53,608
Unredeemed Fares	8,813
Total Current Liabilities	<u>323,181</u>

Long-Term Liabilities

Accrued Sick Time	<u>42,282</u>
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Total Liabilities	365,463
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Net Position

Invested in Capital Assets	1,268,537
Unrestricted	206,600
Total Net Position	<u><u>\$ 1,475,137</u></u>

See Accompanying Notes to the Basic Financial Statements

**South East Area Transit
Muskingum County
Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended December 31, 2014**

Operating Revenues	
General Public Fares	\$ 102,679
Special Transit Fares	1,294,915
Intergovernmental Funding	1,247,337
Advertising Revenue	26,510
Maintenance Services	49,423
Other Operating Revenue	14,546
Total Operating Revenues	<u>2,735,410</u>
Operating Expenses	
Labor	865,425
Fringe Benefits	711,507
Services	116,056
Materials & Supplies	308,028
Utilities	42,071
Casualty & Liability Insurance	76,136
Taxes	402
Purchased Transportation	695,436
Miscellaneous Expenses	16,034
Interest Expense	7,488
Leases & Rentals	9,713
Total Operating Expenses	<u>2,848,296</u>
Operating Gain/Loss Excluding Depreciation	(112,886)
Depreciation	<u>236,740</u>
Operating Gain/Loss	(349,626)
Non-Operating Revenues (Expenses)	
Federal Capital Maintenance Grant	222,764
Federal Grant - Capital	197,517
Other Non-Operating Income	70,806
Total Non-Operating Revenue	<u>491,087</u>
Net Gain/Loss	141,461
Net Position, Beginning of Year (Restated - See Note 3)	<u>1,333,676</u>
Net Position, End of Year	<u><u>\$ 1,475,137</u></u>

See Accompanying Notes to the Basic Financial Statements

**South East Area Transit
Muskingum County
Statement of Cash Flows
For the Year Ended December 31, 2014**

Operating Activities

Cash Received From Customers	\$ 1,390,198
Cash Received From Grants for Operating	1,212,210
Cash Received From Advertising Fees	26,510
Cash Received From Maintenance Services	49,423
Cash Received From Other Receipts	14,546
Cash Payments for Operating and Administrative Expenses	<u>(2,777,284)</u>
Net Cash Used	(84,397)

Non-Capital Financing Activities

Increase (Decrease) on Line of Credit	(36,262)
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Capital and Related Financing Activities

Proceeds From Capital Grants and Assistance	420,281
Proceeds From Sale of Equipment / Other	70,721
Payments For The Purchase of Capital Assets	<u>(243,153)</u>
Net Cash Provided	247,849

Investing Activities

Cash Received From Interest	84
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Net Increase in Cash & Equivalents

127,274

Cash & Equivalents - Beginning of Year

89,973

Cash & Equivalents - End of Year

\$ 217,247

Reconciliation of Operating Gain (Loss) to Net Cash Used in Operating Activities

Operating Gain (Loss)	\$ (349,626)
Adjustments to Reconcile Operating Gain (Loss) to Net Cash Used in Operating Activities	
Depreciation	236,740
Changes in Assets & Liabilities	
(Increase) Decrease in Accounts Receivable	(43,273)
(Increase) Decrease in Prepaid Expenses	(1,750)
(Increase) Decrease in Inventories	(3,093)
Increase (Decrease) in Accounts Payable	70,084
Increase (Decrease) in Payroll Liabilities	5,392
Increase (Decrease) in Compensated Absences	1,879
Increase (Decrease) in Unredeemed Fares	<u>(750)</u>
Net Cash (Used) in Operating Activities	<u><u>\$ (84,397)</u></u>

See Accompanying Notes to the Basic Financial Statements

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**SOUTH EAST AREA TRANSIT
MUSKINGUM COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2014**

1. DESCRIPTION OF THE AUTHORITY AND REPORTING ENTITY

Description of the Authority

The Muskingum Authority of Public Transit which is doing business as the South East Area Transit (hereinafter referred to as the "Authority") was created pursuant to Sections 306.30 through 306.54 of the Ohio Revised Code for the purpose of providing public transportation in the City of Zanesville, Muskingum County, City of Cambridge, and Guernsey County, as well as the Southeast Ohio Area. The Authority is an independent political subdivision of the State of Ohio and thus is not subject to federal or state income taxes.

At December 31, 2014 the Authority had 31 full-time equivalent employees and 2 part-time employee(s). Approximately 67% of the Authority's employees at December 31, 2014 are subject to a collective bargaining agreement expiring on May 31, 2016.

Description of the Reporting Entity

The accompanying financial statements comply with the provisions of the Government Accounting Standards Board (GASB) Statement No. 14, The Financial Reporting Entity, as well as GASB Statement No. 39, Determining Whether Certain Organizations are Component Units, an amendment of GASB Statement No. 14, and GASB Statement No. 61, Financial Reporting Entity: Omnibus an amendment of GASB Statements No 14 and No. 34. These statements require that financial statements of the reporting entity to include all of the organizations, activities, functions, and component units for which the reporting entity is financially accountable.

Component units are legally separate organizations for which the authority is financially accountable. The authority is financially accountable for an organization if the Authority appoints a voting majority of the organization's governing board and (1) the Authority is able to significantly influence the programs or services performed or provided by the organization; or (2) the Authority is legally entitled to or can access the organization's resources; the Authority is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the Authority is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the Authority in that the County approves the budget, the levying of taxes, the issuance of debt, and there is a potential for the organization to provide specific financial benefits to, or impose specific financial burden on, the primary government. The Authority does not have financial accountability over any entities.

The Authority is managed by a twelve member Board of Trustees, who establishes policies and sets direction for the management of the Authority. Six members are appointed by the Mayor of Zanesville with the consent of City Council, two members are appointed by the Muskingum County Commissioners, and the remaining four members are appointed by the Guernsey County Commissioners, the Mayor of Cambridge, the Mayor of South Zanesville, and the Mayor of Byesville. Board Members serve overlapping three-year terms.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Authority are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Government Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting. The most significant of the Authority's accounting policies are described below.

**SOUTH EAST AREA TRANSIT
MUSKINGUM COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2014**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Accounting

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

Budgetary Accounting and Control

The Authority's annual budget is prepared on the accrual basis of accounting as permitted by law.

Cash and Cash Equivalents

Cash and cash equivalents consist of funds deposited in checking accounts and are stated at cost, which approximates market value. Cash and cash equivalents represent the funds that are used for the general operations. For the purpose of the statement of cash flows, the Authority considers all highly liquid instruments with a maturity of three months or less at the time they are purchased to be cash and cash equivalents.

Recognition of Receivables and Revenues

Passenger fares are recorded as revenue at the time services are provided and revenues pass through the farebox.

Grants and assistance revenues are received from reimbursable, non-reimbursable, and entitlement type grant programs. These grant programs involve transactions that are categorized as either government-mandated or voluntary non-exchange transactions. Grants and assistance revenues from government-mandated and voluntary non-exchange transactions are recorded as a receivable and revenue when all eligibility requirements are met. Grants and assistance revenues received before the eligibility requirements are met are deferred.

Inventory of Materials and Supplies

Inventory items are stated at the lower of cost or market. Inventory generally consists of maintenance parts and supplies for rolling stock and other transportation equipment.

Capital Assets

Property, facilities, and equipment are stated at historical cost. The cost of normal maintenance and repairs are charged to operations as incurred. Improvements and interest are capitalized and depreciated over the remaining useful lives of the related properties, with the exception of land which is non-depreciable. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets as follows:

<u>Description</u>	<u>Years</u>
Buildings and Improvements	5-20
Transportation Vehicles	4-12
Furniture, Fixtures and Equipment	3-15

Depreciation and losses on the disposal of capital assets acquired or constructed through grants externally restricted for capital acquisition are closed to net position. Net income (loss) adjusted by the amount of depreciation (and losses) on capital assets acquired in this manner is closed to net position.

**SOUTH EAST AREA TRANSIT
MUSKINGUM COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2014
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Operating Revenues and Expenses

The Authority has classified its revenues as either operating or non-operating. Operating revenues are those that are generated directly from the primary activities. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the Authority. Revenues and expenses not meeting this definition are reported as non-operating.

Restricted Assets

Restricted Assets consist of monies and other resources, the use of which is legally restricted for capital acquisition and construction.

Net Position

Equity is displayed in three components as follows:

Invested in Capital Assets – This consists of capital assets, net of accumulated depreciation, less the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.

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

Unrestricted – This consists of net position that does not meet the definition of “restricted” or “invested in capital assets”.

Compensated Absences

GASB Statement No. 16 establishes criteria for compensated absences. Compensated absences for vacation leave and benefits with similar characteristics should be recorded as a liability when earned by employees if the following conditions are satisfied:

- The compensated absence is earned on the basis of services already provided by the employees; and
- It is probable that the compensated absence will be paid in a future period.

The Authority records compensated absences for vacation and sick leave in accordance with GASB No. 16. The Authority accrues vacation benefits as earned by its employees. Unused vacation benefits are paid to the employee upon separation from the Authority. Vacation days are limited to a maximum of twenty days. Upon voluntary termination, the Authority pays the employee 50% of accrued sick pay for a maximum of 80 days. An employee cannot carry over vacation to the following year; however, the Authority pays an employee with one or more years of service his or her accrued vacation upon termination of employment.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes.

**SOUTH EAST AREA TRANSIT
MUSKINGUM COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2014
(Continued)**

3. CASH AND INVESTMENTS

The investments and deposits of the Authority are governed by the provisions of the Ohio Revised Code. In accordance with these statutes, only financial institutions located in Ohio are eligible to hold public deposits. The statutes also permit the Authority to invest in monies in certificates of deposits, saving accounts, money market accounts, the State Treasurer's investment pool (STAR Ohio) and obligations of the United States government or certain agencies thereof. The Authority may also enter in repurchase agreements with any eligible depository for a period not extending 30 days.

Public depositories must give security for all public funds on deposit. These institutions may either specifically collateralize individual accounts in lieu of amounts insured by the Federal Deposit Insurance Corporation (FDIC), or may pledge a pool of government securities with a market value equal to 105% of public monies on deposit at the institution. Repurchase agreements must be secured by the specific government securities upon which the repurchase agreements are based. These securities must be obligations of or guaranteed by the United States and mature or be redeemable within five years of the date of the related repurchase agreement. The market value of the securities subject to a repurchase agreement must exceed the value of the principal by 2% and be marked to market daily. State law does not require that security maintained for public deposits and investments be held in the Authority's name.

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

Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the Authority's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the Authority.

At December 31, 2014, the bank balance of all Authority deposits was \$217,166, and the book balance was \$217,247. Based on the criteria described in GASB Statement No. 40, "Deposit and Investment Risk Disclosures", as of December 31, 2014, none of the Authority's funds were exposed to custodial risk.

Investments

The Authority held no investments at December 31, 2014.

**SOUTH EAST AREA TRANSIT
MUSKINGUM COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2014
(Continued)**

4. ACCOUNTS RECEIVABLE

Receivables at December 31, 2014 consisted of accounts (billings for user charges for services) and intergovernmental grants. Management estimated allowances for bad debt based on a review of accounts receivable at year end and it was determined that most accounts were collectable and in good standing.

A summary of the principal items of intergovernmental receivables at December 31, 2014 consisted of the following amounts: Ohio Department of Transportation \$188,009, Ohio Department of Taxation \$9,308, Guernsey County Job and Family Services \$42,945 and Muskingum County Job and Family Services \$65,777.

5. CAPITAL ASSETS

A summary of capital asset activity during the fiscal year follows:

<u>Asset Type</u>	<u>Balance at 12-31-2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at 12-31-2014</u>
Nondepreciable Capital Assets:				
Land	\$334,255	\$0	\$0	\$334,255
Depreciable Capital Assets:				
Buildings	1,747,102	1,722	0	1,748,824
Buses & Vehicles	1,547,805	218,691	121,762	1,644,734
Furniture, Fixtures and Equipment	501,540	22,740	0	524,280
Total Depreciable Capital Assets	<u>3,796,447</u>	<u>243,153</u>	<u>121,762</u>	<u>3,917,838</u>
Accumulated Depreciation				
Buildings	1,191,459	60,196	0	1,251,655
Buses & Vehicles	1,257,745	165,534	121,762	1,301,517
Furniture, Fixtures and Equipment	419,374	11,010	0	430,384
Total Accumulated Depreciation	<u>2,868,578</u>	<u>236,740</u>	<u>121,762</u>	<u>2,983,556</u>
Net Depreciable Capital Assets	<u>927,869</u>	<u>6,413</u>	<u>0</u>	<u>934,282</u>
Capital Assets - Net	<u>\$1,262,124</u>	<u>\$6,413</u>	<u>\$0</u>	<u>\$1,268,537</u>

6. NOTE PAYABLE

In 2014, the Authority renewed a revenue anticipation note from a local bank in the amount of \$180,000 to be used as a source of short-term operating funds. The outstanding balance at December 31, 2014 is \$143,738. The note is un-secured. The interest rate is variable. A member of the Board of Trustees is an officer of the bank. He resigned from the Board on January 1, 2014.

7. DEFINED BENEFIT PENSION PLANS

Ohio Public Employees Retirement System (OPERS) administers three separate pension plans as described below:

**SOUTH EAST AREA TRANSIT
MUSKINGUM COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2014
(Continued)**

7. DEFINED BENEFIT PENSION PLANS (Continued)

- The Traditional Pension Plan – cost-sharing multiple-employer defined benefit pension plan.
- The Member-Directed Plan – a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year.) Under the Member-Directed Plan members accumulate retirement assets equal to the value of member and (vested) employer contributions plus any investment earnings thereon.
- The Combined Plan – is a cost-sharing multiple-employer defined benefit pension plan. Under the Combined Plan employer contributions are invested by the retirement system to provide a formula retirement benefit similar in nature to, but less than, the Traditional Plan benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the Member-Directed plan.

OPERS provides basic retirement, disability, survivor, and death benefits and annual cost of living adjustments to members of the Traditional Plan and Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by a statute per Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report which may be obtained by visiting <https://www.opers.org/investments/cafr.shtml>, writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-6705 or 1-800-222-7377.

The Ohio Revised Code provides statutory authority for member and employer contributions and currently limits the employer contribution to a rate not to exceed 14 percent of covered payroll for state and local employer units. Member contribution rates, as set forth in the Ohio Revised Code, are not to exceed 10 percent of covered payroll for members in State and local divisions. For the year ended December 31, 2014, members in state and local divisions contributed 10 percent of the covered payroll. For 2014, member and employer contribution rates were consistent across all three plans.

The Authority's 2014 contribution rate was 14 percent of covered payroll. The portion of employer contributions used to fund pension benefits is net of post-employment health care benefits. The portion of employer contribution allocated to health care for members in the Traditional Plan was 1 percent for 2014. The portion of employer contributions allocated to health care for members in the Combined Plan was 2 percent for 2014 and 1 percent for 2013. Employer contribution rates are actuarially determined.

The Authority's required contribution for the years ended December 2014, 2013, and 2012 were \$138,081, \$117,864, and \$109,119, respectively. For fiscal year 2014, 96 percent had been contributed as of 12-31-14 with the balance being reported as a payable. The full amount has been contributed for fiscal years 2013 and 2012.

8. POST-EMPLOYMENT BENEFITS

Plan Description – Ohio Public Employees Retirement System (OPERS) administers three separate pension plans: The Traditional Pension Plan—a cost sharing, multiple-employer defined benefit pension plan; the Member-Directed Plan—a defined contribution plan; and the Combined Plan—a cost sharing, multiple employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

**SOUTH EAST AREA TRANSIT
MUSKINGUM COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2014
(Continued)**

8. POST-EMPLOYMENT BENEFITS (Continued)

OPERS maintains a cost-sharing multiple-employer defined benefit post-employment health care plan for qualifying members of both the Traditional Pension and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage. The plan includes a medical plan, prescription drug program and Medicare Part B premium reimbursement.

In order to qualify for post-employment health care coverage, age-and-service retirees under the Traditional Pension and Combined Plans must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The Ohio Revised Code permits, but does not mandate, OPERS to provide health care benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

Disclosures for the health care plan are presented separately in the OPERS financial report which may be obtained by visiting <https://www.opers.org/investments/cafr.shtml>, writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-6705 or 1-800-222-7377..

Funding Policy – The post-employment health care plan was established under, and is administrated in accordance with, Internal Revenue Code 401(h). The Ohio Revised Code provides the statutory authority requiring public employers to fund post-retirement health care through contributions to OPERS. A portion of each employer's contribution to OPERS is set aside for the funding of post-retirement health care.

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2014, state and local employers contributed at a rate of 14.0 percent of covered payroll. The Ohio Revised Code currently limits the employer contribution to a rate not to exceed 14 percent of covered payroll for state and local employer units.

Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of post-employment health care benefits. For 2014 the portion of employer contributions allocated to health care was 2 percent for members in the Traditional Plan and the Combined Plan. It was 1 percent in 2013.

The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care benefits provided, by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected. Active members do not make contributions to the post-employment health care plan. The Authority's contributions allocated to fund post-employment health care benefits for the year ended December 31, 2014 was \$19,725.

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

**SOUTH EAST AREA TRANSIT
MUSKINGUM COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2014
(Continued)**

9. GRANTS, REIMBURSEMENTS, AND SPECIAL FARE ASSISTANCE

Grants, reimbursements, and special fare assistance in the statement of revenues, expenses, and changes in equity for the year ended December 31, 2014 consist of the following:

Federal:	
FTA Capital Assistance	\$ 420,281
FTA Operating Assistance	1,120,701
	<u>\$ 1,540,982</u>
State:	
ODOT Elderly Fare Assistance	\$ 11,136
	<u>\$ 11,136</u>
Local:	
City of Zanesville	\$ 80,000
Village of South Zanesville	2,500
Muskingum County	10,000
City of Cambridge	5,000
Guernsey County	18,000
Muskingum County Job and Family Services	694,250
Guernsey County Job and Family Services	481,410
	<u>\$ 1,291,160</u>

On April 25, 2012, the Board of Trustees established a capital replacement line item on its accounting system in which it places 11 percent of negotiated special transit fares. The purpose of these monies is to provide a local match portion for the Authority for federal capital maintenance grants or federal capital replacement grants that are available through the Ohio Department of Transportation, as needed. For the year ending December 31, 2014, the Authority collected \$56,306 in the capital replacement line item. This amount was reported in the financial statements within Special Transit Fares.

10. RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets, flood and earthquake, errors and omission, employment related matters, injuries to employees and employee theft and fraud. The Authority joined together with certain other transit authorities in the State to form Ohio Transit Insurance Risk Pool Association, Inc. (OTRIP). OTRIP is a joint self-insurance pool pursuant to Section 2744.081 of the Ohio Revised Code, currently operating as a common risk management and insurance program for 10 member transit agencies. The Authority pays an annual premium to OTRIP for its general insurance coverage and makes quarterly payments into a loss and administration fund pursuant to OTRIP's bylaws. The Agreement of Formation of the OTRIP provides that OTRIP will be self-sustaining through member premiums.

Per occurrence, catastrophic loss coverage is maintained by OTRIP equal to \$200,000,000 for qualified property losses (including auto physical damage) and \$10,000,000 for automobile liability.

The Authority continues to carry commercial insurance for all other risks of loss, including workers' compensation and employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**SOUTH EAST AREA TRANSIT
MUSKINGUM COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2014
(Continued)**

11. CONTINGENCIES

The Authority receives a substantial amount of support from federal, state, and local governments. A significant reduction in this level of support, if such were to occur, would have a material effect on the Authority's programs and activities.

12. SUBSEQUENT EVENTS

In January 2015, a revenue anticipation note in the amount of \$150,000 was issued to pay off the revenue anticipation note that was outstanding. Monthly payments will be made for a period of one year.

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**SOUTH EAST AREA TRANSIT
MUSKINGUM COUNTY**

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2014**

FEDERAL GRANTOR/ Pass Through Grantor Program Title	Grant Number	Federal CFDA Number	Expenditures
<u>U.S. DEPARTMENT OF TRANSPORTATION</u>			
<i>Passed Through Ohio Department of Transportation:</i>			
Formula Grants for Other Than Urbanized Areas	OH-18-0034	20.509	\$ 1,455,873
Federal Transit - Capital Investment Grant	OH-04-0052	20.500	1,378
	OH-04-0100		<u>83,731</u>
Total Federal Transit - Capital Improvement Grant			<u>85,109</u>
Total U.S. Department of Transportation			<u>1,540,982</u>
Total Federal Awards Expenditures			<u>\$ 1,540,982</u>

The Notes to the Schedule of Federal Awards Expenditures is an integral part of the Schedule.

**SOUTH EAST AREA TRANSIT
MUSKINGUM COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2014**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The Authority prepares its Schedule of Federal Awards Expenditures (the Schedule) on the same basis of accounting used to prepare its financial statements, which is described in Note 2, Summary of Significant Accounting Policies.

NOTE B - MATCHING REQUIREMENTS

The Authority is required to contribute non-federal funds (matching funds) to support federally funded programs. The expenditure of non-federal matching funds is not included in this Schedule.



Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY GOVERNMENT AUDITING STANDARDS

South East Area Transit
Muskingum County
375 Fairbanks Street
Zanesville, Ohio 43701

To the Board of Trustees:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the South East Area Transit, Muskingum County, Ohio (the Authority), as of and for the year ended December 31, 2014, and the related notes to the financial statements, and have issued our report thereon dated September 3, 2015.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinion on the financial statements, but not to the extent necessary to opine on the effectiveness of the Authority's internal control. Accordingly, we have not opined on it.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the Authority's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

Compliance and Other Matters

As part of reasonably assuring whether the Authority's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the Authority's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping initial "D".

Dave Yost
Auditor of State
Columbus, Ohio

September 3, 2015



Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO THE MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

South East Area Transit
Muskingum County
375 Fairbanks Street
Zanesville, Ohio 43701

To the Board of Trustees:

Report on Compliance for Each Major Federal Program

We have audited the South East Area Transit, Muskingum County, Ohio (the Authority), compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect the Authority's major federal program for the year ended December 31, 2014. The *Summary of Auditor's Results* in the accompanying Schedule of Findings identifies the Authority's major federal program.

Management's Responsibility

The Authority's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to its federal program.

Auditor's Responsibility

Our responsibility is to opine on the Authority's compliance for the Authority's major federal program based on our audit of the applicable compliance requirements referred to above. Our compliance audit followed auditing standards generally accepted in the United States of America; the standards for financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. These standards and OMB Circular A-133 require us to plan and perform the audit to reasonably assure whether noncompliance with the applicable compliance requirements referred to above that could directly and materially affect a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our compliance opinion on the Authority's major program. However, our audit does not provide a legal determination of the Authority's compliance.

Opinion on the Major Federal Program

In our opinion, the Authority complied, in all material respects with the compliance requirements referred to above that could directly and materially affect its major federal program for the year ended December 31, 2014.

Report on Internal Control over Compliance

The Authority's management is responsible for establishing and maintaining effective internal control over compliance with the applicable compliance requirements referred to above. In planning and performing our compliance audit, we considered the Authority's internal control over compliance with the applicable requirements that could directly and materially affect a major federal program, to determine our auditing procedures appropriate for opining on each major federal program's compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not to the extent needed to opine on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the Authority's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in first paragraph of this section and would not necessarily identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

This report only describes the scope of our internal control compliance tests and the results of this testing based on OMB Circular A-133 requirements. Accordingly, this report is not suitable for any other purpose.



Dave Yost
Auditor of State
Columbus, Ohio

September 3, 2015

**SOUTH EAST AREA TRANSIT
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2014**

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unmodified
<i>(d)(1)(ii)</i>	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material internal control weaknesses reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any significant deficiencies in internal control reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unmodified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510(a)?	No
<i>(d)(1)(vii)</i>	Major Program (list): <ul style="list-style-type: none"> • Formula Grants for Other Than Urbanized Areas – CFDA #20.509 	
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	No

**2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

None

3. FINDINGS FOR FEDERAL AWARDS

None

**SOUTH EAST AREA TRANSIT
MUSKINGUM COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .315 (b)
DECEMBER 31, 2014**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2013-001	Ohio Rev. Code § 5705.41(D) – The Authority failed to follow applicable budgetary certification requirements.	Yes	
2013-002	Lack of system of controls over federal activity.	Yes	
2013-003	Questioned costs related to period of availability requirements projected in the amount of \$21,458.	Yes	



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SOUTH EAST AREA TRANSIT

MUSKINGUM COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
SEPTEMBER 15, 2015**