



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 South East Area Transit, Muskingum County, Ohio (the Authority), as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements 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 overall financial statement presentation.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of South East Area Transit, Muskingum County, Ohio, as of December 31, 2012, 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 Federal Awards Expenditures 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 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 10, 2013, 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 10, 2013

**SOUTH EAST AREA TRANSIT
MUSKINGUM COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2012
(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, 2012. 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 a net position of \$1,172,898. This net position results from a difference between total assets of \$1,750,254 and total liabilities of \$577,356.
- ⤴ Current assets of \$486,578 primarily consist of Cash and Cash Equivalents of \$299,130; Accounts Receivable of \$17,659 and Intergovernmental Receivable of \$141,300.
- ⤴ Current liabilities of \$530,831 primarily consist of Notes Payable of \$200,837, Accounts Payable of \$177,847, and Payroll related items of \$102,015.

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, 2012
(UNAUDITED)**

Financial Analysis of the Authority

Table 1 provides a summary of the Authority's net position for 2012 and 2011:

Condensed Summary of Net Position		
	2012	2011
Assets:		
Current Assets	\$ 486,578	\$ 616,140
Capital Assets (net of accumulated depreciation)	1,263,676	1,560,309
Total Assets	1,750,254	2,176,449
Liabilities:		
Current Liabilities	530,831	838,433
Long-Term Liabilities	46,525	47,334
Total Liabilities	577,356	885,767
Net Position:		
Invested in Capital Assets	1,263,676	1,560,309
Unrestricted	(90,778)	(269,627)
Total Net Position	\$ 1,172,898	\$ 1,290,682

Current assets decreased \$129,562 primarily due to decreases in receivables.

Capital assets decreased \$296,633 as a result of the annual depreciation of assets.

Current liabilities decreased \$307,602 primarily due to decreased accounts payable.

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 line of credit to pay current operating expenses. At December 31, 2012, the balance of the line of credit was \$200,837, and unrestricted net position had a deficit balance of \$90,778.

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, 2012, the Authority had a negative working capital balance of \$44,253.

The Board of Trustees is working to improve working capital balances.

**SOUTH EAST AREA TRANSIT
MUSKINGUM COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2012
(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		
	2012	2011
Operating Revenues (Expenses)		
Operating Revenues	\$ 2,326,909	\$ 2,375,681
Operating Expenses (excluding depreciation)	(2,433,529)	(2,619,828)
Depreciation Expenses	(280,619)	(339,759)
Operating Loss	(387,239)	(583,906)
Non Operating Revenues (Expenses)		
Capital Grant Revenue	232,862	273,462
Loss on Disposal of Asset	(16,013)	-
Other Non-Operating Income	52,606	7,916
Total Non-Operating Revenues (Expenses)	269,455	281,378
Change in Net Position During Year	(117,784)	(302,528)
Net Position, Beginning of Year	1,290,682	1,593,210
Net Position, End of Year	\$ 1,172,898	\$ 1,290,682

Financial Operating Activities

Operating revenues decreased by \$48,772 due mainly to decreases in state grants.

Non-Operating Revenues increased by \$4,090 due to the sale of assets.

Operating expenses decreased \$186,299 which is consistent with operational cuts made to offset reductions in revenues.

The Board of Trustees is working to improving operating performance. Continued dedication within the organization to reduce spending has made SEAT more fiscally responsible with the funding that has been made available.

**SOUTH EAST AREA TRANSIT
MUSKINGUM COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2012
(UNAUDITED)**

Capital Assets and Debt Administration

The Authority's investment in capital assets as of December 31, 2012 is \$1,263,676 (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, 2012, long term liabilities consist entirely of compensated absences for accrued sick pay of \$46,525.

The Authority has no long term debt, but does have a line of credit, of which \$200,837 was outstanding at December 31, 2012.

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, 2012**

Assets

Current Assets:

Cash and Cash Equivalents (including \$40,000 restricted by ODOT)	\$ 299,130
Accounts Receivable	17,659
Intergovernmental Receivable	141,300
Materials & Supplies Inventory	28,489
Total Current Assets	486,578

Non-Current Assets:

Property, Facilities and Equipment	
Land - Non Depreciable	334,255
Operating Facilities	1,657,538
Buses & Other Vehicles	1,593,887
Furniture, Fixtures, & Equipment	438,551
Subtotal	4,024,231
Less Accumulated Depreciation	(2,760,555)
Total Property, Facility and Equipment (net of accumulated depreciation)	1,263,676
Total Assets	1,750,254

Liabilities

Current Liabilities

Notes Payable	200,837
Accounts Payable	177,847
Accrued Payroll	28,382
Accrued Payroll Taxes & Withholdings	27,659
Accrued Vacation Time	45,974
Restricted Funds - Future Bus Purchase	40,000
Unredeemed Fares	10,132
Total Current Liabilities	530,831

Long-Term Liabilities

Accrued Sick Time	46,525
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Total Liabilities	577,356
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Net Position

Invested in Capital Assets	1,263,676
Unrestricted	(90,778)
Total Net Position	\$ 1,172,898

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, 2012**

Operating Revenues	
General Public Fares	\$ 101,801
Special Transit Fares	943,147
Intergovernmental Funding	1,209,986
Advertising Revenue	11,380
Maintenance Services	27,565
Other Operating Revenue	33,030
Total Operating Revenues	<u>2,326,909</u>
Operating Expenses	
Labor	779,420
Fringe Benefits	643,283
Services	155,162
Materials & Supplies	286,910
Utilities	47,365
Casualty & Liability Insurance	84,383
Taxes	242
Purchased Transportation	385,105
Miscellaneous Expenses	25,002
Interest Expense	15,177
Leases & Rentals	11,480
Total Operating Expenses	<u>2,433,529</u>
Operating Gain/Loss Excluding Depreciation	(106,620)
Depreciation	<u>280,619</u>
Operating Gain/Loss	(387,239)
Non-Operating Revenues (Expenses)	
Federal Capital Maintenance Grant	222,862
Local Grant - Capital	10,000
Loss on Disposal of Asset	(16,013)
Other Non-Operating Income	52,606
Total Non-Operating Revenue	<u>269,455</u>
Net Gain/Loss	(117,784)
Net Position, Beginning of Year	<u>1,290,682</u>
Net Position, End of Year	<u><u>\$ 1,172,898</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, 2012**

Operating Activities

Cash Received From Customers	\$ 1,041,990
Cash Received From Grants for Operating	1,631,275
Cash Received From Advertising Fees	11,380
Cash Received From Maintenance Services	27,565
Cash Received From Other Receipts	22,057
Cash Payments for Operating and Administrative Expenses	<u>(2,642,036)</u>
Net Cash Used	92,231

Non-Capital Financing Activities

Increase (Decrease) on Line of Credit	(90,259)
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Capital and Related Financing Activities

Proceeds From Capital Grants and Assistance	232,862
Proceeds From Sale of Equipment / Other	<u>52,606</u>
Net Cash Provided	285,468

Investing Activities

Cash Received From Interest	1
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Net Increase in Cash & Equivalents

287,441

Cash & Equivalents - Beginning of Year

11,689

Cash & Equivalents - End of Year

\$ 299,130

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

Operating Gain (Loss)	\$ (387,239)
Adjustments to Reconcile Operating Gain (Loss) to Net Cash Used in Operating Activities	
Depreciation	280,619
Changes in Assets & Liabilities	
(Increase) Decrease in Accounts Receivable	411,497
(Increase) Decrease in Inventories	5,506
Increase (Decrease) in Accounts Payable	(186,064)
Increase (Decrease) in Payroll Liabilities	(24,872)
Increase (Decrease) in Compensated Absences	(3,077)
Increase (Decrease) in Unredeemed Fares	<u>(4,139)</u>
Net Cash (Used) in Operating Activities	<u><u>\$ 92,231</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, 2012**

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, 2012 the Authority had 28 full-time equivalent employees and 2 part-time employees. Approximately 77% of the Authority's employees at December 31, 2012 are subject to a collective bargaining agreement expiring on May 31, 2013.

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. This statement requires that financial statements of the reporting entity include all of the organizations, activities, functions, and component units for which the reporting entity is financially accountable. Financial accountability is defined as the appointment of a voting majority of the component unit will provide a financial benefit to or impose a financial burden on the reporting entity. The Authority does not have financial accountability over any entities.

The Authority is managed by a ten 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 two members are appointed by the Guernsey County Commissioners and the Mayor of South Zanesville. 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 Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The most significant of the Authority's accounting policies are described below.

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.

**SOUTH EAST AREA TRANSIT
MUSKINGUM COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

**SOUTH EAST AREA TRANSIT
MUSKINGUM COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 do 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.

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 (STAROhio) and obligations of the United States government or certain agencies thereof.

**SOUTH EAST AREA TRANSIT
MUSKINGUM COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
(Continued)**

3. CASH AND INVESTMENTS (Continued)

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, 2012, the bank balance of all Authority deposits was \$299,928, and the book balance was \$299,130. Based on the criteria described in GASB Statement No. 40, "Deposit and Investment Risk Disclosures", as of December 31, 2012, none of the Authority's funds were exposed to custodial risk.

Investments

The Authority held no investments at December 31, 2012.

4. ACCOUNTS RECEIVABLE

Receivables at December 31, 2012 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 and a small allowance was established based on prior year data.

A summary of the principal items of intergovernmental receivables at December 31, 2012 consisted of the following amounts: Ohio Department of Transportation \$62,602, Ohio Department of Taxation \$16,493, Guernsey County Job and Family Services \$22,809 and Muskingum County Job and Family Services \$39,396.

**SOUTH EAST AREA TRANSIT
MUSKINGUM COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
(Continued)**

5. CAPITAL ASSETS

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

Asset Type	Balance at 12-31-2011	Additions	Deletions	Balance at 12-31-2012
Nondepreciable Capital Assets:				
Land	\$334,255	\$0	\$0	\$334,255
Depreciable Capital Assets:				
Buildings	1,657,538	-	-	1,657,538
Buses & Vehicles	2,558,871	-	964,984	1,593,887
Furniture, Fixtures and Equipment	483,510	-	44,959	438,551
Total Depreciable Capital Assets	4,699,919	-	1,009,943	3,689,976
Accumulated Depreciation				
Buildings	1,083,870	51,182	-	1,135,052
Buses & Vehicles	1,909,930	228,170	949,288	1,188,812
Furniture, Fixtures and Equipment	480,066	1,267	44,642	436,691
Total Accumulated Depreciation	3,473,866	280,619	993,930	2,760,555
Net Depreciable Capital Assets	1,226,053	(280,619)	16,013	929,421
Capital Assets - Net	\$1,560,308	(\$280,619)	\$16,013	\$1,263,676

6. NOTE PAYABLE

In 2012, the Authority renewed a line of credit from a local bank in the amount of \$291,096 to be used as a source of short-term operating funds. The outstanding balance at December 31, 2012 is \$200,837. The loan is un-secured. The interest rate is variable. A member of the Board of Trustees is an officer of the bank.

7. DEFINED BENEFIT PENSION PLANS

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

- The Traditional Pension Plan (TP) – cost-sharing multiple-employer defined benefit pension plan.
- The Member-Directed Plan (MD) – a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year.) Under the 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 (CO) – 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.

**SOUTH EAST AREA TRANSIT
MUSKINGUM COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
(Continued)**

7. DEFINED BENEFIT PENSION PLANS (Continued)

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 statement statute per Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report which may be obtained by writing to the Public Employee Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-5601 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, 2012, members in state and local divisions contributed 10 percent of covered payroll. For 2012, member and employer contribution rates were consistent across all three plans.

The Authority's 2012 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 4 percent for 2012. The portion of employer contributions allocated to health care for members in the Combined Plan was 6.05 percent for 2012. Employer contributions rates are actuarially determined.

The Authority's required contribution for the years ended December 2012, 2011, and 2010 were \$109,119, \$119,766, and \$149,769, respectively. For fiscal year 2012, 90 percent has been contributed with the balance being reported as a payable. The full amount has been contributed for fiscal years 2011 and 2010.

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.

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.

**SOUTH EAST AREA TRANSIT
MUSKINGUM COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
(Continued)**

8. POST-EMPLOYMENT BENEFITS (Continued)

Disclosures for the health care plan are presented separately in the OPERS financial report which may be obtained by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 614-222-5601 or 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 2012, 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. The portion of employer contributions allocated to health care for members in the Traditional Plan was 4 percent for 2012. The portion of employer contributions allocated to health care for members in the Combined Plan was 6.05 during calendar year 2012.

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, 2012 was \$31,177; 90 percent has been contributed for 2012.

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 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.

9. GRANTS, REIMBURSEMENTS, AND SPECIAL FARE ASSISTANCE

Grants, reimbursements, and special fare assistance in the statement of revenues, expenses, and changes in net position for the year ended December 31, 2012 consist of the following:

Federal:		
FTA Capital Assistance	\$ 222,862	
FTA Operating Assistance	941,993	
	<u>\$ 1,164,855</u>	
State:		
ODOT Operating Assistance	\$ 60,494	
ODOT Elderly Fare Assistance	81,999	
	<u>\$ 142,493</u>	

**SOUTH EAST AREA TRANSIT
MUSKINGUM COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
(Continued)**

9. GRANTS, REIMBURSEMENTS, AND SPECIAL FARE ASSISTANCE (Continued)

Local:		
City of Zanesville	\$	80,000
Village of South Zanesville		2,500
Muskingum County		10,000
City of Cambridge		5,000
Guernsey County		28,000
Other Local		10,000
Muskingum County Job and Family Services		393,949
Guernsey County Job and Family Services		362,772
	<u>\$</u>	<u>892,221</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. As of December 31, 2012, the Authority had collected \$51,610 in the capital replacement line item. This amount was reported on 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 \$5,000,000 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.

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.

**SOUTH EAST AREA TRANSIT
MUSKINGUM COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
(Continued)**

12. FUNDS HELD FOR BUS PURCHASE

In 2006, one of the Authority's buses was totaled in an accident. The insurance proceeds of \$40,000 are restricted by the terms of a capital grant received from the Ohio Department of Transportation (ODOT) that the Authority used towards the original purchase of the bus. The \$40,000 is included on the balance sheet as Cash and Cash Equivalents and Funds Held for Bus Purchase. The vehicle in question will be purchased during calendar year 2013.

13. SUBSEQUENT EVENTS

On February 13, 2013, the Board approved renewal of debt of \$225,000 in notes to pay off the previous line of credit used for operating expenses.

Also on February 13, 2013, the Authority's Board of Trustees approved a negotiated settlement payment of \$36,740 to First Transit to satisfy its outstanding payable of \$73,479 that was incurred in 2010. First Transit was the management company through which the Authority had contracted for the services of the previous General Manager.

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**SOUTH EAST AREA TRANSIT
MUSKINGUM COUNTY**

**FEDERAL AWARDS EXPENDITURES SCHEDULE
FOR THE YEAR ENDED DECEMBER 31, 2012**

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-X032	20.509	\$ 901,993
Formula Grants for Other Than Urbanized Areas	OH-18-X032	20.509	160,406
Formula Grants for Other Than Urbanized Areas	OH-18-X031	20.509	40,000
Formula Grants for Other Than Urbanized Areas	OH-18-X029	20.509	340
ARRA - Formula Grants for Other Than Urbanized Areas	OH-96-X001	20.509	62,456
Total Formula Grants for Other Than Urbanized Areas			<u>1,165,195</u>
Total U.S. Department of Transportation			<u>1,165,195</u>
Total Federal Awards Expenditures			<u>\$ 1,165,195</u>

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

**SOUTH EAST AREA TRANSIT
MUSKINGUM COUNTY**

**NOTES TO THE FEDERAL AWARDS EXPENDITURES SCHEDULE
FOR THE YEAR ENDED DECEMBER 31, 2012**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The Authority prepares its Schedule of Federal Awards Expenditures 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 South East Area Transit, Muskingum County, Ohio (the Authority), as of and for the year ended December 31, 2012, and the related notes to the financial statements, and have issued our report thereon dated September 10, 2013.

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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. However, as described in the accompanying Schedule of Findings we identified a certain deficiency in internal control over financial reporting, that we consider a material weakness.

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 a 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. We consider finding 2012-002 described in the accompanying Schedule of Findings to be a material weakness.

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 an instance of noncompliance or other matters we must report under *Government Auditing Standards* which is described in the accompanying Schedule of Findings as item 2012-001.

Entity's Response to Findings

The Authority's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. We did not audit the Authority's responses and, accordingly, we express no opinion on them.

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.



Dave Yost
Auditor of State

Columbus, Ohio

September 10, 2013



Dave Yost • Auditor of State

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

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

To the Board of Trustees:

Report on Compliance for Each Major Federal Program

We have audited South East Area Transit's, 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 South East Area Transit's major federal program for the year ended December 31, 2012. 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 each of the Authority's major federal programs 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 South East Area Transit 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, 2012.

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.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. Therefore, we cannot assure we have identified all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a material weakness.

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's compliance requirement will not be prevented, or timely detected and corrected. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings as item 2012-003 to be a material weakness.

The Authority's response to our internal control over compliance finding is described in the accompanying Schedule of Findings. We did not audit the Authority's response and, accordingly, we express no opinion on it.

This report only describes the scope of our tests of internal control over compliance 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 10, 2013

**SOUTH EAST AREA TRANSIT
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2012**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unmodified
(d)(1)(ii)	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	Yes
(d)(1)(ii)	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material internal control weaknesses reported for major federal programs?	Yes
(d)(1)(iv)	Were there any significant deficiencies in internal control reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unmodified
(d)(1)(vi)	Are there any reportable findings under § .510(a)?	No
(d)(1)(vii)	Major Programs (list):	Formula Grants for Other Than Urbanized Areas – CFDA No. 20.509
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	No

**SOUTH EAST AREA TRANSIT
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2012
(Continued)**

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

Finding Number 2012-01

Noncompliance

Ohio Rev. Code Section 5705.41(D)(1) prohibits a subdivision or taxing entity from making any contract or ordering any expenditure of money unless a certificate signed by the fiscal officer is attached thereto. The fiscal officer must certify that the amount required to meet any such contract or expenditure has been lawfully appropriated and is in the treasury, or is in the process of collection to the credit of an appropriate fund free from any previous encumbrance.

There are several exceptions to the standard requirement stated above that a fiscal officer's certificate must be obtained prior to a subdivision or taxing authority entering into a contract or order involving the expenditure of money. The main exceptions are: "then and now" certificates, blanket certificates, and super blanket certificates, which are provided for in Sections 5705.41(D)(1) and 5705.41(D)(3), respectively, of the Ohio Revised Code.

1. "Then and Now" certificate - If the fiscal officer can certify that both at the time that the contract or order was made ("then"), and at the time that the fiscal officer is completing the certification ("now"), that sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the Authority can authorize the drawing of a warrant for the payment of the amount due. The Authority has thirty days from receipt of the "then and now" certificate to approve payment by ordinance or resolution. Amounts of less than \$3,000 may be paid by the fiscal officer without a resolution or ordinance upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the Authority.

2. Blanket Certificates - Fiscal officers may prepare so-called "blanket" certificates not running beyond the current fiscal year. The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation. Purchase orders may not exceed an amount established by resolution or ordinance of the legislative authority, and cannot extend past the end of the fiscal year. In other words, blanket certificates cannot be issued unless there has been an amount approved by the legislative authority for the blanket.

3. Super Blanket Certificate - The Authority may also make expenditures and contracts for any amount from a specific line item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line item appropriation.

The obligations paid by the Authority did not include a statement indicating the purchase was lawfully appropriated or in the process of collection to the credit of an appropriate fund, and free from any previous encumbrance. Although the Authority utilized purchase orders the appropriate certification language was not included. In addition, the purchase orders utilized were not obtained prior to incurring the obligation for 37 percent of the expenditures we tested in 2012, and there was no evidence that the Authority followed the aforementioned exceptions. Failure to properly certify the availability of funds can result in overspending funds and negative cash fund balances.

**SOUTH EAST AREA TRANSIT
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2012
(Continued)**

2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)

Finding Number 2012-01 (Continued)

Noncompliance (Continued)

Unless the exceptions noted above are used, prior certification is not only required by statute but is a key control in the disbursement process to assure that purchase commitments receive prior approval. To improve controls over disbursements and to help reduce the possibility of the Authority's funds exceeding budgetary spending limitations, we recommend that the fiscal officer certify that the funds are or will be available prior to an obligation being incurred by the Authority. When prior certification is not possible, "then and now" certification should be used.

We recommend the Authority obtain the fiscal officer's certification of the availability of funds prior to the commitment being incurred. The most convenient certification method is to use purchase orders that include the certification language Section 5705.41(D) requires to authorize disbursements. The fiscal officer should sign the certification at the time the Authority incurs a commitment, and only when the requirements of Section 5705.41(D) are satisfied. The fiscal officer should post approved purchase commitments to the proper appropriation code, to reduce the available appropriation.

Officials' Response:

SEAT management team has implemented an improved system for approving the expenditures. SEAT also has an independent CPA who reviews the accounting records monthly in order to assure compliance with ODOT.

SEAT has become current with payables. Late fees will be minimal, if at all. If late fees do occur, the invoices will be entered with the proper coding applied to each in order to eliminate any future incorrect reimbursement.

Additionally, a system of review of financial information is established whereby the Fiscal Officer reviews expenditures with the Transit Director prior to ODOT invoice submission by the Fiscal Officer for accuracy. After review by the Transit Director and Fiscal Officer they will either document in electronic form by email or initial for approval to submit to ODOT.

Finding Number 2012-02

Material Weakness

Authority management is responsible for maintaining an accounting system and accounting records sufficient to enable the Authority to identify, assemble, analyze, classify, record and report its transactions and maintain accountability for its related assets. The accounting system should assure that the financial statement assertions are achieved for all transaction types and account balances.

Additionally, procedures should be in place to reconcile additions and deletions of capital assets to the entries recorded on the accounting system.

For fiscal year 2012, the Authority did not utilize any internal asset disposal forms to document capital assets disposed of by the Authority. In addition, we noted the Authority recorded the disposal of several assets twice on the financial statements.

**SOUTH EAST AREA TRANSIT
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2012
(Continued)**

2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)

Finding Number 2012-02 (Continued)

Material Weakness (Continued)

This resulted in Buses & Other Vehicles, Furniture, Fixtures & Equipment, and Accumulated Depreciation being understated on the financial statements in the amounts of \$372,308, \$3,097, and \$375,205, respectively. Additionally, when several of these assets were disposed of, the Authority accelerated the depreciation of the asset in order to fully depreciate the asset rather than record a loss on disposal of an asset on the financial statements. This resulted in Depreciation being overstated and Loss on Disposal of Asset being understated in the amounts of \$16,013. Audit adjustments, which were agreed to by management, were made to the accompanying financial statements to correct these misstatements.

We recommend the Authority implement control procedures in order to ensure that assets are properly recorded and disposed of.

Officials' Response:

A complete review of SEAT's Capital Asset Management system has been done and recommended changes have been put in place to assure corrections of booking and disposal of such assets.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
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Lack of System of Controls over Federal Activity

Finding Number	2012-03
CFDA Title and Number	Formula Grants for Other Than Urbanized Areas – CFDA No. 20.509
Federal Award Number / Year	RPT-4060-032-121, RPT-0060-032-122, RPT-4060-031-123
Federal Agency	Department of Transportation – Federal Transit Administration
Pass-Through Agency	Ohio Department of Transportation

Material Weakness – Activities Allowed, Allowable Costs/Cost Principles, Cash Management, Matching, Period of Availability, Procurement, Reporting, and Special Tests and Provisions

In order to properly ensure compliance with the various federal requirements related to federal grant funding, management and staff who will be involved in the process should attend regular training to become familiar with and stay up to date with the various grant requirements, as well as be cognizant of the various resources available should questions arise. A system of controls should be established in order to ensure the various deadlines for reporting and cash management requirements are met, as well as regular reviews of financial reports to ensure accurate reporting and compliance with matching requirements.

**SOUTH EAST AREA TRANSIT
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2012
(Continued)**

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)
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Finding Number 2012-03 (Continued)

Material Weakness – Activities Allowed, Allowable Costs/Cost Principles, Cash Management, Matching, Period of Availability, Reporting, and Special Tests and Provisions (Continued)

Controls that are essential to the payroll and non-payroll disbursement processes should be established and followed to allow management to review expenditures and determine whether expenditures are allowable and within the period of availability per federal requirements. This includes the proper use of purchase requisitions, purchase orders, supervisor-approved time sheets and Board-approved pay rates.

During our review of 2012 grant records, we noted the lack of a sufficient system of controls over the Authority's compliance with federal grant requirements. The following are control weaknesses that were noted:

- Due to a lack of adequate reviews by management to determine the allowability of expenditures, several expenditures for late fees and penalties were made that were not allowable for reimbursement under the operating or capitalized maintenance grant; which require the Authority to fully fund these expenditures with local monies. This could result in federal questioned costs greater than \$10,000 that would require reporting to the Ohio Department of Transportation for possible repayment of grant monies; however, during the current audit period exceptions projected to less than \$10,000.
- Financial and quarterly activity reports lacked evidence of review by the Transit Director. Reports were signed by the Board President; however, these approvals were done after the reports had been submitted to the Ohio Department of Transportation. As noted above, amounts reported to ODOT contained unallowable costs that went undetected by management.
- Purchase orders were not being consistently prepared prior to the ordering of goods or services and purchases were approved for payment without sufficient documentation included in the voucher packages.

We recommend the Authority management and staff that will be involved in the compliance of grant requirements attend trainings offered by ODOT, as well as familiarize themselves with the specific grant agreements and other resources at their disposal. Furthermore, we recommend that the Authority implement a system of controls that includes the following:

- Prior approval of expenditures prior to incurring obligations in order to determine costs are in accordance with allowable activities and cost principles;
- The regular review of financial information by the Transit Director and/or Board, with appropriate documentation maintained to evidence the review, to determine the accuracy of financial data submitted to ODOT prior to submission and ensure cash management, reporting, and matching requirements are being met; and,
- Maintenance of sufficient documentation to allow individuals approving purchases to determine whether allowability of costs, procurement, and period of availability requirements are being met.

Officials' Response and Corrective Action Plan:

In 2013, a new requisition/PO system has been implemented with the Transit Director signing off on all requisitions. Checks will not be processed without the proper documentation in hand. This will also prevent any unauthorized purchases to be paid in the future.

**SOUTH EAST AREA TRANSIT
MUSKINGUM COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .315 (b)
DECEMBER 31, 2012**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain
2011-01	Finding for Recovery - Employee uniform reimbursements were not in compliance with Authority policy.	Yes	Finding for Recovery was repaid.
2011-02	Ohio Rev. Code Section 145.47(B) – The Authority paid interest and penalties for late remittances of retirement monies owed to OPERS.	No	For 2012, this matter is reported in a separate letter to management.
2011-03	Ohio Rev. Code Section 5705 – The Authority failed to follow applicable budgetary requirements.	No	Partially corrected. See Finding Number 2012-01 for failure to comply with Ohio Rev. Code Section 5705.41(D).
2011-04	Significant Deficiency – The Authority failed to include all activity on the accounting system.	Yes	
2011-05	Ohio Rev. Code Section 306.35 – The Authority failed to properly approve and document pay rates of non-union employees.	Yes	
2011-06	Ohio Admin. Code Section 117-2-01 – The Authority failed to establish various internal control procedures.	No	Partially Corrected. Remaining items not completely corrected were reported in a separate letter to management.
2011-07	49 U.S.C. Section 5311(g) – The Authority failed to meet local match requirement for federal grant funds.	Yes	
2011-08	2 C.F.R. 215.28 – The Authority failed to comply with period of availability requirements for federal grant funds.	Yes	
2011-09	49 C.F.R. Section 604.1(a) – The Authority provided unallowable charter services.	Yes	
2011-10	Ohio Department of Transportation, Rural Transit Manual – Chapter 6 – Operating Data and Performance Measures – The Authority failed to timely submit quarterly operating data.	Yes	

**SOUTH EAST AREA TRANSIT
MUSKINGUM COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .315 (b)
DECEMBER 31, 2012
(Continued)**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain
2011-11	2 C.F.R. 225, Appendix B - Unallowable costs reported for grant reimbursement	No	Partially Corrected. Reported in a separate letter to management.
2011-12	Lack of system of controls over federal activity.	No	Partially Corrected. Relevant items included in Finding number 2012-03.

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Dave Yost • Auditor of State

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 24, 2013**