LORAIN COUNTY TRANSIT

BASIC FINANCIAL STATEMENTS AND SINGLE AUDIT

FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

Auditor of State
Betty Montgomery

Board of Trustees
Lorain County Transit
Lorain, Ohio

We have reviewed the Independent Auditor's Report of the Lorain County Transit, Lorain County, prepared by James G. Zupka, C.P.A., Inc., for the audit period January 1, 2002 through December 31, 2002. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Lorain County Transit is responsible for compliance with these laws and regulations.

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

May 5, 2003

88 E. Broad St. / P.O. Box 1140 / Columbus, OH 43216-1140
Telephone: (614) 466-4514 (800) 282-0370 Fax: (614) 466-4490
www.auditor.state.oh.us

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LORAIN COUNTY TRANSIT
BASIC FINANCIAL STATEMENTS AND SINGLE AUDIT
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

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JAMES G. ZUPKA, C.P.A., INC.
Certified Public Accountants
5240 East 98th Street
Garfield Hts., Ohio 44125

Member American Institute of Certified Public Accountants (216) 475 - 6136 Ohio Society of Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Lorain County Transit
Elyria, Ohio

We have audited the accompanying basic financial statements of Lorain County Transit (the Transit), a component unit of Lorain County, Ohio, as of December 31, 2002 and 2001, and for the years then ended, as listed in the Table of Contents. These basic financial statements are the responsibility of the management of the Transit. Our responsibility is to express an opinion on these basic financial statements based on our audit.

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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Transit, as of December 31, 2002 and 2001, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1 of the basic financial statements, the Transit is dependent on Lorain County for operating subsidies. As described in Note 2 of the basic financial statements, effective January 1, 2002, the Transit adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34 - *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, GASB Statement No. 37 - *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments - Omnibus*, and GASB Statement No. 38 - *Certain Financial Statement Disclosures.*

In accordance with Government Auditing Standards, we have also issued a report dated March 10, 2003 on our consideration of the Transit's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on pages 3 through 8 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards for the year ended December 31, 2002 is presented for the purpose of additional analysis as required by *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 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

James G. Zupka
Certified Public Accountant

March 10, 2003

The Lorain County Transit's ("LCT") management discussion and analysis is designed to **a)** assist the reader in focusing on significant financial issues, **b)** provide an overview of LCT's financial activity, **c)** identify changes in LCT's financial position, and **d)** identify the single enterprise fund issues and/or concerns.

Lorain County Transit receives one-half of its operating funding but only one-fourth of its total funding from the Lorain County Commissioners. The other half of operating revenue comes from fares, interest, advertising, contracts, etc. The other three-quarters of total funding is from federal and state grants. Financially, LCT is a component unit of the Lorain County Commissioners.

Operationally, LCT contracts its operations to a contractor who provides drivers, mechanics, schedulers and dispatchers, and administration for one hourly rate. LCT owns the vehicles while the contractor operates and insures them.

This Management Discussion and Analysis (MD&A) is new and will now be presented at the front of each year's financial statements.

Since the Management's Discussion and Analysis is designed to focus on the current year's activities, resulting changes, and currently known facts, please read it in conjunction with LCT's financial statements.

FINANCIAL HIGHLIGHTS

- This is the first time LCT is reporting under GASB Statement No. 34, which requires this MD&A. Several changes have been made on the *statement of net assets*, formerly known as the balance sheet. "Facilities and equipment" have been replaced by "other assets" in the assets section of this report. See Note 4 for a listing of capital assets and depreciation. "Net assets" have replaced the "equity section" from the previous balance sheet.

- Operating revenue increased by $132,000 (46%), due entirely to increased fare revenues. Operating expenses increased $704,000 as a result of a combination of a rate increase from our service provider and the addition of transportation service hours. Depreciation also increased by $31,000.

- Total revenue, however, decreased $706,000 (20%), due in part to receiving $900,000 less in local funding. Capital funding decrease of $70,000 is included in the total revenue decrease.

- Current activity of net assets decreased $1.4 million from 2001, due to an overall decrease of revenue of $706,000 and an increase of expenses of $735,000.

BASIC FINANCIAL STATEMENTS

The basic financial statements are designed to be corporate-like in that all business type programs are combined into an enterprise fund for LCT.

These statements include a *statement of net assets*, which is similar to a balance sheet. The *statement of net assets* reports all financial and capital resources for LCT. The statement is presented in the format where assets minus liabilities equals net assets, formerly known as equity. Assets and liabilities are presented in order of liquidity and are classified as current (convertible into cash within one year) and non-current.

The focus of the *statement of net assets* (the unrestricted net assets) is designed to represent the net available liquid (non-capital) assets, net of liabilities, for LCT. Net assets, formerly equity, are reported in three broad categories, as applicable:

> Net Assets, Invested in Capital Assets, Net of Related Debt: This component of net assets consists of all capital assets, reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. For 2002, LCT did not have any related debt.
>
> Restricted Net Assets: This component of net assets consists of restricted assets, when constraints are placed on the asset by creditors (such as debt covenants), grantors, contributors, laws, regulations, etc. For 2002, LCT did not have any restricted net assets.
>
> Unrestricted Net Assets: Consists of net assets that do not meet the definition of "net assets invested in capital assets, net of related debt", or "restricted net assets". This account resembles the former operating reserves account.

The basic financial statements also include a *statement of revenues, expenses, and changes in fund net assets*, which is similar to an income statement. This statement includes operating revenues such as passenger fares and advertising revenue, operating expenses such as administrative, utilities, purchased transportation, maintenance, and depreciation, and non-operating revenue and expenses, such as grant revenue and investment income.

The focus of the *statement of revenues, expenses, and changes in fund net assets* is the change in net assets, which is similar to net income or loss.

Finally, a *statement of cash flows* is included, which discloses net cash provided by, or used for, operating activities, non-capital financing activities, capital and related financing activities, and investing activities.

BASIC FINANCIAL STATEMENTS

Table 1 - Statement of Net Assets

The following table reflects the condensed Statement of Net Assets compared to the prior year.

	2002 (000's)	2001 (000's)	Difference
Current Assets	$ 1,605	$ 2,507	$ (902)
Other Assets:			
Federal Grants Receivable	1,668	0	1,668
Capital Assets	1,817	1,736	81
Total Assets	$ 5,090	$ 4,243	$ 847
Current Liabilities	$ 767	$ 728	$ 39
Other Liabilities	1,668	0	1,668
Total Liabilities	2,435	728	1,707
Net Assets:			
Invested in Capital Assets	$ 1,817	$ 1,736	$ 81
Unrestricted	838	1,779	(941)
Total Net Assets	2,655	3,515	(860)
Total Liabilities and Net Assets	$ 5,090	$ 4,243	$ 847

For more detailed information, see the Statement of Net Assets.

<u>Major Factors Affecting the Statement of Net Assets</u>

Current assets show a $902,000 decrease over 2001 due to a decrease in cash and Federal and State agencies' receivables.

Current liabilities increased $39,000 primarily from accounts payable.

The effect of this decrease in current assets and increase in current liabilities was an overall decrease of unrestricted net assets of $941,000 (rounded).

Other assets were offset by other liabilities and invested in capital assets.

The reduction in unrestricted net assets was covered by carryover cash reserves.

BASIC FINANCIAL STATEMENTS

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

The following table compares the revenues and expenses for the current and previous fiscal year.

	2002(000's)	2001(000;s)
Revenues:		
Passenger Fares	$ 411	$ 273
Advertising and Other Operating Revenue	11	16
Federal Operating Grants	475	172
State Operating Grants	135	89
Local Operating Funds	1,398	2,506
Other Non-Operating Revenue	47	55
Capital Funding	1,677	1,747
Total Revenue	4,154	4,858
Expenses:		
Administrative	337	310
Materials and Supplies	13	19
Advertising	75	73
Contracted Operations and Maintenance	4,080	3,458
Other Expenses	153	94
Depreciation	356	325
Total Expenses	5,014	4,279
Net Increase (Decrease) in Net Assets	$ (860)	$ 579

For more detailed information see the Statement of Revenues, Expenses, and Changes in Fund Net Assets.

Major Factors Affecting the Statement of Revenues, Expenses, and Changes in Fund Net Assets

One bright spot in this chart is that passenger fares increased $138,000 (51%). This is a direct result of passenger trips increasing from 427,683 to 599,576, an increase of 40%.

Overall revenue decreased primarily due to the reduced amount of funding provided by the County Commissioners, and expenses increased as a result of increased contracted operations and maintenance due to a full year effect of some changes in service.

Summarily, the net decrease is equal to the net effect of the reduction in unrestricted net assets and the increase in invested in capital assets, shown in Table 1.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At year end, Lorain County Transit had $1.8 million net invested in a variety of capital assets as reflected in the following schedule. This represents an increase of $81,000, which is due to the purchase of five replacement buses and five bus shelters for $437,000, reduced by current year depreciation of $356,000. LCT's capital plan is dependent on future funding. For now, the only plan is to purchase three replacement buses in 2003.

Table 3 - Capital Assets at Year-End (Net of Depreciation)

	2002	2001	2002 Acquisitions	2002 Disposals
Vehicles	$ 1,536,302	$ 1,468,353	$ 400,210	$ 0
Bus Shelters	34,078	0	36,465	0
Bus Washer	8,125	9,602	0	0
Park-n-Ride Lot	79,097	82,760	0	0
Office Furniture and Fixtures	4,588	6,764	0	0
Administration Building	141,667	151,667	0	0
Computer Hardware/Software	12,327	16,033	0	0
Radios	560	991	0	0
Total Assets	$ 1,816,744	$ 1,736,170	$ 436,675	$ 0
Change in Net Value	$ 113,338			

Debt Administration

Lorain County Transit's only debts are the current liabilities of accounts payable and accrued payroll and benefits. LCT has no long-term debt.

ECONOMIC FACTORS

Significant economic factors affecting Lorain County Transit are federal funding provided by the Federal Transit Administration, reduced funding by the Ohio Department of Transportation, budgetary constraints by the County Commissioners, and the possibility of the County Commissioners placing a levy on the ballet in November 2003 and/or May 2004 for the purpose of funding Lorain County Transit.

IN CONCLUSION

Lorain County Transit seems fiscally sound for fiscal year 2003. However, LCT is the 10th largest public transportation system in the State of Ohio and the only one of these ten without a dedicated source of funding.

In August 2000 LCT completely restructured its fixed route system. Since then ridership has increased from 259,290 in 2000 to 427,683 in 2001, an increase of 64% and 599,576 in 2002, an increase of 40%. This says that the system is working and the ridership has not peaked at this time. The need for this service is definitely there.

However, without a dedicated source of funding or a substantial multi-year funding commitment from the County Commissioners, LCT will continue to use its reserves, as it did in 2002.

Lorain County Transit is proud of its financial management and its honesty in its budget requests. It is also proud of the service it provides to all residents of Lorain County.

FINANCIAL CONTACT

If you have any questions regarding this report, you may contact Thomas Ferguson, Chief Finance Officer of Lorain County Transit at (440) 233-7868.

Respectfully submitted,

Thomas Ferguson
Chief Finance Officer

LORAIN COUNTY TRANSIT
STATEMENTS OF NET ASSETS
DECEMBER 31, 2002 AND 2001

	2002	2001
ASSETS		
Current Assets		
Cash and Cash Equivalents	$ 944,374	$ 1,711,406
Receivables:		
Due from Federal Agencies	250,904	422,479
Due from State Agencies	266,791	302,184
Due from Local Agencies	137,496	64,634
Prepaid Insurance	5,070	5,833
Total Current Assets	1,604,635	2,506,536
Other Assets		
Grants Receivable:		
Federal Grants	1,668,252	0
Capital Assets, net	1,816,744	1,736,170
TOTAL ASSETS	$ 5,089,631	$ 4,242,706
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts Payable	$ 692,512	$ 635,238
Deferred Revenue	5,160	33,969
Accrual Payroll and Related Benefits	69,290	58,958
Total Current Liabilities	766,962	728,165
Other Liabilities		
Deferred Revenue	1,668,252	0
Total Other Liabilities	1,668,252	0
Net Assets		
Invested in Capital Assets	1,816,744	1,736,170
Unrestricted	837,673	1,778,371
Total Net Assets	2,654,417	3,514,541
TOTAL LIABILITIES AND NET ASSETS	$ 5,089,631	$ 4,242,706

See accompanying notes to the basic financial statements.

LORAIN COUNTY TRANSIT
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

	2002	2001
Operating Revenues		
Passenger Fares	$ 410,722	$ 273,472
Advertising Revenue	11,314	16,259
Other Revenue	30	40
Total Operating Revenues	422,066	289,771
Operating Expenses Other Than Depreciation		
Purchased Transportation	2,559,132	2,107,495
Administrative Salaries and Wages	253,841	236,013
Fringe Benefits	82,799	73,857
Materials and Supplies	13,090	19,150
Maintenance Services	1,520,556	1,350,534
Tire Lease and Equipment Rental	47,649	32,158
Utilities	16,151	16,389
Casualty and Liability Insurance	11,712	3,027
Advertising	74,802	72,673
Miscellaneous	77,981	42,051
Total Operating Expenses Excluding Depreciation	4,657,713	3,953,347
Operating Loss Before Depreciation	(4,235,647)	(3,663,576)
Depreciation Expense	356,102	325,294
Operating (Loss) Income	(4,591,749)	(3,988,870)
Non-Operating Revenues and Expenses		
Federal Operating Grants and Reimbursements	474,715	172,345
State Operating Grants, Reimbursements, and Special Fare Assistance	134,544	89,447
Local Operating Grants and Reimbursements	1,398,466	2,506,396
Contributed Services	20,433	14,401
Interest Income	26,307	40,280
Total Non-Operating Revenues and Expenses	2,054,465	2,822,869
Income/(Loss) Before Capital Contributions	(2,537,284)	(1,166,001)
Capital Funding		
Federal Grants and Reimbursements	1,513,131	1,019,319
State Grants and Reimbursements	153,730	727,816
Local Grants and Reimbursements	10,299	0
Total Capital Funding	1,677,160	1,747,135
Increase (Decrease) in Net Assets	(860,124)	581,134
Total Net Assets, Beginning of Year	3,514,541	2,933,407
TOTAL NET ASSETS, END OF YEAR	$2,654,417	$3,514,541

See accompanying notes to the basic financial statements.

LORAIN COUNTY TRANSIT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

	2002	2001
Cash Flows from Operating Activities		
Cash Received from Customers	$ 422,066	$ 289,771
Cash Payments for Goods and Services	(4,242,603)	(3,235,900)
Cash Payments for Employees' Services	(326,308)	(309,696)
Net Cash Used for Operating Activities	(4,146,845)	(3,255,825)
Cash Flows from Noncapital Financing Activities		
Operating and Planning Grants Received	1,906,053	2,943,436
Net Cash Provided by Noncapital Financing Activities	1,906,053	2,943,436
Cash Flows from Capital and Related Financing Activities		
Capital Grants Received:		
Federal	1,672,810	1,214,957
State and Local	211,318	500,176
Acquisition and Construction of Capital Assets	(436,675)	(149,955)
Net Cash Used by Capital and Related Financing Activities	1,447,453	1,565,178
Cash Flows from Investing Activities		
Interest Received from Investments	26,307	40,280
Net Increase (Decrease) in Cash and Cash Equivalents	(767,032)	1,293,069
Cash and Cash Equivalents, Beginning of Year	1,711,406	418,337
Cash and Cash Equivalents at End of Year	$ 944,374	$ 1,711,406
Reconciliation of Operating Loss to Net Cash Used in Operating Activities		
Operating Loss	$ (4,591,749)	$ (3,988,870)
Adjustments to Reconcile Operating Loss to Net Cash Used in Operating Activities:		
Depreciation	356,102	325,294
Contributed Services	20,433	14,401
Changes in Assets and Liabilities:		
(Increase) Decrease in:		
Prepaid Insurance	763	(767)
Accounts Payable	57,274	393,943
Accrued Payroll and Related Benefits	10,332	174
Net Cash Used for Operating Activities	$ (4,146,845)	$ (3,255,825)

See accompanying notes to the basic financial statements.

NOTE 1: ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Lorain County Transit (the "Transit") was created pursuant to Section 306.01 through 306.13 of the Ohio Revised Code for the purpose of providing public transportation in Lorain County, Ohio. As a political subdivision it is distinct from, and is not an agency of, the State of Ohio or any other local governmental unit. The Transit is not subject to federal or state income taxes.

The Transit is managed by a seven-member Board of Trustees and provides virtually all public transportation within Lorain County.

Summary of Significant Accounting Policies

The financial statements of Lorain County Transit have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

In accordance with Statement No. 20 of the Governmental Accounting Standards Board, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, the Transit has elected not to apply the provisions of the statements and interpretations of the Financial Accounting Standards Board issued after November 30, 1989. The Transit will continue applying all applicable pronouncements issued by the Governmental Accounting Standards Board. The more significant of the Transit's accounting policies are described below.

Reporting Entity

The Transit has adopted the provisions of Statement No. 14 of the Governmental Accounting Standards Board regarding the definition of the financial reporting entity. Accordingly, the accompanying financial statements include only the accounts and transactions of the Transit. Under the criteria specified in Statement No. 14, the Transit has no component units. The Transit is, however, considered to be a component unit of Lorain County (the "County") by virtue of the fact that the Transit's Board of Trustees is appointed by the Lorain County Board of Commissioners and the County's ability to impose its will on the Transit. These conclusions regarding the financial reporting entity are based on the concept of financial accountability. The Transit is not financially accountable for any other organizations.

NOTE 1: **ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Basis of Presentation

The Transit's basic financial statements consist of a statement of net assets, a statement of revenue, expenses, and changes in fund net assets, and a statement of cash flows.

The Transit uses a single enterprise fund to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts.

Enterprise fund reporting focuses on the determination of the change in net assets, financial position, and cash flows. An enterprise fund may be used to account for any activity for which a fee is charged to external users for goods and services.

Measurement Focus

The enterprise fund is accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of the Transit are included on the statement of net assets. The statement of changes in net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the Transit finances and meets the cash flow needs of its enterprise activity.

Use of Estimates

The preparation of the 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 reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash, Cash Equivalents, and Investments

The Transit considers highly liquid investments, with an original maturity of three months or less, to be cash equivalents. Investments with an original maturity of three months or more are disclosed as investments.

NOTE 1: **ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Cash, Cash Equivalents, and Investments (Continued)
As a governmental entity other than an external investment pool in accordance with GASB 31, the Transit's investments are stated at market value, except for interest-earnings investment contracts and money market investments that have maturity of one year or less at the time of purchase.

The Transit invested funds in STAROhio during 2002 and 2001. STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on December 31, 2002.

Capital Assets and Depreciation
Capital assets are stated at historical cost. The costs of normal maintenance and repairs are charged to operations as incurred.

Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets as follows:

Description	Years
Transportation Equipment	6-10
Other Equipment	10
Facilities	25

Net Assets
Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction, or improvement of those assets. For 2002, there is no related debt of capital assets. Net assets are reported as restricted when there are limitations imposed on their use either through constitutional provisions or enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. For 2002, there are no restricted net assets.

NOTE 1: **ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Recognition of Revenue, Receivables, and Deferred Revenues

Passenger fares are recorded as revenue at the time services are performed.

The Federal Transit Administration (FTA) and the Ohio Department of Transportation (ODOT) provide financial assistance and make grants directly to the Transit for acquisition of property and equipment. Operating grants and special fare assistance awards made on the basis of entitlement periods are recorded as grant receivables and revenues over the entitlement period. Capital grants for the acquisition of property and equipment (reimbursement type grants) are recorded as grant receivables and credited to revenue when the related qualified expenditures are incurred. Capital grants received in advance of project costs being incurred are deferred. Subsidies from various local governments/agencies are recognized when received.

Operations

Lorain County Transit has no dedicated local funding source. The Transit received local operating subsidies from Lorain County of $1,200,000 and $2,113,000 for years 2002 and 2001, respectively. The Transit is dependant on Lorain County for operating subsidies. Management plans to continue requesting annual subsidies from Lorain County until such time as a dedicated local funding source is obtained (e.g., sales tax levy).

Contributed Services

The Transit records the fair value of contributed services as both operating expense and nonoperating revenue in the statement of revenues and expenses.

Compensated Absences

In accordance with GASB Statement No. 16, *Accounting for Compensated Absences,* vacation time is accrued as liabilities when an employee's right to receive compensation is attributable to services already rendered and are not contingent on a specific event that is outside the control of the employer and employee and it is probable that the employee will be compensated through paid time off or some other means, such as cash payments at termination or retirement. Leave time that has been earned but is unavailable for use as paid time off or as some other form of compensation because an employee has not met the minimum service time requirement, is accrued to the extent that it is considered to be probable that the conditions for compensation will be met in the future.

NOTE 1: **ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Compensated Absences (Continued)
Sick leave is accrued using the vesting method, whereby the liability is recorded on the basis of leave accumulated by employees who are eligible to receive termination payments as of the balance sheet date.

NOTE 2: **CHANGES IN ACCOUNTING PRINCIPLES**

Effective January 1, 2002, the Transit adopted the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* as amended by GASB Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus*, and GASB Statement No. 38, *Certain Financial Statement Disclosures*. Statement No. 34 established financial reporting standards for all state and local governments and related entities. Statement No. 34 primarily relates to presentation and disclosure requirements. The impact of this accounting change was related to the format of the financial statements, presentation of net assets, the inclusion of management's discussion and analysis, additional disclosures for capital assets and debt, and the preparation of the statements of cash flows on the direct method. However, such application of these accounting standards had no impact on net assets. Management's decision to adopt GASB Statement No. 34 was based on Lorain County's planned adoption for fiscal 2002.

GASB Statement No. 38 requires certain disclosures to be made in the notes to the financial statements concurrent with the implementation of GASB Statement No. 34. GASB Statement No. 38 had an impact on the presentation of the notes to the financial statements, but no impact on net assets.

Certain amounts included in the 2001 financial statements have been reclassified to conform with the 2002 presentation.

NOTE 3: **DEPOSITS AND INVESTMENTS**

Ohio law requires the classification of funds held by the Transit into three categories. Category 1 consists of "active" funds - those funds required to be kept in a "cash" or "cash equivalent" status for immediate use by the Transit. Such funds must be maintained either as cash in the Transit treasury or in depository accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts.

Category 2 consists of "inactive" funds - those funds not required for use within the current two year period of designation of depositories. Inactive funds may be deposited or invested only as certificates of deposit maturing not later than the end of the current period of designation of depositories.

Category 3 consists of "interim"funds - those funds which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim funds may be invested or deposited in the following securities:

1. United States treasury notes, bills, bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal or interest by the United States;

2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;

4. Interim deposits in eligible institution applying for interim funds;

5. Bonds and other obligations of the State of Ohio;

NOTE 3: **DEPOSITS AND INVESTMENTS** (Continued)

6. No-load money market mutual funds consisting exclusively of obligations described in the first two bullets of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions, and

7. The State Treasury Asset Reserve of Ohio (STAR Ohio).

Ohio Law requires that deposits be placed in eligible banks or savings and loan associations located in Ohio. Any public depository in which the Transit places deposits must pledge as collateral eligible securities of aggregate market value equal to the excess of deposits not insured by the Federal Deposit Insurance Corporation (FDIC). The securities pledged as collateral are pledged to a pool for each individual financial institution in amounts equal to at least 110% of the carrying value of all public deposits held by each institution. Obligations that may be pledged as collateral are limited to obligations of the United States and its agencies and obligations of any state, county, municipal corporation or other legally constituted authority of any other state or any instrumentality of such county, municipal corporation or other authority. Based upon criteria described in GASB Statement No. 3 "Deposits With Financial Institutions, Investments (including Repurchase Agreements) and Reverse Repurchase Agreements," collateral held in single financial collateral pools with securities being held by the pledging financial institutions' agent in the pool's name are classified as Category 3.

The Governmental Accounting Standards Board has established risk categories for deposits and investments as follows:

Deposits

Category 1 Insured or collateralized with securities held by the Transit or by its agent in the Transit's name.

Category 2 Collateralized with securities held by the pledging financial institution's trust department or agent in the Transit's name.

Category 3 Uncollateralized or collateralized with securities held by the pledging financial institution's trust department or agent but not in the Transit's name.

NOTE 3: **DEPOSITS AND INVESTMENTS** (Continued)

Investments

Category 1 Insured or registered, or securities held by the Transit or its agent in the Transit's name.

Category 2 Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the Transit's name.

Category 3 Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the Transit's name.

Deposits

All deposits are carried at cost. The carrying amount of the Transit's deposits were \$409,781 and \$231,120 at December 31, 2002 and 2001, respectively, with bank balances of \$423,258 and \$231,531. Of the bank balances, \$225,969 and \$149,839 were covered by Federal Depository Insurance in 2002 and 2001, respectively. The remaining amounts of \$197,289 and \$81,692 for 2002 and 2001, respectively, were classified as risk category 3. In addition, the Transit had petty cash on hand at December 31, 2002 and 2001 of \$140 and \$100, respectively.

Investments

All investments are carried at fair value. The fair value of the Transit's short-term investments held with STAROhio were \$534,453 and \$1,480,186 at December 31, 2002 and 2001, respectively. These investments are uncategorized.

The Transit did not have any long-term investments during 2002 and 2001.

NOTE 4: CAPITAL ASSETS

Capital assets consist of the following at December 31, 2002 and 2001:

2002	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets being Depreciated				
Transportation Equipment	$ 2,690,690	$ 400,210	$ 0	$ 3,090,900
Facilities and Improvements	341,584	36,465	0	378,049
Office Furniture and Equipment	73,184	0	0	73,184
Total Capital Assets being Depreciated	3,105,458	436,675	0	3,542,133
Less Accumulated Depreciation	1,369,288	356,101	0	1,725,389
Total Capital Assets, Net	$ 1,736,170	$ 80,574	$ 0	$ 1,816,744
2001				
Capital Assets being Depreciated				
Transportation Equipment	$ 2,540,735	$ 149,955	$ 0	$ 2,690,690
Facilities and Improvements	341,584	0	0	341,584
Office Furniture and Equipment	73,184	0	0	73,184
Total Capital Assets being Depreciated	2,955,503	149,955	0	3,105,458
Less Accumulated Depreciation	1,043,993	325,295	0	1,369,288
Total Capital Assets, Net	$ 1,911,510	$ (175,340)	$ 0	$ 1,736,170

NOTE 5: DEFINED BENEFIT PENSION PLAN

Effective July 1, 1991, all employees of the Transit are required to be members of the Ohio Public Employees Retirement System (OPERS), a cost-sharing, multiple-employer pension plan.

Ohio Public Employees Retirement System

The following information was provided by OPERS to assist the Transit in complying with GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers.*

NOTE 5: **DEFINED BENEFIT PENSION PLAN** (Continued)

Ohio Public Employees Retirement System (Continued)
The Lorain County Transit contributes to the Ohio Public Employees Retirement System (OPERS), a cost-sharing, multiple-employer defined benefit pension plan. OPERS provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State statute per Chapter 145 of the Ohio Revised Code. OPERS issues a stand alone financial report. That report may be obtained by writing to the Ohio Public Employees Retirement System, 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 employee and employer contributions. The employee contribution rate is 8.5 percent. The 2002 and 2001 employer contribution rates were 13.55 percent of covered payroll of which 5 percent and 4.3 percent were the portions used to fund health care for the years 2002 and 2001, respectively. The Transit's contributions to OPERS for the years ending December 31, 2002, 2001, and 2000 were $34,272, $31,662, and $28,678, respectively. The full amount has been contributed for 2001 and 2000. 91.8 percent has been contributed for 2002.

OPERS provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivors is available. The health care coverage provided by OPERS is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution to OPERS is set aside for the funding of post retirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The portions of the 2002 and 2001 employer contributions used to fund health care were $12,643 and $10,048, respectively.

The significant actuarial assumptions and calculations relating to postemployment health care benefits were based on the System's latest actuarial review performed as of December 31, 2001. An entry age normal actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of unfunded actuarial accrued liability. All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach assets are adjusted annually

NOTE 5: **DEFINED BENEFIT PENSION PLAN** (Continued)

Ohio Public Employees Retirement System (Continued)
to reflect 25 percent of unrealized market appreciation or depreciation on investment assets. The investment assumption rate for 2001 was 8.0 percent. An annual increase of 4.0 percent compounded annually is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4.0 percent base increase, were assumed to range from 0.50 percent to 6.3 percent. Health care costs were assumed to increase 4.0 percent annually.

Benefits are advanced-funded on an actuarially determined basis. The number of active contributing participants was 402,041. The actuarial value of the OPERS' net assets available for OPEB at December 31, 2001 was $11.6 billion. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were $16.4 billion and $4.8 billion, respectively.

In December 2001, the OPERS Board adopted the Health Care "Choices" Plan in its continuing effort to respond to the rise in the cost of health care. The Choices Plan will be offered to all persons newly hired under OPERS after January 1, 2003, with no prior service credit accumulated toward health care coverage. Choices, as the name suggests, will incorporate a cafeteria approach, offering a more broad range of health care options. The plan uses a graded scale from ten to thirty years to calculate a monthly health care benefit. This is in contrast to the ten-year "cliff" eligibility standard for the present plan.

The benefit recipient will be free to select the option that best meets their needs. Recipients will fund health care costs in excess of their monthly health care benefit. The plan will also offer a spending account feature, enable the benefit recipient to apply their allowance toward specific medical expenses, much like a Medical Spending Account.

NOTE 6: **CONTINGENCIES**

The Transit is party to one legal proceeding for termination of employment. The Transit has agreed to settle the matter for $28,000. As of December 31, 2002, a liability of $28,000 has been recorded on the books.

NOTE 6: **CONTINGENCIES** (Continued)

Under the terms of federal and state grants, periodic audits are required and certain costs may be questioned as not being allowable expenditures under federal and state regulations. Such audits could lead to reimbursement to the grantor agencies. The Transit's management believes disallowances, if any, will be immaterial.

NOTE 7: **GRANTS, REIMBURSEMENTS, AND SPECIAL FARE ASSISTANCE**

Grants, reimbursements, and special fare assistance included in the statement of revenues and expenses for the years ended December 31 consist of the following:

	2002	2001
Federal		
FTA Operating Assistance	$ 298,796	$ 0
FTA Planning Grants	175,919	172,345
FTA Capital Grants	1,513,131	1,019,319
Total	$1,987,846	$1,191,664
State		
ODOT Operating Assistance	$ 0	$ 0
ODOT Planning Assistance	22,566	20,298
ODOT Elderly Fare Assistance	72,953	69,149
ODOT Capital Grants	39,025	727,816
ODOT Capital Assistance	153,730	0
Total	$ 288,274	$ 817,263
Local		
Operating Assistance and Reimbursements	$1,398,466	$2,506,396
Capital Assistance	10,299	0
Total	$1,408,765	$2,506,396

NOTE 8: **RISK MANAGEMENT**

The Transit is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets, errors or omissions, injuries to employees, or acts of God. Commercial insurance has been obtained through Schlather Insurance Agency, Inc. to cover damage or destruction to the Transit's property and for public liability, personal injury, and third-party property damage claims.

Employee health care benefits are provided under a group insurance arrangement and the Transit is insured through the State of Ohio for workers' compensation benefits.

Settled claims have not exceeded the Transit's commercial insurance coverage for any of the past five years.

The Transit's umbrella liability is protected by State Auto Insurance Company with a $1,000,000 single occurrence and $2,000,000 in aggregate limit. Vehicles are covered by State Auto Insurance Company and have a $100 deductible for comprehensive collision. Automobile liability has a $1,000,000 combined single limit of liability.

NOTE 9: **OPERATIONAL CONTRACT**

The Transit contracts its operational service to First Transit, Inc., a subsidiary of FirstGroup America, Inc. FirstGroup, founded in 1978, is a leading provider of public transit contracting and management services in the United States. First Transit, Inc. provides drivers, mechanics, schedulers, dispatchers, and operational management to Transit for which First Transit, Inc. charges an hourly rate. In accordance with Federal Transit Administration (FTA) Circular 9030.1C, the Transit splits the monthly First Transit, Inc. bill into 60% for purchased transportation and 40% for capitalization of maintenance. For 2002, the Transit received no Federal reimbursement for purchased transportation but received 80% reimbursement from FTA for capitalization of maintenance. The Transit owns the vehicle fleet but First Transit, Inc. provides liability and property damage insurance for the fleet. First Transit, Inc. also provides general liability insurance naming the Transit as additional insured. Amounts paid to First Transit, Inc. in 2002 and 2001 were $3,742,718 and $3,370,152, respectively.

LORAIN COUNTY TRANSIT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2002

Federal Grantor/ Pass Through Grantor/Program Title	Federal CFDA Number	Federal Grant Number	Grant Expenditures
U.S. Department of Transportation			
Federal Transit Cluster			
Federal Transit Administration			
Capital, Operating, and Planning Assistance			
Formula Grants:	20.507		
Capital Equipment Purchases		OH-90-0278	$ 2,071
		OH-90-0357	44,699
		OH-90-0389	1,007,598
		OH-90-0418	286,771
Capital Assistance from Operations		OH-90-8357	64,000
		OH-90-8389	80,900
		OH-90-8418	27,092
Operating Assistance		OH-37-4019	298,796
Planning Assistance		OH-90-2357	38,867
		OH-90-2389	137,052
Total CFDA 20.507			1,987,846
Total Expenditures of Federal Awards			$ 1,987,846

See note to Schedule of Expenditures of Federal Awards.

LORAIN COUNTY TRANSIT
NOTE TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2002

NOTE 1: **BASIS OF PRESENTATION**

The accompanying Schedule of Expenditures of Federal Awards reflects the expenditures of the Lorain County Transit under programs financed by the U.S. Government for the year ended December 31, 2002. The schedule has been prepared on the full accrual basis of accounting where revenues are recorded as earned and expenses are recognized when they are incurred.

JAMES G. ZUPKA, C.P.A., INC.
Certified Public Accountants
5240 East 98th Street
Garfield Hts., Ohio 44125

Member American Institute of Certified Public Accountants (216) 475 - 6136 Ohio Society of Certified Public Accountants

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

To the Board of Trustees
Lorain County Transit
Elyria, Ohio

We have audited the financial statements of the Lorain County Transit (the Transit), a component unit of Lorain County, Ohio, as of and for the year ended December 31, 2002, and have issued our report thereon dated March 10, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Transit's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

However, we noted certain matters involving the internal control over financial reporting that we have reported to the management of the Transit in a separate letter dated March 10, 2003.

This report is intended solely for the information and use of the audit committee, members of Board, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

James G. Zupka
Certified Public Accountant

March 10, 2003

JAMES G. ZUPKA, C.P.A., INC.
Certified Public Accountants
5240 East 98th Street
Garfield Hts., Ohio 44125

Member American Institute of Certified Public Accountants (216) 475 - 6136 Ohio Society of Certified Public Accountants

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Trustees
Lorain County Transit
Elyria, Ohio

Compliance

We have audited the compliance of the Lorain County Transit (the Transit), a component unit of Lorain County, Ohio, with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended December 31, 2002. The Transit's major federal program is identified in the Summary of Auditor's Results Section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the Transit's management. Our responsibility is to express an opinion on the Transit's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Transit's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Transit's compliance with those requirements.

In our opinion, the Transit complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2002. The results of our auditing procedures disclosed no instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133.

Internal Control Over Compliance

The management of the Transit is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Transit's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

However, we noted certain matters involving the internal control structure and its operation that we have reported to the management of the Transit in a separate letter dated March 10, 2003.

This report is intended solely for the information and use of the audit committee, members of the Board, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

James G. Zupka
Certified Public Accountant

March 10, 2003

LORAIN COUNTY TRANSIT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 & .505
FOR THE YEAR ENDED DECEMBER 31, 2002

1. **SUMMARY OF AUDITOR'S RESULTS**

2002(i)	Type of Financial Statement Opinion	Unqualified
2002(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
2002(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
2002(iii)	Was there any reported noncompliance at the financial statement level (GAGAS)?	No
2002(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
2002(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
2002(v)	Type of Major Programs' Compliance Opinion	Unqualified
2002(iv)	Are there any reportable findings under .510?	No
2002(vii)	Major Programs (list): Federal Transit Cluster and Federal Transit Administration, Capital Operating and Planning Assistance Formula Grant (CFDA #20.507)	
2002(viii)	Dollar Threshold: Type A\B Programs	Type A: > $300,000 Type B: > all others
2002(ix)	Low Risk Auditee?	Yes

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

   None.

3. **FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

   None.

LORAIN COUNTY TRANSIT
STATUS OF PRIOR YEAR AUDIT FINDINGS AND MANAGEMENT RECOMMENDATIONS
DECEMBER 31, 2002

The prior audit report as of December 31, 2001 did not include any audit findings. However, it did include management recommendations. Each of these has either been satisfied, corrected, or carried forward to the 2002 report.

Auditor of State
Betty Montgomery

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

LORAIN COUNTY TRANSIT

LORAIN 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
MAY 20, 2003