

STARK AREA REGIONAL TRANSIT AUTHORITY
AUDIT REPORT
FOR THE YEAR ENDED DECEMBER 31, 2002



**Auditor of State
Betty Montgomery**

Board of Trustees
Stark Area Regional Transit Authority
1600 Gateway Blvd. SE
Canton, OH 44707

We have reviewed the Independent Auditor's Report of the Stark Area Regional Transit Authority, Stark County, prepared by Watson, Rice & Company, 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 Stark Area Regional Transit Authority is responsible for compliance with these laws and regulations.

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

August 11, 2003

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STARK AREA REGIONAL TRANSIT AUTHORITY

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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Stark Area Regional Transit Authority
Canton, Ohio

We have audited the accompanying balance sheets of the Stark Area Regional Transit Authority (the "Authority") as of December 31, 2002 and 2001 and the related statements of revenues and expenses, changes in equity, and cash flows for the years then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on those financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the 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 audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Authority as of 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.

Our audits were performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supplemental schedule of expenditures of federal awards for the year ended December 31, 2002 is presented for 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. This schedule is the responsibility of the Authority's management. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, when considered in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 3, 2003, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Watson, Rice & Co.

June 3, 2003

**STARK AREA REGIONAL TRANSIT AUTHORITY
BALANCE SHEETS
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001**

ASSETS	<u>2002</u>	<u>2001</u>
CURRENT ASSETS:		
Cash and cash equivalents (Note 2)	\$1,409,094	\$1,192,268
Receivables:		
Trade	58,632	72,064
Sales tax (Notes 1 and 3)	2,758,399	2,790,741
State capital grant and special fare assistance	80,422	488,016
Federal capital and planning grants	593,352	320,000
Materials and supplies inventory	377,144	357,193
Prepaid expenses and other assets	23,291	147,516
Total current assets	<u>5,300,334</u>	<u>5,367,798</u>
PROPERTY, FACILITIES AND EQUIPMENT:		
Land	238,243	139,299
Buildings and improvements	6,926,369	6,904,736
Transportation equipment	14,200,479	15,433,033
Other equipment	1,261,886	1,784,887
Construction in progress	770,083	
Total	<u>23,397,060</u>	<u>24,261,955</u>
Less accumulated depreciation	<u>(10,288,386)</u>	<u>(10,412,779)</u>
Property, facilities and equipment - net	<u>13,108,674</u>	<u>13,849,176</u>
TOTAL ASSETS	<u>\$18,409,008</u>	<u>\$19,216,974</u>
LIABILITIES AND EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$210,268	\$371,328
Accrued payroll	447,265	436,146
Accrued payroll taxes	624,611	709,606
Federal reimbursement payable	11,675	
Other	289,703	156,037
Deferred revenues	90,760	
Total current liabilities	<u>1,674,282</u>	<u>1,673,117</u>
EQUITY:		
Capital grants (Note 1):		
Federal	7,277,936	8,662,041
State	656,930	922,348
Total	<u>7,934,866</u>	<u>9,584,389</u>
Other contributed capital	217,429	217,429
Retained earnings (Note 1)	8,582,431	7,742,039
Total equity	<u>16,734,726</u>	<u>17,543,857</u>
TOTAL LIABILITIES AND EQUITY	<u>\$18,409,008</u>	<u>\$19,216,974</u>

The accompanying footnotes are an integral part of the financial statements.

**STARK AREA REGIONAL TRANSIT AUTHORITY
STATEMENTS OF REVENUES AND EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001**

	2002	2001
OPERATING REVENUES:		
Passenger fares	\$810,009	\$867,351
Special transit fares	159,332	174,795
Auxillary transportation revenue	32,879	32,203
Total operating revenues	1,002,220	1,074,349
OPERATING EXPENSES:		
Labor	5,545,835	6,172,965
Fringe benefits (Note 4)	3,728,101	3,534,124
Materials and supplies	1,073,156	1,901,933
Services	364,870	420,426
Utilities	164,305	210,971
Casualty and liability	483,292	206,723
Leases and rentals	5,791	7,741
Miscellaneous	392,822	421,376
Total operating expenses excluding depreciation	11,758,172	12,876,259
OPERATING LOSS BEFORE DEPRECIATION EXPENSE	(10,755,952)	(11,801,910)
DEPRECIATION EXPENSE (Note 1):		
On assets acquired with capital grants	1,649,523	1,749,092
On other assets	134,629	118,754
Total depreciation expense	1,784,152	1,867,846
OPERATING LOSS	(12,540,104)	(13,669,756)
NONOPERATING REVENUES:		
Sales tax revenues (Note 3)	10,603,218	10,237,386
Federal planning grant		25,512
State operating grants, reimbursements and special fare assistance (Note 6)	96,231	227,279
Interest income	17,607	82,739
Nontransportation revenues	4,212	19,421
Total nonoperating revenues - net	10,721,268	10,592,337
NET LOSS BEFORE CAPITAL CONTRIBUTIONS	(1,818,836)	(3,077,419)
CAPITAL CONTRIBUTIONS (Note 1):		
Federal Capital Grant	643,425	2,213,401
Federal Preventive Maintenance Grant	323,025	
State Capital Grants	43,255	795,504
Total preventive maintenance & capital grant revenues	1,009,705	3,008,905
NET LOSS	(\$809,131)	(\$68,514)

The accompanying footnotes are an integral part of the financial statements.

STARK AREA REGIONAL TRANSIT AUTHORITY
STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

	Capital Grants			Other Contributed Capital	Retained Earnings	Total
	Federal	State	Local			
BALANCES, DECEMBER 31, 2000						
(As restated - see Note 1)	\$10,118,747	\$1,177,938	\$36,796	\$217,429	\$6,061,461	\$17,612,371
NET LOSS FOR 2001					(68,514)	(68,514)
DEPRECIATION OF FIXED ASSETS ACQUIRED WITH CAPITAL GRANTS	<u>(1,456,706)</u>	<u>(255,590)</u>	<u>(36,796)</u>		<u>1,749,092</u>	<u>0</u>
BALANCES, DECEMBER 31, 2001	<u>\$8,662,041</u>	<u>\$922,348</u>	<u>\$0</u>	<u>\$217,429</u>	<u>\$7,742,039</u>	<u>\$17,543,857</u>
NET LOSS FOR 2002					(809,131)	(809,131)
DEPRECIATION OF FIXED ASSETS ACQUIRED WITH CAPITAL GRANTS	<u>(1,384,105)</u>	<u>(265,418)</u>			<u>1,649,523</u>	<u>0</u>
BALANCES, DECEMBER 31, 2002	<u>\$7,277,936</u>	<u>\$656,930</u>	<u>\$0</u>	<u>\$217,429</u>	<u>\$8,582,431</u>	<u>\$16,734,726</u>

The accompanying footnotes are an integral part of the financial statements.

**STARK AREAR REGIONAL TRANSIT AUTHORITY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001**

	2002	2001
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	\$1,325,282	\$1,103,086
Cash payments to suppliers for goods & services	(5,886,644)	(6,636,453)
Cash payments to employees for services	(6,125,695)	(6,295,463)
Net cash used in operating activities	(10,687,057)	(11,828,830)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Sales taxes received	10,619,401	10,118,455
Operating & Preventive maintenance grants received	394,105	225,488
Other	19,080	19,421
Net cash provided by noncapital financing activities	11,032,586	10,363,364
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Capital grants received	846,073	2,445,383
Acquisition of fixed assets & work in process	(992,339)	(2,976,283)
Proceeds from sale of fixed assets		8,357
Net cash used in capital and related financing activities	(146,266)	(522,543)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest received from investments	17,563	82,739
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	216,826	(1,905,270)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,192,268	3,097,538
CASH AND CASH EQUIVALENTS, END OF YEAR	1,409,094	1,192,268
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:		
Operating loss	(12,540,100)	(13,669,756)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	1,784,152	1,867,846
Change in assets and liabilities:		
Accounts receivable - trade	13,432	28,737
Materials and supplies inventory	(19,951)	39,084
Prepaid expenses and other assets	124,225	(138,806)
Accounts payable	(219,359)	179,000
Accrued payroll	11,119	(124,364)
Accrued payroll taxes	84,999	1,866
Other current liabilities	74,426	(12,437)
NET CASH USED IN OPERATING ACTIVITIES	(10,687,057)	(11,828,830)

The accompanying footnotes are an integral part of the financial statements.

**STARK AREA REGIONAL TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001**

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES:

Organization and Operations

Stark Area Regional Transit Authority (formerly Canton Regional Transit Authority) (the "Authority") was created pursuant to Section 306.30 through 306.711 of the Ohio Revised Code for the purpose of providing public transportation in the Stark County, Ohio area. 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 Authority is not subject to federal or state income taxes.

The Authority is managed by a nine-member Board of Trustees and provides virtually all mass transportation within the Stark County area. Approximately 77 percent of the Authority's employees at December 31, 2002 were subject to a collective bargaining agreement that will expire on December 31, 2003.

Under Ohio law, the Authority is authorized to levy a sales tax and use tax for transit purposes, including both capital improvement and operating expenses, at the rate of .25 percent, .5 percent, 1 percent, or 1.5 percent if approved by a majority of the electors residing within the territorial boundaries of the Authority. Such a sales and use tax is in addition to the sales and use taxes levied by the State of Ohio and Stark County (see Note 3). On May 7, 2002, the voters of Stark County renewed the .25 percent sales tax levy to fund the Authority's operations for an additional five years.

Reporting Entity

The Authority has adopted the provisions of Statement No. 14 of the Governmental Accounting Standards Board ("GASB") regarding the definition of the financial reporting entity. Accordingly, the accompanying financial statements include only the accounts and transactions of the Authority. Under the criteria specified in Statement No. 14, the Authority has no component units and is not considered to be a component unit of any other entity.

These conclusions regarding the financial reporting entity are based on the concept of financial accountability. The Authority is not financially accountable for any other organization nor are any entities accountable for the Authority. This is evidenced by the fact that the Authority is a legally and fiscally separate and distinct organization under the provisions of the Ohio Revised Code.

Basis of Accounting

The Authority follows 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.

In accordance with Statement No. 20 of the GASB, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, the Authority has elected not to apply the provisions of the Statements and Interpretations of the Financial Accounting Standards Board issued after November 30, 1989. The Authority will continue applying all applicable pronouncements issued by the GASB.

**STARK AREA REGIONAL TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS - (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001**

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Authority considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Investments

The Authority's investments (including cash equivalents) are recorded at fair value.

The Authority has invested funds in the State Treasury Asset Reserve of Ohio ("STAROhio"). 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 Securities and Exchange Commission ("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 that is the price at which the investment could be sold.

Materials and Supplies Inventory

Materials and supplies inventory are stated at average cost determined using the first-in, first-out method. Inventory generally consists of maintenance parts and supplies for rolling stock and other transportation equipment.

Property and Depreciation

Property, facilities and equipment are stated at historical cost. The cost of normal maintenance and repairs are charged to operations as incurred. Improvements are capitalized and depreciated over the remaining useful lives of the related properties.

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

Description	Years
Buildings	40
Transportation Equipment	5-12
Other Equipment	4-8

Transportation equipment is depreciated on the straight-line method for the useful lives described above unless the total mileage allowed per the FTA guidelines for depreciation occurs first. In this case the FTA unit mileage depreciation method is used. Depreciation recognized on assets acquired or constructed through grants externally restricted for capital acquisitions is closed to the appropriate contributed capital account. Net income (loss) adjusted by the amount of depreciation on fixed assets acquired in this manner is closed to retained earnings.

**STARK AREA REGIONAL TRANSIT AUTHORITY
 NOTES TO FINANCIAL STATEMENTS - (CONTINUED)
 FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001**

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Recognition of Revenue, Receivables and Deferred Revenues

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

Sales tax revenues are recognized when the underlying sales transaction occurs.

The Federal Transit Administration (“FTA”) and the Ohio Department of Transportation (“ODOT”) provide financial assistance and make grants directly to the Authority for operations and acquisitions 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 are credited to revenue when the related qualified expenditures are incurred. Capital grant funds received in advance of project costs being incurred are deferred.

Compensated Absences

The Authority accrues vacation and sick pay benefits as earned by its employees.

New Accounting Standard

Effective January 1, 2001, the Authority implemented GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*. In general, GASB Statement No. 33 establishes accounting and financial reporting standards about when to report the results of nonexchange transactions involving financial or capital resources. In a nonexchange transaction, an entity gives (or receives) value without directly receiving or giving equal value in return. The Authority’s principle nonexchange transactions involve the receipt of sales and use tax monies from the State of Ohio Department of Taxation, along with federal, state, and local grants for operating assistance as well as the acquisition of property, facilities and equipment. Substantially all of the Authority’s nonexchange transactions represent reimbursement-type grants and sales tax revenues. The reimbursement-type grants are recorded as revenue in the period in which the related expenditures are incurred. Sales tax revenues are recorded as revenue in the months in which the underlying sales transactions occur.

The principle changes in accounting that resulted from GASB Statement No. 33 are the requirements that the Authority prospectively report grants as revenues rather than contributed capital, and that the Authority record sales tax revenue in the month the underlying sales transactions occur, rather than when the taxes are collected by the State of Ohio. Accordingly, during the years ended December 31, 2002 and 2001 respectively \$1,009,705 and \$3,008,905 in capital contributions were recognized as revenue in the statement of revenue and expenses. In addition, with respect to sales tax revenues and as required under GASB 33, the Authority has retroactively restated its financial statements as of and for the year ended December 31, 2000 as follows:

Increase (decrease) in amounts previously reported:

Balance Sheet

Sales and tax receivable	\$1,004,053
Retained earnings	1,004,053

**STARK AREA REGIONAL TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS - (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001**

2. CASH AND CASH EQUIVALENTS:

The provisions of the Ohio Revised Code govern the investment and deposit of Authority monies. In accordance with these statutes only banks located in Ohio and domestic building and loan associations are eligible to hold public deposits. The statutes also permit the Authority to invest its monies in certificates of deposit, saving accounts, money market accounts (STAROhio), and obligations of the United States government and certain agencies thereof. The Authority may also enter into repurchase agreements with any eligible depository or any eligible dealer who is a member of the National Association of Securities Dealers for a period not exceeding 30 days.

Public depositories must give security for all public funds on deposit. These institutions may either specifically collateralize individual accounts in excess of amounts insured by the Federal Deposit Insurance Corporation ("FDIC") or may pledge a pool of government securities valued at least 105 percent of the total value of public monies on deposit at the institution. Repurchase agreements must be secured by the specified government securities upon which the repurchase agreements are based. These securities must be obligations of or guaranteed by the United States and must 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 two percent and be marked to market daily. State law does not require for public deposits and investments to be maintained in the Authority's name.

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

Deposits

The carrying amount of the Authority's deposits was \$1,170,005 at December 31, 2002 with a \$1,583,856 bank balance. Deposits of \$100,000 were covered by federal depository insurance at December 31, 2002. The \$1,483,856 remaining balance was uncollateralized, as defined by GASB. However, all of this balance except \$800 was collateralized with securities held by the pledging financial institution, but not in the Authority's name.

Investments

Governmental Accounting Standards Board Statement No. 3 ("GASB") has established credit risk categories for investments as follows:

- | | |
|------------|-------------------------------------------------------------------------------------------------------------------------------------------|
| Category 1 | Insured or registered, or securities held by the Authority or its agent in the Authority's name. |
| Category 2 | Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the Authority's name. |
| Category 3 | Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the Authority's name. |

**STARK AREA REGIONAL TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS - (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001**

2. CASH AND CASH EQUIVALENTS (CONTINUED):

Investments (continued)

Investments in STAROhio are unclassified investments since STAROhio represents an investment pool managed by another governmental unit and investments therein are not evidenced by securities that exist in physical or book entry form. The Authority's investments are detailed below and are categorized to give an indication of the level of credit risk assumed as of year-end.

	Risk Category			Carrying/ Fair Value
	1	2	3	
Repurchase agreements			\$222,365	\$222,365
STAROhio				<u>16,724</u>
Total investments				<u>\$239,089</u>

3. TAX REVENUES:

On May 7, 2002, the voters of Stark County renewed the .25 percent sales tax levy. The renewed levy will expire in June 2007. Revenue can be used for operating or capital purposes. The Authority receives cash from sales tax levies when the related sales tax collections are distributed by the State of Ohio.

4. RETIREMENT BENEFITS:

Plan Description

All employees of the Authority are required to be members of the Public Employees Retirement System of Ohio ("PERS"), a cost-sharing, multiple-employer defined benefit pension plan. PERS 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. PERS issues a stand-alone financial report that includes financial statements and required supplemental information. The financial report may be obtained by making a written request to the Public Employees Retirement System of Ohio, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 227-6705 or 1-800-222-PERS (7377).

Funding Policy

The Ohio Revised Code provides statutory authority for employee and employer contributions. Employees are required to contribute 8.5 percent of their covered payroll to PERS (for union employees the Authority has contracted to fund the 8.5 percent employee contribution requirement). The Authority also funds the 8.5 percent employee contribution requirement for non-union employees. For local government units, the employer contribution rate was 13.55, 13.55, 10.84 percent of covered payroll for 2002, 2001, and 2000, respectively, including 5.0 percent in 2002 and 2001 and 4.3 percent in 2000 that is used to fund postretirement health care benefits. The Authority's total contributions to PERS for pension benefits (excluding the amount relating to postretirement benefits) for the years ended December 31, 2002, 2001 and 2000 were approximately \$1,061,121, \$1,149,000, and \$1,029,000 respectively.

**STARK AREA REGIONAL TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS - (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001**

4. RETIREMENT BENEFITS (CONTINUED):

Other Postretirement Benefits Provided Through PERS

In addition to the pension benefits described previously, PERS provides postretirement healthcare coverage to age and service retirants with 10 or more years of qualifying Ohio service credit. Healthcare coverage for disability recipients and primary survivor recipients is also available. The healthcare coverage provided by the retirement system is considered an Other Postretirement 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.

OPEB's are financed through employer contributions and investment earnings thereon. The assumptions and calculations noted in the following paragraphs below are based on PERS' 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 OPEBs. 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. Under this approach, assets are adjusted annually to reflect 25 percent of unrealized market appreciation or depreciation on investment assets. The investment return assumption rate for 2001 was 8.00 percent. An annual increase of 4.00 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 4.00 percent base increase, were assumed to range from .50 percent to 6.3 percent. Health care costs were assumed to increase 4.00 percent annually.

OPEBs are advance-funded on an actuarially determined basis. The number of active contributing participants was 402,041. The Authority's contributions for other postretirement benefits to PERS for the years ended December 31, 2002, 2001, and 2000 were approximately \$310,269, \$335,000, and \$348,000, respectively, equal to 100 percent of the contributions for each year.

The actuarial value of the Retirement System's net assets available for OPEB at December 31, 2001 (latest information available) was \$11.6 billion. The actuarially accrued liability and the unfunded accrued liability, based on the actuarial costs method used, were \$16.4 billion and \$4.8 billion, respectively.

In December 2001, the Retirement Board adopted the Health Care "Choice Plan" in its continuing effort to respond to the rise in the cost of Health Care. The Choice 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 for the present plan.

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

**STARK AREA REGIONAL TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS - (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001**

5. CONTINGENCIES AND COMMITMENTS:

The Authority is a defendant in a number of lawsuits pertaining to matters that are incidental to performing its operations. Management believes that ultimate settlement of all outstanding litigation and claims will not result in a material adverse effect on the Authority's financial position.

Federal and State Grants

Under the terms of various grants, periodic audits are required where certain costs could be questioned as not being an eligible expenditure under the terms of the grant. At December 31, 2002 there were no significant questioned costs that had not been resolved with the applicable federal and state agencies. Questioned costs could still be identified during audits to be conducted in the future. In the opinion of the Authority's management, no material grant expenditures will be disallowed.

Commitments

The Authority had outstanding commitments to purchase 5-30 foot buses for \$1,245,000, 5 less than 30 foot buses for \$335,735 and \$71,322 for paratransit software at December 31, 2002.

6. GRANTS, REIMBURSEMENTS AND SPECIAL FARE ASSISTANCE:

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

	2002	2001
FEDERAL PLANNING GRANT	<u>\$0</u>	<u>\$25,512</u>
STATE OPERATING GRANTS, REIMBURSEMENTS AND SPECIAL FARE ASSISTANCE:		
ODOT Elderly Fare Assistance	37,167	62,376
ODOT Fuel Tax Expense	<u>138,531</u>	<u>164,903</u>
Total	<u>\$175,698</u>	<u>\$227,279</u>

7. 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 omissions, employment-related matters, injuries to employees and employee theft and fraud. Effective December 31, 1997, the Authority joined together with certain other transit authorities in the State to form the Ohio Transit Insurance Association, Inc., (name changed to Ohio Transit Risk Pool in 2002 – OTIP) 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 11 member transit agencies. The Authority pays an annual premium to OTIP for its general insurance coverage and quarterly pays into a loss and administration fund pursuant to OTIP's bylaws. The Agreement of Formation of the OTIP provides that OTIP will be self-sustaining through member premiums and will reinsure through commercial companies for property damage and claims in excess of \$100,000 and all liability claims in excess of \$250,000 for each insured occurrence. The Authority is responsible for the first \$1,000 of any claim or occurrence and amounts in excess of \$10 million for liability claims.

**STARK AREA REGIONAL TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS - (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001**

7. RISK MANAGEMENT (CONTINUED):

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.

8. NEW ACCOUNTING STANDARDS:

The GASB has issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, Statements No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus*: and Statement No. 38, *Certain Financial Statement Note Disclosures*. These statements revise accounting and reporting standards for general purpose external financial reporting by governmental units. All three statements are effective for the year ending December 31, 2003. The Authority has not completed an analysis of the impact of these statements on its reported financial condition and results of operations.

9. TRANSFER STATION LEASES:

The Authority has the following transfer leases outstanding as of December 31, 2002:

A. The Authority in January 1999 entered into a ten year lease with Verner A. Bonfeit for the use of a transfer station in Alliance, Ohio. As part of this agreement monthly lease payments will be \$375 in 2002 and 2003 and \$450 per month for the years 2004 and 2005 and \$475 per month for the years 2006 through 2008. In addition, the Authority has agreed to contribute \$175,000 in the form of improvements at the transfer station.

B. The Authority has entered into a 59 year lease with Charles Street Associates, LTD for a transfer station in Massillion, Ohio. The Authority has two additional options for 20 years each to extend the lease with the lessor. Annual rental is \$1.00 during the primary term of the lease. The Authority has agreed to contribute \$2,000,000 for lease improvements at the facility.

**STARK AREA REGIONAL TRANSIT AUTHORITY
SUPPLEMENTAL SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2002**

Federal Grantor/Program Title	Federal CFDA Number	Federal Grant Number	Grant Expenditures
U.S. DEPARTMENT OF TRANSPORTATION			
FEDERAL TRANSIT CLUSTER			
Direct Program:			
Federal Transit Administration - Capital and Operating Assistance Formula Grants	20.507	OH-90-0298	\$2,233
		OH-90-0354	155,586
		OH-90-0326	844
		OH-90-0417	436,910
		OH-90-0419	<u>31,316</u>
			<u>\$626,889</u>
Passed-through the Ohio Department of Transportation:			
Federal Transit Administration	20.507	OH-90-0417	\$43,255
	20.507	OH-03-0184	<u>387,526</u>
			<u>\$430,781</u>
Total Expenditures of Federal Awards			<u>\$1,057,670</u>

See note to the Supplemental Schedule of expenditures of Federal Awards.

**STARK AREA REGIONAL TRANSIT AUTHORITY
NOTE TO THE SUPPLEMENTAL SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2002**

1. BASIS OF PRESENTATION:

The accompanying Supplemental Schedule of Expenditures of Federal Awards (the "Schedule") reflects the expenditures of Stark Area Regional Transit Authority under programs financed by the U.S. Government for the year ended December 31, 2002. The Schedule has been prepared in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

For purposes of the Schedule, Federal Awards include the following:

--- Direct federal awards

--- Pass-through funds received from non-federal organizations made under federally sponsored programs conducted by those organizations (if any).

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON
INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON THE
AUDIT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Trustees
Stark Area Regional Transit Authority
Canton, Ohio

We have audited the financial statements of the Stark Area Regional Transit Authority (the "Authority") as of and for the year ended December 31, 2002 and have issued our report thereon dated June 3, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance:

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

Internal Control Over Financial Reporting:

In planning and performing our audit, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatement 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 other matters involving the internal control over financial reporting that we have reported to management of the Authority in a separate letter dated June 3, 2003.

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

June 3, 2003

Watson, Rice & Co.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND INTERNAL CONTROL OVER COMPLIANCE APPLICABLE TO EACH MAJOR FEDERAL AWARD PROGRAM

Board of Trustees
Stark Area Regional Transit Authority
Canton, Ohio

Compliance:

We have audited the compliance of the Stark Area Regional Transit Authority (the "Authority") with the types of compliance requirements described in the *U.S. Office of Management and Budget ("OMB") Circular A-133 Compliance Supplement* that are applicable to its major federal programs for the year ended December 31, 2002. The Authority's major federal programs are identified in the summary of auditors' 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 programs is the responsibility of the Authority's management. Our responsibility is to express an opinion on the Authority's compliance based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; 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 Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Authority's compliance with those requirements.

In our opinion, the Authority complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended December 31, 2002.

Internal Control Over Compliance:

The management of the Authority is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Authority's internal control over compliance with requirements that could have a direct and material 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 Authority's internal control over compliance would not necessary 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 Authority's internal control over compliance and its operations that we consider to be material weaknesses.

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

Watson Rice & Co.

June 3, 2003

**STARK AREA REGIONAL TRANSIT AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2002**

Summary of Auditors' Results:

- > Type of Report issued on the Financial Statements as of and for the Year Ended December 31, 2002 - Unqualified.
- > Reportable Conditions in Internal Control Disclosed by the Audit of the Financial Statements - Not Applicable. (None Reported).
- > Noncompliance Noted that is Material to the Financial Statements of the Authority - None.
- > Reportable Conditions in Internal Control Over Major Federal Financial Assistance Programs Disclosed by the Audit of the Financial Statements - Not Applicable. (None Reported).
- > Type of Report Issued on Compliance for Major Federal Financial Assistance Programs - Unqualified.
- > The audit disclosed no findings required to be reported under Section 501(a) of OMB Circular A-133.
- > Major Federal Financial Assistance Programs Identified for the Year Ended December 31, 2002:
 - > Federal Transit Cluster
 - > CFDA #20.507 Federal Transit Administration - Capital and Operating Assistance Formula Grants
- > Dollar Threshold Used to Distinguish Between Type A and Type B Programs - \$300,000.
- > The Authority is not considered to be a Low Risk Auditee as defined under OMB Circular A-133.

Findings Related to the Financial Statements that are Required to be Reported Under *Government Auditing Standards*:

None

Findings and questioned Costs Relating to Federal Awards:

None

Current Status of Prior Year Management Letter Comments

The following is a listing of the current status of the 2001 management letter comments report.

1. Preparation for the Final Audit - Corrected.
2. Bank Reconciliation's - Corrected.
3. Inventory - The 2001 audit finding relating to an error in recording fuel inventory and several test count mathematical errors was corrected in the 2002 audit. However, another weakness relating to inventory was issued in the 2002 audit. See this comment as comment number 1 under the section for internal controls weaknesses.
4. Business Continuity - Reissued for 2002 audit. Noted as internal control weakness number 3.



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STARK AREA REGIONAL TRANSIT AUTHORITY

STARK 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 11, 2003**