



SOUTH EAST AREA TRANSIT AUTHORITY

SINGLE AUDIT

For the Year Ended December 31, 2004

J.L. UHRIG
AND ASSOCIATES INC.

CERTIFIED PUBLIC ACCOUNTANT AND MANAGEMENT CONSULTANTS





**Auditor of State
Betty Montgomery**

Board of Trustees
Southeast Area Regional Transit Authority

We have reviewed the Independent Auditor's Report of the Southeast Area Regional Transit Authority, Muskingum County, prepared by J.L. Uhrig and Associates, Inc. for the audit period January 1, 2004 through December 31, 2004. 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 Southeast Area Regional Transit Authority is responsible for compliance with these laws and regulations.

A handwritten signature in cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

June 21, 2005

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SOUTH EAST AREA TRANSIT AUTHORITY

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Independent Auditor's Report

Board of Trustees
South East Area Transit Authority
375 Fairbanks Street
Zanesville, Ohio 43701

We have audited the accompanying financial statements of the South East Area Transit Authority (the Authority), a component unit of the City of Zanesville, Ohio, as of and for the year ended December 31, 2004, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. 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 financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of December 31, 2004, and the respective changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated May 27, 2005 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. While we do not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. 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 when considering the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements, but is supplementary information the Governmental Accounting Standards Board requires. We applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Board of Trustees
South East Area Transit Authority
Independent Auditor's Report

Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The accompanying schedule of federal awards expenditures required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Authority. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

J. L. Uhrig and Associates, Inc.

J. L. UHRIG AND ASSOCIATES, INC.

May 27, 2005

South East Area Transit Authority
Management's Discussion and Analysis
For the Year Ended December 31, 2004

As management of the South East Area Transit Authority ("Authority"), we offer readers of the Authority's basic financial statements this narrative overview and analysis of the financial activities of the Authority for the year ended December 31, 2004. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities and to identify any significant changes in financial position. We encourage readers to consider the information presented here in conjunction with the basic financial statements taken as a whole.

Financial Highlights

1. The Authority has net assets of \$2,854,269. These net assets result from the difference between total assets of \$2,932,411 and total liabilities of \$78,142.
2. Current assets of \$522,655 primarily consist of non-restricted Cash and Cash Equivalents of \$179,509; Intergovernmental Receivable of \$164,498 and Accounts Receivable of \$131,481.
3. Current liabilities of \$78,142 primarily consist of Compensated Absences of \$45,802 and Accrued Payroll of \$11,708.

Basic Financial Statements and Presentation

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

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

The *Statement of Revenues, Expenses and Changes in Net Assets* present information showing how the Authority's net assets changed during the year. This statement summarizes operating revenues and expenses along with non-operating revenues and expenses. In addition, this statement lists capital grant revenues received from federal, state and local governments.

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

Notes to the Financial Statements

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

South East Area Transit Authority
Management's Discussion and Analysis
For the Year Ended December 31, 2004

Financial Analysis of the Authority

Table 1 provides a summary of the Authority's net assets for 2004 and 2003:

Table 1
Condensed Summary of Net Assets

	2004	2003
<i>Assets:</i>		
Current Assets	\$522,655	\$666,936
Capital Assets (net of accumulated depreciation)	2,409,756	2,336,785
Total Assets	2,932,411	3,003,721
<i>Liabilities:</i>		
Current Liabilities	78,142	163,400
Total Liabilities	78,142	163,400
<i>Net Assets:</i>		
Invested in Capital Assets	2,409,756	2,336,784
Unrestricted	444,513	503,537
Total Net Assets	\$2,854,269	\$2,840,321

Current assets decreased \$144,281 or 21.63% due to a decrease in the cash and cash equivalents of \$185,981.

Capital assets increased \$72,971 as a result of the purchase of buses during 2004 and the current year's depreciation expense.

Current liabilities decreased \$82,258 or 50.34% which is due to a decrease in accounts payable of \$97,613.

The largest portion of the Authority's net assets (84.43%) reflect investment in capital assets consisting of buildings, buses and equipment less any related debt used to acquire those assets still outstanding. The Authority uses these capital assets to provide public transportation services for the counties of Muskingham and Guernsey; consequently, these assets are not available for future spending. Although the City's investments in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The remaining balance of \$444,513 or 15.57% which is unrestricted net assets that may be used to meet the Authority's ongoing obligations to customers and creditors.

South East Area Transit Authority
Management's Discussion and Analysis
For the Year Ended December 31, 2004

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

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

	2004	2003
Operating Revenues (Expenses):		
Operating Revenues	\$1,105,164	\$936,118
Operating Expenses (excluding depreciation)	(2,562,747)	(2,221,085)
Depreciation Expenses	(329,936)	(299,448)
Operating Loss	(1,787,519)	(1,584,415)
Nonoperating Revenues:		
Federal Grants and Assistance	821,871	747,744
State Grants and Assistance	353,945	397,568
Local Grants and Assistance	234,913	232,913
Interest Income	1,731	2,041
Total Nonoperating Revenues	1,412,460	1,380,266
Capital Grant Revenue	389,007	169,131
Decrease in Net Assets During Year	13,948	(35,018)
Net Assets, Beginning of Year	2,840,321	2,875,339
Net Assets, End of Year	\$2,854,269	\$2,840,321

Financial Operating Activities

The most significant operating expenses for the Authority are Salaries, Fringe Benefits, Management Fees, Fuel and Lubrication, and Parts and Supplies. These expenses account for 83.8% of the total operating expenses. Salaries, which accounts for 44.0% of the total, represents costs associated with salaried and hourly employees. Fringe Benefits, which accounts for 21% of the total, represents costs associated with OPERS, health and life insurance, unemployment and worker's compensation. Management Fees, which accounts for 5.5% of the total, represents costs associated with First Transit Management Company. Fuel and Lubrication, which accounts for 6% of the total, represents costs associated with gasoline, diesel fuel and motor oils. Parts and Supplies, which accounts for 8.3% of the total, represents costs associated with parts and supplies for vehicles.

South East Area Transit Authority
Management's Discussion and Analysis
For the Year Ended December 31, 2004

Funding for the most significant operating expenses indicated above is from Special Transit Fares as well as from Nonoperating Revenue in the form of Federal, State and Local Grants and Assistance. These revenues account for 74% of the total combined revenues of \$2,906,631. Special Transit Fares revenue for 2004 was \$737,215, and accounts for 25.4% of the total revenues. Federal Grants and Assistance revenue for 2004 was \$821,871, and accounts for 28.3% of the total revenue. State Grants and Assistance revenue for 2004 was \$353,945, and accounts for 12.2% of the total revenue. Local Grants and Assistance revenue for 2004 was \$234,913, and accounts for 8.1% of the total revenue. Capital grants account for 13.4% of the total, and Full Adult Fares, Charter Revenue, Advertising Revenue, Interest Income and Miscellaneous Revenue make up the remaining 12.6%.

The Authority monitors its sources of revenues very closely for fluctuations.

Capital Assets and Debt Administration

The Authority's investment in capital assets as of December 31, 2004, amounts to \$2,409,756 (net of accumulated depreciation and related debt). This investment in capital assets includes buildings, buses and equipment.

Additional information concerning the City's capital assets can be found in note 6 of the notes to the basic financial statements.

As of December 31, 2004, the Authority had no long-term debt.

Current Known Facts and Conditions

In the year 2004, the Authority transported 127,183 Fixed Route passengers, 17,550 Demand/Response passengers, and 69,557 passengers for contracts, for a total of 214,290 passengers in Muskingum County. The Authority covered 533,893 revenue miles and 29,766 revenue hours in Muskingum County.

In the year 2004, the Authority transported 19,319 Fixed Route passengers, 196 Demand/Response passengers, and 8,889 passengers for contracts, for a total of 28,404 passengers in Guernsey County. The Authority covered 222,205 revenue miles and 14,474 revenue hours in Guernsey County.

These figures are lower than the previous year. This may be attributed to a loss of some contracts because of a slower economy. In order to improve passenger counts and enhance the overall image of South East Area Transit, management plans to implement a new marketing plan and prepare an economic impact study.

Contacting the Authority's Financial Management

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

SOUTH EAST AREA TRANSIT AUTHORITY

Balance Sheet

For the Year Ended December 31, 2004

Assets:

Current Assets:

Cash and Cash Equivalents	\$179,509
<i>Receivables:</i>	
Accounts	131,481
Intergovernmental	164,498
Materials and Supplies Inventory	30,585
Prepaid Insurance	16,582
<i>Total Current Assets</i>	<u>522,655</u>

Capital Assets:

Land	334,255
Buildings	1,598,606
Buses and Other Vehicles	2,041,291
Furniture, Fixtures and Equipment	497,644
Total Capital Assets	<u>4,471,796</u>
Less: Accumulated Depreciation	<u>(2,062,040)</u>
<i>Capital Assets - Net</i>	<u>2,409,756</u>

Total Assets

\$2,932,411

Liabilities:

Current Liabilities:

Accounts Payable	\$9,361
Accrued Payroll	11,708
Accrued Payroll Taxes	6,641
Compensated Absences	45,802
Other Current Liabilities	4,630
<i>Total Liabilities</i>	<u>78,142</u>

Net Assets:

Invested in Capital Assets	2,409,756
Unrestricted	444,513
<i>Total Net Assets</i>	<u>2,854,269</u>

Total Liabilities and Equity

\$2,932,411

See accompanying notes to the financial statements.

SOUTH EAST AREA TRANSIT AUTHORITY
Statement of Revenues, Expenses and Changes in Net Assets
For the Year Ended December 31, 2004

Operating Revenues:	
Full Adult Fares	\$117,815
Special Transit Fares	737,215
Charter Revenue	13,482
Advertising Revenue	32,480
Miscellaneous Income	204,172
<i>Total Operating Revenues</i>	<u>1,105,164</u>
Operating Expenses:	
Salaries	1,126,843
Fringe Benefits	538,221
Management Fees	141,784
Professional Services	34,109
Contract Services	22,375
Fuel and Lubrication	153,094
Tires	23,726
Parts and Supplies	212,847
Utilities	36,331
Insurance	128,094
Dues and Subscriptions	7,659
Travel and Meeting	8,895
Advertising	37,018
General Administrative Facilities	16,552
Miscellaneous Expense	75,199
<i>Total Operating Expenses Excluding Depreciation</i>	<u>2,562,747</u>
Operating Income (Loss) Before Depreciation Expense	(1,457,583)
Depreciation	<u>329,936</u>
Operating Income (Loss)	<u>(1,787,519)</u>
Nonoperating Revenues:	
Federal Grants and Assistance	821,871
State Grants and Assistance	353,945
Local Grants and Assistance	234,913
Interest Income	1,731
<i>Total Nonoperating Revenues</i>	<u>1,412,460</u>
Net Income (Loss) Before Capital Grant Revenue	(375,059)
Capital Grant Revenue:	
Federal	333,622
State	39,285
Local	16,100
<i>Total Capital Grant Revenue</i>	<u>389,007</u>
Increase (Decrease) in Net Assets	13,948
Net Assets, Beginning of Year	<u>2,840,321</u>
Net Assets, End of Year	<u><u>\$2,854,269</u></u>

See accompanying notes to the financial statements.

SOUTH EAST AREA TRANSIT AUTHORITY

Statement of Cash Flows

For the Year Ended December 31, 2004

Cash Flows from Operating Activities:

Cash Received from Customers	\$822,722
Cash Received from Advertising	32,480
Cash Received from Other Receipts	204,171
Cash Payments for Operating and Administrative Expenses	(2,652,064)
<i>Net Cash from Operating Activities</i>	<u>(1,592,691)</u>

Cash Flows from Noncapital Financing Activities:

Proceeds from Noncapital Grants and Assistance	1,418,878
<i>Net Cash from Noncapital Financing Activities</i>	<u>1,418,878</u>

Cash Flows from Capital and Related Financing Activities

Proceeds from Capital Grants and Assistance	389,007
Payments for the Purchase of Property, Facilities & Equipment	(402,906)
<i>Net Cash from Capital and Related Financing Activities</i>	<u>(13,899)</u>

Cash Flows from Investing Activities:

Cash Received from Interest	1,731
<i>Net Cash from Investing Activities</i>	<u>1,731</u>

Net Increase (Decrease) in Cash and Cash Equivalents (185,981)

Cash and Cash Equivalents, Beginning of Year 365,490

Cash and Cash Equivalents, End of Year \$179,509

Reconciliation of Operating Income (Loss) to Net Cash

from Operating Activities:

Operating Income (Loss) (\$1,787,519)

Adjustments to Reconcile Operating Income (Loss) to Net Cash

from Operating Activities:

Depreciation Expense 329,936

Changes in Assets and Liabilities:

(Increase) Decrease in Accounts Receivable (45,791)

(Increase) Decrease in Prepaid Service Fee and Insurance (2,744)

(Increase) Decrease in Inventories (1,315)

Increase (Decrease) in Accounts Payable (97,613)

Increase (Decrease) in Accrued Liabilities 12,552

Increase (Decrease) in Other Liabilities (197)

Total Adjustments 194,828

Net Cash from Operating Activities (\$1,592,691)

See accompanying notes to the financial statements.

SOUTH EAST AREA TRANSIT AUTHORITY
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

NOTE 1 - DESCRIPTION OF THE AUTHORITY AND REPORTING ENTITY

Description of the Authority

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

In 2004, the Authority had 45 full-time equivalent employees. Approximately 77% of the Authority's employees at December 31, 2004 are subject to a collective bargaining agreement expiring on May 31, 2005.

Description of the Reporting Entity

The accompanying financial statements comply with the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*. This statement requires that financial statements of the reporting entity include all of the organizations, activities, functions and component units for which the reporting entity is financially accountable. Financial accountability is defined as the appointment of a voting majority of the component unit's board and either (1) the reporting entity's ability to impose its will over the component unit, or (2) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the reporting entity. The Authority does not have financial accountability over any entities.

Under the provisions of GASB Statement No. 14, the Authority is considered to be a component unit of the City of Zanesville. The Authority is managed by a ten member Board of Trustees, who establishes policies and sets direction for the management of the Authority. Six of the members are appointed by the Mayor of Zanesville with the consent of City Council, two members are appointed by the Muskingum County Commissioners, and the remaining two members are appointed by the Guernsey County Commissioners and the Mayor of South Zanesville. Board members serve overlapping three-year terms.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Authority are prepared in accordance with generally accepted accounting principles (GAAP). The Authority applies all relevant Governmental Accounting Standards Board (GASB) pronouncements, as well as all Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. The most significant of the Authority's accounting policies are described below.

Basis of Accounting

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

Pursuant to GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting* the Authority follows GASB guidance as applicable to proprietary funds and Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins issued on or before November 30, 1989, that do not conflict with or contradict GASB pronouncements.

SOUTH EAST AREA TRANSIT AUTHORITY
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Budgetary Accounting and Control

The Authority's annual budget is prepared on the accrual basis of accounting as permitted by law. The Authority maintains budgetary control by not permitting total expenditures to exceed total appropriations without approval of the Board of Trustees.

Cash and Cash Equivalents

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

Recognition of Receivables and Revenue

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

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

Inventory of Materials and Supplies

Inventory items are stated at the lower of the cost or market. 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 and interest are capitalized and depreciated over the remaining useful lives of the related properties, with the exception of land which is nondepreciable. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets as follows:

<u>Description</u>	<u>Years</u>
Buildings	20
Transportation Vehicles	15
Furniture and Fixtures	3 - 15
Other Equipment	5 - 15

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

SOUTH EAST AREA TRANSIT AUTHORITY
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Restricted Assets

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

Net Assets

Equity displayed in three components as follows:

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

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

Unrestricted - This consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

Compensated Absences

The Authority accrues vacation benefits as earned by its employees. Unused vacation benefits are paid to the employee upon separation from the Authority. Vacation days are limited to a maximum of twenty days. Unused sick leave benefits lapse upon an employee's separation from the Authority.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

SOUTH EAST AREA TRANSIT AUTHORITY
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

NOTE 3 - CASH AND INVESTMENTS

The investments and deposits of the Authority are governed by the provisions of the Ohio Revised Code. In accordance with these statutes, only financial institutions located in Ohio are eligible to hold public deposits. The statutes also permit the Authority to invest in monies in certificates of deposits, saving accounts, money market accounts, the State Treasurer's investment pool (STAROhio) and obligations of the United States government or certain agencies thereof. The Authority may also enter into repurchase agreements with any eligible depository 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 lieu of amounts insured by the Federal Deposit Insurance Corporation (FDIC), or may pledge a pool of government securities with a market value equal to 105% of public monies on deposit at the institution. Repurchase agreements must be secured by the specific government securities upon which the repurchase agreements are based. These securities must be obligations of or guaranteed by the United States and mature or be redeemable within five years of the date of the related repurchase agreement. The market value of the securities subject to a repurchase agreement must exceed the value of the principal by 2% and be marked to market daily. State law does not require that security maintained for public deposits and investments be held in the Authority's name.

The Authority is prohibited from investing in any financial instrument contract, or obligation whose value or return is based upon or linked to another asset or index, or both, separate from the financial instrument, contract, or obligation 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 \$179,509 at December 31, 2004 with a \$245,214 bank balance. Of the bank balance, \$100,000 was covered by federal depository insurance. The remaining balance of \$145,214 was uninsured and uncollateralized as defined by the Governmental Accounting Standards Board (GASB). The uncollateralized deposits were, however, covered by the financial institutions' risk pool for public deposits as governed by the Ohio Revised Code Section 135.

Investments

Investments are categorized into three (3) credit risk categories to give an indication of the level of risk assumed by the Authority at fiscal year end. Category 1 includes investments that are insured or registered or for which the securities are held by the Authority or its agents in the Authority's name. Category 2 includes uninsured and unregistered investments which are held by the counterparty's trust department or agent in the Authority's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the Authority's name. The Authority held no investments at December 31, 2004.

NOTE 4 - ACCOUNTS RECEIVABLE

Receivables at December 31, 2004 consisted of accounts (billings for user charges for services) and intergovernmental grants. All receivables are considered collectible in full therefore, an allowance for uncollectible accounts receivable is not considered necessary.

SOUTH EAST AREA TRANSIT AUTHORITY
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

NOTE 4 - ACCOUNTS RECEIVABLE - (Continued)

A summary of the principal items of intergovernmental receivables at December 31, 2004 consisted of the following amounts:

Federal Operating Assistance Receivable	\$158,403
State Operating Assistance Receivable	6,095
Total	\$164,498

NOTE 5 - CAPITAL ASSETS

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

<i>Asset Type:</i>	Balance at 12/31/2003	Additions	Deletions	Balance at 12/31/2004
Land	\$334,255	\$0	\$0	\$334,255
Buildings	1,607,026	0	(8,420)	1,598,606
Buses and Other Vehicles	1,652,151	389,140	0	2,041,291
Furniture, Fixtures and Equipment	498,469	22,187	(23,012)	497,644
Total Capital Assets	4,091,901	411,327	(31,432)	4,471,796
 <i>Accumulated Depreciation:</i>				
Buildings	516,881	79,930	0	596,811
Buses and Other Vehicles	878,206	179,950	0	1,058,156
Furniture, Fixtures and Equipment	360,029	70,056	(23,012)	407,073
Accumulated Depreciation	1,755,116	329,936	(23,012)	2,062,040
Capital Assets, Net of Accumulated Depreciation	\$2,336,785	\$81,391	(\$8,420)	\$2,409,756

SOUTH EAST AREA TRANSIT AUTHORITY
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

NOTE 6 - DEFINED BENEFIT PENSION PLANS

The Authority contributes to the Ohio Public Employees Retirement System (OPERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State. OPERS administers three separate pension plans. The traditional plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the member directed plan, members accumulate retirement assets equal to the value of the member and vested employer contributions plus any investment earnings. The combined plan is a cost sharing, multiple-employer defined benefit pension plan, employer contributions are invested by the retirement system to provide a formula retirement benefit similar to the traditional plan benefit. Member contributions, whose investment is self-directed by the member, accumulate retirement assets in a manner similar to the member directed plan.

OPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefits are established and emended by state statute and are contained in Chapter 145 of the Ohio Revised Code. The OPERS issues a stand-alone, publicly available annual financial report that includes financial statements and required supplementary information. This report may be obtained by writing to Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 466-2085 or 1-800- 222-PERS (7377).

The Ohio Revised Code provides statutory authority for employee and employer contribution rates. The employee contribution rates are 8.5% for employees other than law enforcement and for 2003, the Authority is required to contribute 13.55%. The Authority's required contributions to OPERS for the years ending December 31, 2004, 2003 and 2002 were \$154,313, \$152,624, and \$129,168, respectively; 91% has been contributed for 2004, and 100% has been contributed for 2003 and 2002. Of the 2004 amount, \$13,767 was unpaid at December 31, 2004 and is recorded as a liability.

NOTE 7 - POSTEMPLOYMENT BENEFITS

The OPERS also provides postemployment health care benefits to age and service retirants with ten (10) or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. The health care coverage provided by the retirement system 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 postemployment health care. The Ohio Revised Code provides statutory authority for employer contributions. The 2004 employer contribution rate for local government employer units was 13.55% of covered payroll; 4% was the portion that was used to fund health care for the year 2004.

Of the employer contributions made by the Authority for the year 2004, \$45,554 was the amount used to fund postemployment health care.

SOUTH EAST AREA TRANSIT AUTHORITY
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

NOTE 7 - POSTEMPLOYMENT BENEFITS - (Continued)

The assumptions and calculations below were based on the System's latest Actuarial Review performed as of December 31, 2003. 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 the 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 to reflect 25% of unrealized market appreciation or depreciation on investment assets. The investment assumption rate for 2003 was 8%. An annual increase of 4% 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% base increase, were assumed to range from 0.5% to 6.3%. Health care costs were assumed to increase 4% annually.

As of December 31, 2004, the number of active contributing participants was 369,885. The actuarial value of the Retirement System's net assets available for OPEB at December 31, 2003 was \$10.5 billion. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$26.9 billion and \$16.4 billion respectively.

NOTE 8 - COMPENSATED ABSENCES

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

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

The Authority records compensated absences for vacation leave in accordance with GASB Statement No. 16. However, since accrued sick leave is not paid upon termination, no liability is recorded.

SOUTH EAST AREA TRANSIT AUTHORITY
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

NOTE 9 - GRANTS, REIMBURSEMENTS AND SPECIAL FARE ASSISTANCE

Grants, reimbursements and special fare assistance in the statement of revenues, expenses and changes in equity for the year ended December 31, 2004 consist of the following:

Federal:

FTA Capital Assistance	\$333,622
FTA Operating Assistance	821,871
Total	<u>\$1,155,493</u>

State:

ODOT Operating Assistance	\$398,942
ODOT Elderly Fare Assistance	13,334
Total	<u>\$412,276</u>

Local:

City of Zanesville	\$160,000
Village of South Zanesville	4,660
Village of Byesville	2,000
Guernsey County	26,253
Muskingum County	42,000
Total	<u>\$234,913</u>

SOUTH EAST AREA TRANSIT AUTHORITY
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 2003

NOTE 10 - RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets, flood and earthquake, errors and omission, employment related matters, injuries to employees and employee theft and fraud. The Authority joined together with certain other transit authorities in the State to form the Ohio Transit Insurance Pool Association, Inc. (OTIP). OTIP is a joint self-insurance pool pursuant to Section 2744.081 of the Ohio Revised Code, currently operating as a common risk management and insurance program for ten member transit agencies. The Authority pays an annual premium to OTIP for its general insurance coverage and makes quarterly payments 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 \$250,000 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.

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.

NOTE 11 - CONTINGENCIES

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

SOUTHEAST AREA TRANSIT AUTHORITY
Schedule of Federal Awards Expenditures
For the Year Ended December 31, 2004

Federal Grantor / Pass through Grantor / Program Title	Pass through Entity Number	Federal CFDA Number	Expenditures
<u>U.S. Department of Transportation</u>			
<i>Passed through Ohio Department of Transportation:</i>			
Federal Transit Capital Assistance Formula Grant	OH-18-X022	20.507	\$216,072
Federal Transit Capital Assistance Formula Grant	OH-18-X023	20.507	97,623
Federal Transit Capital Assistance Formula Grant	OH-01-0237	20.507	19,927
Federal Transit Operating Assistance Formula Grant	OH-18-X023	20.507	795,492
			<u>1,129,114</u>
Job Access and Reserve Commute	OH-37-4005	20.516	31,250
<i>Total U.S. Department of Transportation</i>			<u>31,250</u>
<i>Total Federal Awards Expenditures</i>			<u><u>\$1,160,364</u></u>

Note 1 - Significant Accounting Policies

The Authority prepares its Schedule of Federal Awards Expenditures on the cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the general purpose financial statements.

Note 2 - Matching Requirements

The Authority is required to contribute non-federal funds (matching funds) to support federally funded programs. The Authority has complied with the matching requirements. The expenditure of non-federal matching funds is not included in this schedule.

**Report on Internal Control over Financial Reporting
and on Compliance and Other Matters Required by
Government Auditing Standards**

Board of Trustees
South East Area Transit Authority
375 Fairbanks Street
Zanesville, Ohio 43701

We have audited the accompanying financial statements of the South East Area Transit Authority (the Authority), a component unit of the City of Zanesville, Ohio, as of and for the year ended December 31, 2004, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated May 27, 2005. 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 of America.

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 opine 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 caused by error or fraud 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 did not deem reportable conditions, that we have reported to the management of the Authority in a separate letter dated May 27, 2005.

Compliance

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

Board of Trustees
South East Area Transit Authority
Report on Internal Control over Financial Reporting
and on Compliance and Other Matters Required by
Government Auditing Standards

This report is intended for the information and use of the Board of Trustees, 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.

J. L. Uhrig and Associates, Inc.

J. L. UHRIG AND ASSOCIATES, INC.

May 27, 2005

**Report on Compliance with Requirements Applicable to Each Major
Program and Internal Control over Compliance in Accordance with
OMB Circular A-133**

Board of Trustees
South East Area Transit Authority
375 Fairbanks Street
Zanesville, Ohio 43701

Compliance

We have audited the compliance of South East Area 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 each of its major federal programs for the year ended December 31, 2004. The Authority's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs 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 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 occurred with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program. 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, 2004.

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 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.

Board of Trustees
South East Area Transit Authority
Report on Compliance with Requirements Applicable to Each Major
Program and 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 reportable 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 caused by error or fraud 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.

This report is intended for the information and use of the Board of Trustees, 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.

J. L. Uhrig and Associates, Inc.

J. L. UHRIG AND ASSOCIATES, INC.

May 27, 2005

SOUTH EAST AREA TRANSIT AUTHORITY
Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2004

A. SUMMARY OF AUDITOR'S RESULTS

1. Type of Financial Statement Opinion	Unqualified
2. Were there any material internal control weaknesses reported at the financial statement level (GAGAS)?	No
3. Were there any other reportable internal control weaknesses reported at the financial statement level (GAGAS)?	No
4. Was there any material noncompliance reported at the financial statement level (GAGAS)?	No
5. Were there any material internal control weaknesses reported for major federal programs?	No
6. Were there any other reportable internal control weaknesses reported for major federal programs?	No
7. Type of Major Programs' Compliance Opinion	Unqualified
8. Are there any reportable findings under § .510?	No
9. Major Programs (list):	Federal Transit - Capital and Operating Assistance Formula Grants - CFDA #20.507
10. Dollar Threshold: Type A/B Programs	Type A: >\$300,000 Type B: All Other Programs
11. Low Risk Auditee?	Yes

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

There were no findings related to the financial statements required to be reported in accordance with GAGAS.

C. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

There were no findings and questioned costs for federal awards.



**Auditor of State
Betty Montgomery**

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SOUTHEAST AREA REGIONAL TRANSIT AUTHORITY

MUSKINGUM COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JULY 7, 2005**