LAKETRAN

BASIC FINANCIAL STATEMENTS AND SINGLE AUDIT

FOR THE YEAR ENDED DECEMBER 31, 2003

Auditor of State
Betty Montgomery

Board of Trustees
Laketran

We have reviewed the Independent Auditor's Report of Laketran, Lake County, prepared by James G. Zupka, CPA, Inc., for the audit period January 1, 2003 through December 31, 2003. 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. Laketran is responsible for compliance with these laws and regulations.

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

July 26, 2004

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LAKETRAN
BASIC FINANCIAL STATEMENTS AND SINGLE AUDIT
FOR THE YEAR ENDED DECEMBER 31, 2003

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Certified Public Accountants
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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Laketran
Grand River, Ohio

We have audited the accompanying basic financial statements of Laketran as of December 31, 2003 and 2002, and for the years then ended, as listed in the Table of Contents. These basic financial statements are the responsibility of the management of Laketran. Our responsibility is to express an opinion on these basic financial statements based on our audit.

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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Laketran as of December 31, 2003 and 2002, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 23, 2004 on our consideration of Laketran's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on pages 3 through 10 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

James G. Zupka
Certified Public Accountant

April 23, 2004

As management of Laketran, we offer readers of Laketran's financial statements this narrative overview and analysis of the financial activities of Laketran for the fiscal years ended December 31, 2003 and 2002. We encourage readers to consider the information presented here in conjunction with the Agency's financial statements.

FINANCIAL HIGHLIGHTS

- Laketran's net assets increased as a result of this year's operations by $1,847,297 or 4.4 percent.

- Operating expenses, exclusive of depreciation, were $9,954,703 in 2003 compared to $9,476,090 in 2002. This is an increase of 5.1 percent.

- Net capital assets were $27,780,052 at December 31, 2003 compared to $25,083,662 at December 31, 2002. This is an increase of 10.7 percent. This large increase is due to the purchase of eight new 40' MCI motor coaches, the purchase of eight new 30' Optima motor coaches, and an increase in the Dial-A-Ride fleet from 65 to 71 vehicles.

- Cash and cash equivalents were $5,376,955 at December 31, 2003 compared to $5,500,878 at December 31, 2002. This is a decrease of 2.3 percent.

- Investments at fair value, other than those included in cash and cash equivalents, were $10,145,569 at December 31, 2003 compared to $11,220,082 at December 31, 2002. This is a decrease of 9.6 percent.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to Laketran's basic financial statements. Laketran's basic financial statements are comprised of four components: **1)** Statements of Net Assets, **2)** Statements of Revenues, Expenses, and Changes in Net Assets, **3)** Statements of Cash Flows, and **4)** Notes to the Basic Financial Statements. The Statements of Net Assets and Statements of Revenue, Expenses, and Changes in Net Assets (pages 11 and 12) provide information about the activities of Laketran and present a longer-term view of its finances. Our analysis of Laketran as a whole begins on page 11.

One of the most important questions asked about Laketran's finances is "Is Laketran better off or worse off as a result of the year's activities?" The Statement of Net Assets, the Statement of Revenues, Expenses and Changes in Net Assets, and the Statement of Cash Flows report information about Laketran and its activities in a way that helps answer this question. These statements are prepared on the accrual basis of accounting. Revenues are recorded when earned as opposed to received and expenses are recorded when incurred as opposed to paid.

The basic financial statements report Laketran's net assets and changes in them. Laketran's net assets are the difference between assets (what the citizens own) and liabilities (what the citizens owe) as one way to measure Laketran's financial health or financial position. Over time, increases or decreases in Laketran's net assets is one indicator of whether its financial health is improving or deteriorating. Other non-financial factors need to be considered such as the condition of Laketran's capital assets (property, equipment, vehicles, etc.).

Laketran only engages in business type activities. The sole purpose of Laketran is to provide public transportation services to the citizens of Lake County. A bus fare is charged each rider to help cover a portion of expenses.

Laketran's total assets changed from a year ago. At December 31, 2003 they were $46,663,769. At December 31, 2002 they were $45,814,234. This is an increase of 1.9 percent.

TABLE 1 - Net Assets

	2003	2002
Assets		
Current Assets	$ 17,714,137	$ 18,772,029
Restricted Assets	9,392	44,390
Other Assets	1,160,188	1,914,153
Capital Assets	27,780,052	25,083,662
Total Assets	46,663,769	45,814,234
Liabilities		
Current Liabilities	$ 1,251,251	$ 1,495,048
Other Liabilities	1,160,188	1,914,153
Total Liabilities	2,411,439	3,409,201
Net Assets		
Invested in Capital Assets, Net of Debt	27,780,052	25,083,662
Unrestricted	16,472,278	17,321,371
Total Net Assets	$ 44,252,330	$ 42,405,033

Laketran's net assets were $44,252,330 at December 31, 2003 compared to $42,405,033 at December 31, 2002. This is a 4.4 percent increase. Unrestricted net assets were $16,472,278 at December 31, 2003 compared to $17,321,371 at December 31, 2002. This is a 4.9 percent decrease. The investment in capital assets, net of related debt, was $27,780,052 at December 31, 2003 compared to $25,083,662 at December 31, 2002. This is a 10.7 percent increase.

The following financial ratios should be used to assess the financial stability of Laketran over a period of five years.

The ratios of *working capital* and *days cash and investments in reserve* demonstrate the ability to finance operations with cash.

FINANCIAL RATIOS

Working capital is the amount by which current assets exceeds current liabilities:

2003	2002	2001	2000	1999
$16,462,886	$17,276,981	$17,011,930	$17,228,048	$17,725,699

The Current Ratio, which compares current assets to current liabilities, is an indicator of the ability to pay current obligations.

2003	2002	2001	2000	1999
14.16	12.56	15.96	20.32	20.36

Days Cash and Investments in Reserve represents the number of days normal operations could continue with no revenue collection.

2003	2002 *	2001	2000	1999
569	644	658	740	886

* Exclusive of the one time charge for the Voluntary Retirement Incentive Plan, this ratio would be 669 days.

Liabilities to Net Assets indicates the extent of borrowing.

2003	2002	2001	2000	1999
5.4%	8.0%	2.6%	2.5%	2.8%

Note: Laketran has never incurred debt by borrowing (issuing bonds, obtaining a bank loan, etc.). The "borrowing" in the ratio above is solely a result of unpaid liabilities at year end. These consist of 1) payments due vendors and 2) accrued payroll liabilities and 3) deferred revenue (2002-2003). Deferred revenue only applies to 2002 and 2003 and is the primary reason the percent increased that year.

TABLE 2 - Changes in Net Assets

	2003	2002
Revenues:		
Passenger Fares	$ 761,657	$ 725,450
Auxiliary Transportation Rev.	55,235	62,033
Sales Tax Revenue	7,440,528	7,202,698
Federal Grants and Reimbursements	5,505,997	2,233,775
State Grants, Reimbursements Special Fare Assistance	1,090,699	858,289
Interest Income	323,731	455,738
Net Increase/(Decrease) in Fair Value of Investments	(86,703)	26,426
Non-Transportation Revenues	6,322	53,846
Gain/(Loss) Disposal of Assets	0	(71,289)
Total Revenues	15,097,466	11,546,966
Expenses By Type:		
Administration	1,756,838	1,718,676
Maintenance	1,469,280	1,330,986
Operations	6,728,585	6,426,428
Total Operating Expenses Other Than Depreciation	9,954,703	9,476,090
Depreciation	3,295,466	3,035,648
Total Operating Expenses	13,250,169	12,511,738
Increase/(Decrease) In Net Assets	$ 1,847,297	$ (964,772)

Significant items contributing to the increase in net assets are as follows:

- Federal and State grant reimbursements increased by 113.3 percent due to significantly increased capital spending. Grant funds are all received on a reimbursement basis. Fluctuations in capital spending from one year to the next can cause significant variances in grant revenue. The large increase from 2002 to 2003 is due to revenue vehicles being purchased during 2003 that resulted in Federal and State reimbursements totaling $4.8 million.

- Sales tax revenues, Laketran's largest source of revenue, increased by 3.3 percent.

- Interest income decreased by 29 percent due to declining interest rates. Laketran's investment portfolio decreased about 6.1 percent during the year.

- Operating expenses, excluding depreciation, increased a net 5.1 percent. Significant changes in operating expenses are:

  1. Workers' compensation premiums increased from $18,000 to $156,000 primarily because the State of Ohio eliminated its 75 percent statewide discount that had been in effect for several years. Additionally, premiums increased substantially.

  2. Fuel and oil increased 14.3 percent due to rising prices.

  3. Parts expense increased 28.4 percent as the fleet expands and ages.

TABLE 3 - Changes in Cash Flows

	2003	2002
Net Cash used for Operating Activities	$(9,396,275)	$(8,400,515)
Net Cash Provided by Noncapital Financing Activities	9,006,239	8,939,149
Net Cash Used by Capital and Related Financing Activities	(1,055,172)	115,684
Net Cash Provided by Investment Activities	1,321,285	(1,475,601)
Net Increase/(Decrease) in Cash and Cash Equivalents	$ (123,923)	$ (821,283)

Net cash used for operating activities increased 11.9 percent. This increase is mainly attributed to:

- a 23.5 percent increase in current year fringe benefits. Workers' compensation increased substantially because the statewide 75 percent discount was eliminated. Additionally, premiums increased substantially.

- a 14.3 percent increase in fuel and oil costs is almost exclusively due to rising fuel prices.

- a 16.1 percent increase in materials and supplies. The majority of this is due to the purchase of spare parts. As the fleet continues to age and grow, more parts are needed.

Net cash provided by noncapital financing activities increased 0.8 percent. This increase is attributed to the net effect between a 3.3 percent increase in sales tax revenues, an 11 percent increase in capitalized maintenance reimbursements received, and a 29 percent decrease in interest income. Additionally, the fair value of investments declined by $113,000, although no loss was incurred.

Net cash used by capital and related financing activities was $(1,055,172) for 2003. This was caused by significantly higher capital spending during the year on new revenue vehicle purchases. Over $825,000 in local funds was spent on these vehicles.

Net cash provided by investment activities was $1,321,285 for 2003. Fewer government securities were purchased during 2003 than matured or were called. Based on total cash flows, this amount, or the majority of it, is still held in cash and cash equivalents.

BUDGETARY HIGHLIGHTS

TABLE 4 - Analysis of Significant Budget Variations

	Original Budget 2003	Revised Budget 2003	Actual 2003	Variance Favorable/ (Unfavorable)
Operating Revenues				
Passenger Fares	$ 800,000	$ 800,000	$ 761,657	$ (38,343)
Auxiliary Transportation Revenues	62,000	62,000	55,235	(6,765)
Total Operating Revenues	862,000	862,000	816,892	(45,108)
Operating Expenses Other Than Depreciation				
Labor	4,997,242	4,997,242	4,443,650	553,592
Fringe Benefits	1,839,874	1,839,874	2,449,787	(609,913)
Services	359,950	359,950	654,579	(294,629)
Supplies	1,199,000	1,199,000	1,088,110	110,890
Utilities	178,100	178,100	152,147	25,953
Claims and Insurance	455,000	455,000	372,329	82,671
Purchased Transportation	287,066	287,066	253,288	33,778
Miscellaneous	619,000	619,000	540,813	78,187
Total Operating Expenses Other Than Depreciation	9,935,232	9,935,232	9,954,703	(19,471)
Depreciation	3,200,000	3,200,000	3,295,466	(95,466)
Total Operating Expenses	13,135,232	13,135,232	13,250,169	(114,937)
Net Operating Loss	$(12,273,232)	$(12,273,232)	$(12,433,277)	$ (160,045)
Non-Operating Revenues/(Expenses)				
Sales Tax Revenue	$ 7,227,000	$ 7,227,000	$ 7,440,528	$ 213,528
Federal Grants and Reimbursements	762,251	762,251	5,505,997	4,743,746
State Grants, Reimbursements and Special Fare Assistance	794,777	794,777	1,090,699	295,922
Interest Income	400,000	400,000	323,731	(76,269)
Net Increase/(Decrease) in Fair Value of Investments	0	0	(86,703)	(86,703)
Non-Transportation Revenues	0	0	6,322	6,322
Total Non-Operating Revenues/(Expenses)	$ 9,184,028	$ 9,184,028	$ 14,280,574	$ 5,096,546

Laketran is very dependent upon two sources of revenue as follows:

1. Sales tax comprised 49.3 percent of total revenue, inclusive of capital grant reimbursements. Sales tax proceeds increased 3.3 percent from 2002. This is the best increase in several years as this source of revenue has been very flat.

2. Federal and State grant reimbursements comprised 43.7 percent of total revenue. It should be noted that actual amounts vary greatly from budgeted amounts. One year's actual proceeds do not relate at all to the prior years. Additionally, neither the Federal or State government give any indication as to how much should be budgeted. The budget ends up being a "best estimate"

As with any service provider, wages and benefits comprise a large part of the operating budget. 70.1 percent of operating expenses, excluding depreciation, were attributed to wages and benefits. These expenses were 0.8 percent over budget for the year.

Services exceeded the budget for the following reasons:

- The McDonald Transit contract caused a $102,400 unbudgeted expense during 2003.
- The maintenance department had several items that contributed to the over budget condition including **1)** resurfacing of the floor in the maintenance department, **2)** major HVAC repairs, and **3)** much higher snow plowing than expected, due to a lot of snow and some park and ride lots being plowed for their first entire winter.

Although spare parts were over budget, supplies were 9.2 percent under budget.

Property and casualty costs were 18.2 percent under budget. Though costs have risen dramatically, 2003 was an outstanding year for Laketran. Deductibles paid were much less than expected.

Miscellaneous expense appears to be 12.6 percent under budget but upon closer examination, the following are explained:

- An unbudgeted amount for the write off of handheld radios that were sold, amounted to $27,000.
- The budget includes an amount for a contingency of $240,000. All of this was used during the year, but some of the expenses are in other categories, while the budgeted amount remains in this one. Items the contingency was used for are:

    1. Addition of an unbudgeted employee - $25,000
    2. Unanticipated legal expenses - $27,000
    3. Discontinuation of statewide workers' compensation discount - $79,000
    4. McDonald Transit Contract - $102,400
    5. Surveys - $39,000
    6. Temporary labor - $14,000

CAPITAL ASSET AND DEBT ADMINISTRATION

At the end of 2003, Laketran had $27,780,052 invested in a broad range of capital assets including land, buildings, equipment, office furniture/fixtures/equipment, parking lots, communication equipment and vehicles. This amount represents a net increase of $2,696,390 or 10.7 percent from 2002.

Table 5 - Capital Assets at Year End

	2003	2002
Land	$ 2,442,643	$ 2,442,643
Buildings	11,378,675	11,378,675
Transportation Vehicles and Equipment	29,382,971	23,116,348
Furniture, Vehicles and Equipment	522,325	526,443
Construction In Progress	202,470	977,387
	43,929,084	38,441,496
Less: Accumulated Depreciation	16,149,032	13,357,834
Total Capital Assets, Net	$27,780,052	$25,083,662

All capital assets are depreciated using the straight line method of depreciation. Vehicles useful lives are either four or twelve years as specified in Federal Transit Administration regulations. All other useful lives range from five to thirty years, depending on the nature of the asset. Laketran owns one building which is being depreciated over a period of thirty years.

DISCUSSION OF CURRENTLY KNOWN FACTS

Exclusive of capital grant reimbursements, Laketran has experienced relatively flat revenues since 2000. Capital grant reimbursements can be very volatile from one year to the next because they are based upon the availability of governmental funds for capital purchases rather than bus operations.

During this period of flat revenues, operating expenses have continued to grow because there have been no reductions to service. As the gap between revenues and expenses closes, the budget must be monitored much closer. Everything possible is being done to control costs.

Laketran began commuter express service from the Eastlake Stadium in April 2004. This route will be operated with CMAQ funding for at least two years.

During November 2003, Lake County voters overwhelmingly approved the 1/4 percent sales tax which provides Laketran with a majority of its funding. This levy was approved by a margin of 67 percent for and 33 percent against. The old levy expires July 31, 2004 and the new levy takes effect on August 1, 2004.

Basic Financial Statements

LAKETRAN
STATEMENTS OF NET ASSETS
DECEMBER 31, 2003 AND 2002

	2003	2002
ASSETS		
Current Assets:		
Cash and Cash Equivalents	$ 5,367,563	$ 5,456,488
Investments	10,145,569	11,220,082
Receivables:		
Federal Grants	7,601	211,730
State Grants	203,437	0
Trade	86,353	46,314
Sales Tax	1,245,672	1,179,355
Fuel Tax Refund	0	20,326
Accrued Interest	50,156	59,900
Materials and Supplies	595,605	553,734
Prepaid Expenses	12,181	24,100
Total Current Assets	17,714,137	18,772,029
Restricted Assets:		
Cash and Cash Equivalents	9,392	44,390
Other Assets:		
Grants Receivable:		
Federal Grants	1,160,188	1,914,153
Capital Assets, net	27,780,052	25,083,662
TOTAL ASSETS	$ 46,663,769	$ 45,814,234
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts Payable	$ 469,058	$ 308,420
Accrued Payroll and Benefits	625,871	715,914
Accrued Pension	146,930	426,324
Payable from Restricted Assets:		
Retainage Payable	9,392	44,390
Total Current Liabilities	1,251,251	1,495,048
Other Liabilities:		
Deferred Revenue	1,160,188	1,914,153
Total Liabilities	2,411,439	3,409,201
Net Assets		
Invested in Capital Assets	27,780,052	25,083,662
Unrestricted	16,472,278	17,321,371
Total Net Assets	44,252,330	42,405,033
TOTAL LIABILITIES AND NET ASSETS	$ 46,663,769	$ 45,814,234

See accompanying notes to the basic financial statements.

LAKETRAN
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
DECEMBER 31, 2003 AND 2002

	2003	2002
Operating Revenues		
Passenger Fares for Transit Service	$ 751,056	$ 711,835
Special Transit Fares	10,601	13,615
Auxiliary Transportation Revenue	55,235	62,033
Total Operating Revenues	816,892	787,483
Operating Expenses Other Than Depreciation		
Labor	4,443,650	4,307,897
Fringe Benefits	2,449,787	1,983,644
Voluntary Retirement Incentive Plan (See Note 9)	0	355,565
Services	654,579	630,108
Fuel and Lubricants	531,737	465,342
Materials and Supplies	556,373	479,660
Utilities	152,147	153,070
Claims and Insurance	372,329	324,826
Purchased Transportation	253,288	266,025
Miscellaneous	540,813	509,953
Total Operating Expenses Other Than Depreciation	9,954,703	9,476,090
Depreciation	3,295,466	3,035,648
Total Operating Expenses	13,250,169	12,511,738
Operating Loss	(12,433,277)	(11,724,255)
Non-Operating Revenues and Expenses		
Sales Tax Revenue	7,440,528	7,202,698
Federal Grants and Reimbursements	884,993	675,379
State Grants, Reimbursements, and Special Fare Assistance	740,021	787,998
Interest Income	323,731	455,738
Net Increase in Fair Value of Investments	(86,703)	26,426
Gain/(Loss) on Disposal of Fixed Assets	0	(71,289)
Non-Transportation Revenues	6,322	53,846
Total Non-Operating Revenues and Expenses	9,308,892	9,130,796
Loss before Capital Contributions	(3,124,385)	(2,593,459)
Capital Funding		
Federal Grants and Reimbursements	4,621,004	1,558,396
State Grants and Reimbursements	350,678	70,291
Total Capital Funding	4,971,682	1,628,687
Increase (Decrease) in Net Assets	1,847,297	(964,772)
Total Net Assets, Beginning of Year	42,405,033	43,369,805
Total Net Assets, End of Year	$ 44,252,330	$ 42,405,033

See accompanying notes to the basic financial statements.

LAKETRAN
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

	2003	2002
Cash Flows from Operating Activities		
Cash Received from Customers	$ 776,853	$ 798,698
Cash Payments for Goods and Services	(2,910,284)	(2,930,777)
Cash Payments for Employees' Services	(7,262,844)	(6,268,436)
Net Cash Used for Operating Activities	(9,396,275)	(8,400,515)
Cash Flows from Noncapital Financing Activities		
Sales Tax Received	7,374,211	7,238,374
Operating Grants Received	1,625,706	1,684,906
Non-Transportation Revenue	6,322	15,869
Net Cash Provided by Noncapital Financing Activities	9,006,239	8,939,149
Cash Flows from Capital and Related Financing Activities		
Capital Grants Received	4,971,682	2,076,733
Acquisition and Construction of Capital Assets	(6,026,854)	(2,001,393)
Net Proceeds from Sale of Assets	0	40,344
Net Cash Provided (Used) by Capital and Related Financing Activities	(1,055,172)	115,684
Cash Flows from Investing Activities		
Interest Received	333,475	508,454
Purchase of Investment Securities	(11,158,034)	(15,515,925)
Proceeds from Maturities of Investments	12,145,844	13,531,870
Net Cash Provided (Used) by Investment Activities	1,321,285	(1,475,601)
Net Increase (Decrease) in Cash and Cash Equivalents	(123,923)	(821,283)
Cash and Cash Equivalents at Beginning of Year	5,500,878	6,322,161
Cash and Cash Equivalents at End of Year	$ 5,376,955	$ 5,500,878
Reconciliation of Operating Loss to Net Cash Used by Operating Activities		
Operating Loss	$ (12,433,277)	$ (11,724,255)
Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities:		
Depreciation	3,295,466	3,035,648
Change in Assets and Liabilities:		
(Increase) Decrease in:		
Trade Accounts Receivable	(40,039)	11,215
Materials and Supplies	(41,871)	(113,940)
Fuel Tax Refund	20,326	(20,326)
Prepaid Expenses	11,919	11,639
Increase (Decrease) in:		
Accounts Payable	160,638	20,834
Accrued Payroll and Benefits	(90,043)	32,561
Accrued Pension	(279,394)	346,109
Total Adjustments	3,037,002	3,323,740
Net Cash Used for Operating Activities	$ (9,396,275)	$ (8,400,515)

See accompanying notes to the basic financial statements.

Schedule of Noncash Investing Capital and Financing Activities - The net change in the fair value of investments was $(113,129) and $20,898 as of December 31, 2003 and 2002, respectively.

NOTE 1: **ORGANIZATION**

Laketran was formed as the public agency responsible for public transportation in Lake County. Laketran is a political subdivision of the State of Ohio and was organized as a regional transit authority in accordance with the provisions of the Ohio Revised Code Sections 306.30 through 306.71, inclusive. Therefore, Laketran is not subject to federal, state, or local income taxes.

NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

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

Financial Reporting Entity
For financial reporting purposes, all departments and operations for which Laketran is financially accountable are included in the reporting entity. Financial accountability was evaluated based on consideration of financial interdependency, appointment of voting majority, and imposition of will. No governmental units other than Laketran itself are included in the reporting entity. There are no component units based on the consideration above.

Under the guidelines of GASB Statement No. 14, Laketran is a jointly governed organization. All nine members of its Board are appointed by the Lake County Board of Commissioners. The Lake County Board of Commissioners did not provide any support or have any significant financial transactions with Laketran during 2003 or 2002.

Basis of Presentation
Laketran's basic financial statements consist of a statement of net assets, a statement of revenue, expenses and changes in net assets, and a statement of cash flows.

NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Basis of Presentation (Continued)
Laketran uses a single enterprise fund to maintain its financial records on an accrual basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts.

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

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of Laketran's enterprise fund are charges to customers for passenger fare for transit services. Operating expenses for enterprise funds include the cost of transit services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Changes in Accounting Principles
Effective January 1, 2002, Laketran adopted the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* as amended by GASB Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus*, and GASB Statement No. 38, *Certain Financial Statement Disclosures*. GASB Statement No. 34 establishes financial reporting standards for all state and local governments and related entities. GASB Statement No. 34 primarily relates to presentation and disclosure requirements. The impact of this accounting change was related to the format of the financial statements, presentation of net assets, the inclusion of management's discussion and analysis, additional disclosures for capital assets, and the preparation of the statements of cash flows on the direct method.

NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

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

Use of Estimates
The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash, Cash Equivalents, and Investments
For the purposes of the statement of cash flows, Laketran considers all highly liquid investments with an initial maturity date of three months or less to be cash equivalents.

The carrying amount of cash equivalents and investments is fair value. The net change in fair value of investments is recorded on the Statements of Revenues, Expenses, and Changes in Net Assets, and includes the unrealized and realized gains and losses on investments.

Inventory
Inventory of replacement vehicle parts are stated at the lower of cost or market using the average cost method.

Capital Assets and Depreciation
Property, facilities, and equipment are stated at cost. Donated property is capitalized at estimated fair value at the date donated.

Depreciation on all assets is computed on the straight line method based on the following estimated useful lives:

NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Capital Assets and Depreciation (Continued)

Description	Years
Buildings	30
Building Improvements	10
Equipment	5-10
Furniture and Fixtures	5-10
Parking Lots and Bus Shelters	10
Communication System	15
Vehicles	4-12

Cost of property retired and the related depreciation are removed from the asset account and accumulated depreciation account, respectively.

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

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

Net Assets
Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. For 2003 and 2002, there was no debt related to capital assets. Net assets are reported as restricted when there are limitations imposed on their use either through constitutional provisions or enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. At December 31, 2003 and 2002, there were no restricted net assets.

NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Recognition of Revenue, Receivables, and Deferred Revenues
Passenger fares are recorded as revenue at the time services are performed.

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

Investment Policy
State statutes and Board resolutions authorize Laketran's investments. Laketran is authorized to invest in U.S. Treasury securities and obligations of Federal government agencies or instrumentalities, collateralized repurchase agreements, certificates of deposit, and the State Treasurer's Asset Reserve (STAR Ohio) investment pool.

Reclassifications
Certain amounts included in the 2003 financial statements have been reclassified to conform to the 2002 presentation.

NOTE 3: **DEPOSITS AND INVESTMENTS**

Deposits
Multiple financial institution collateral pools that insure public deposits must maintain collateral amounts in excess of 110 percent of deposits. The collateral pledged in connection with Laketran's deposits is held in the name of the financial institution holding Laketran's deposits.

At December 31, 2003 and 2002, the carrying amount of Laketran's cash deposits were $5,374,789 and $5,498,721, respectively, and the bank balances were $5,569,948 and $5,600,511, respectively. Deposits totaling $109,392 and $225,096 were covered by Federal depository insurance at December 31, 2003 and 2002, respectively. The remaining deposits of $5,460,556 and $5,375,415, respectively, were covered by collateral pools held in the name of the financial institutions.

Cash and cash equivalents also included petty cash and undeposited cash of $1,256 and $1,255 at December 31, 2003 and December 31, 2002, respectively.

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

Investment Pool

At December 31, 2003 and 2002, Laketran had $910 and $900, respectively, invested in the State Treasurer's Asset Reserve (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 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 (a constant price of $1.00 per share), which is the price the investment could be sold for on December 31, 2003 and 2002, respectively. These investments are not categorized because they are not evidenced by securities that exist in physical or book entry form.

Investments

During 1998, Laketran adopted GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and Eternal Investment Pools*, which provides for accounting for investments with maturities greater than one year at fair value. As of December 31, 2003 and December 31, 2002, Laketran's investments were:

	Cost	Fair Value	Unrealized Appreciation (Depreciation)
December 31, 2003			
U.S. Government and Agency Securities	$ 10,232,272	$ 10,145,569	$ (86,703)
December 31, 2002			
U.S. Government and Agency Securities	$ 11,150,157	$ 11,220,082	$ 69,925

Laketran's investments are detailed below and are categorized to give an indication of the level of credit risk assumed at year end. Category 1 includes investments that are insured or registered or for which the securities are held by Laketran or its agent in Laketran's name. Category 2 includes investments that are uninsured and unregistered for which the securities are held by the counterparty's trust department or agent in Laketran's name. Category 3 includes uninsured or unregistered investments for which securities are held by the counterparty or by its trust department or agent but not in Laketran's name. Balances with STAROhio are unclassified investments since they are not evidenced by securities that exist in physical or book entry form.

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

	Risk Category			Fair Value/
Description	1	2	3	Carrying Value
December 31, 2003				
U.S. Government and Agency Securities			$10,145,569	$10,145,569
Investment in State Treasurer's Investment Pool (STAROhio)			0	910
Total			$10,145,569	$10,146,479
December 31, 2002				
U.S. Government and Agency Securities			$11,220,082	$11,220,082
Investment in State Treasurer's Investment Pool (STAROhio)			0	900
Total			$ 11,220,082	$11,220,982

NOTE 4: **RESTRICTED ASSETS**

Restricted asset deposits consist of the following:

Escrow Retainage
Laketran maintains funds in escrow for retainages payable on construction contracts. The balances in escrow at December 31, 2003 and 2002 were $9,392 and $44,390, respectively.

NOTE 5: **GRANT ASSISTANCE**

Federal Grant
Preventive maintenance operating expenses became eligible for federal capital assistance under the Department of Transportation's 1998 appropriations act. Revenues are recognized in the year earned, which is the year in which eligible expenses are incurred. For the years ended December 31, 2003 and 2002, Laketran recognized $884,993 and $675,379, respectively. In addition, Laketran recognized capital grant reimbursements as revenue in 2003 and 2002 of $4,621,004 and $1,558,396, respectively.

NOTE 5: **GRANT ASSISTANCE** (Continued)

State Grant
The Ohio Department of Transportation typically enacts very similar regulations to those of the U.S. Department of Transportation. Preventive maintenance operating expenses are eligible for state capital assistance with certain restrictions which depend upon availability of federal funds. For the years ended December 31, 2003 and 2002, Laketran recognized revenue of $381,776 and $485,160, respectively. In addition, Laketran recognized capital grant reimbursements as revenue in 2003 and 2002 of $350,678 and $70,291, respectively.

State of Ohio Elderly and Disabled Transit Fare Assistance
The State of Ohio provides a grant each year to help defray the high costs of transporting Lake County residents who are elderly or have disabilities. For the years ended December 31, 2003 and 2002, Laketran received $358,244 and $302,838, respectively.

NOTE 6: **OTHER REVENUE**

In May, 1994, the Lake County electorate voted to continue a levy of one-quarter of one percent sales tax, which shall be in effect for ten years, to provide local funding for all transit purposes for the years 1994 through 2004.

For the years ended December 31, 2003 and 2002, sales tax revenues totaled $7,440,528 and $7,202,698, respectively. Laketran records sales tax revenues and receivables as the sales taxes are earned, which is the year in which the related exchange transaction is incurred.

NOTE 7: **PENSION PLAN**

Ohio Public Employees Retirement System
Laketran participates in the Ohio Public Employees Retirement System (OPERS). 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 percent 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 that has elements of both a defined benefit and a defined contribution plan. Under the combined 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.

NOTE 7: **PENSION PLAN** (Continued)

Ohio Public Employees Retirement System (Continued)
OPERS provides retirement, disability, survivor and death benefits, and annual cost of living adjustments to members of both the Traditional and Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 E. Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-6705.

For the year ended December 31, 2003, the members of all three plans were required to contribute 8.5 percent of their annual covered salaries. Laketran's contribution rate for pension benefits for 2003 was 8.55 percent. The Ohio Revised Code provides statutory authority for member and employer contributions.

Laketran's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2003, 2002, and 2001 were $683,693, $640,406, and $631,178 respectively; 87.53 percent has been contributed for 2003 and 100 percent for 2002 and 2001. Contributions to the member-directed plan for 2003 were $3,911 made by Laketran and $2,453 made by the plan members.

NOTE 8: **POST-EMPLOYMENT BENEFITS**

Ohio Public Employees Retirement System
The Ohio Public Employees Retirement System (OPERS) provides post-retirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability recipients and primary survivor recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit as described in GASB Statement No. 12. A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2003 local government employer contribution rate was 13.55 percent of covered payroll; 5.00 percent of covered payroll was the portion that was used to fund health care.

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS' latest actuarial review performed as of December 31, 2002, include a rate of return on investments of 8 percent, an annual increase in active employee total payroll of 4 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50 percent and 6.30 percent based on additional annual pay increases. Health care premiums were assumed to increase 4 percent annually.

NOTE 8: **POST-EMPLOYMENT BENEFITS** (Continued)

Ohio Public Employees Retirement System (Continued)
All investments are carried at market. For actuarial valuation purposes, a smoothed market approach is used. Assets are adjusted to reflect 25 percent of unrealized market appreciation or depreciation on investment assets annually.

The number of active contributing participants in the traditional and combined plans was 364,881. Actual employer contributions for 2003 which were used to fund postemployment benefits were $252,283. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2002, (the latest information available) were $10.0 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were $18.7 billion and $8.7 billion, respectively.

In December 2001, the Board adopted the Health Care "Choices" Plan. The Choices Plan will be offered to all persons newly hired in an OPERS covered position after January 1, 2003, with no prior service credit accumulated toward health care coverage. Choices will incorporate a cafeteria approach, offering a broader range of health care options. The Plan uses a graded scale from ten to thirty years to calculate a monthly health care plan. This is in contrast to the ten-year "cliff" eligibility standard for the present Plan.

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

NOTE 8: **COMPENSATED ABSENCES**

Employees of Laketran earn vacation and sick leave at various rates under Laketran policy. In case of death, termination, or retirement, an employee or their estate is paid for portions of these benefits. Laketran records a liability for vacation, holiday, and sick hours earned but not used at year-end at the employees' current wage rate. Laketran's obligations for these amounts at December 31, 2003 and 2002 amounted to approximately $439,518 and $426,591, respectively.

NOTE 9: **VOLUNTARY RETIREMENT INCENTIVE PLAN**

On March 25, 2002, Laketran's Board of Trustees adopted a resolution establishing a voluntary retirement incentive plan for eligible employees of Laketran, per Ohio Revised Code Section 145.297. The plan was approved by the Ohio Public Employees Retirement System (OPERS). Under the plan, Laketran will purchase up to two years of additional service credit for eligible employees. The plan was offered to the top 10 percent of Laketran's OPERS-covered employees based on total service credit with OPERS on July 1, 2002. The effective date of the plan is July 1, 2002 and terminates on June 30, 2004.

The total expense recognized in 2003 was $146,340 and is included in operating activities. The amount recognized was based on estimates of costs of the retirement incentive plan to Laketran for eligible employees provided by OPERS and adjusted to reflect the amount that is probable to become a liability to Laketran for the plan.

NOTE 10: **RISK MANAGEMENT**

Laketran is a member of the Ohio Transit Risk Pool Association, Inc. (OTRP). OTRP is a joint self-insurance pool pursuant to Section 2744.081 of the Ohio Revised Code, currently operating as a common risk management and insurance program for 10 member transit agencies. Laketran pays an annual premium to OTRP for its general insurance coverage and pays quarterly into a loss and administration fund pursuant to its bylaws. The Agreement of Formation provides that OTRP will be self-sustaining through member premiums and will reinsure through commercial companies for property damage and claims in excess of $100,000 and casualty losses in excess of $250,000 for each insured occurrence. Laketran has a $1,000 deductible for any claim or occurrence. The pool-shared losses are $99,000 maximum combined per occurrence for property losses and $249,000 maximum combined per occurrence for casualty losses. Laketran's share of the potential losses is 7.89 percent at December 31, 2003.

Beginning January 1, 2002, the deductible for auto physical damage claims increased from $1,000 to $25,000 per occurrence. As of March 1, 2003, the deductible was reduced to $10,000 per occurrence. Commercial property claims and liability claims remained at $1,000 per occurrence.

Pool paid losses exceeded contributions for the OTRP in fiscal year 1999. An assessment on pool members was made in the amount of $256,717. Laketran's share of this assessment was 7.89 percent or $20,255. This assessment was made during 2001. To date, no such assessment has been made for OTRP for fiscal years 2003 or 2002.

NOTE 10: **RISK MANAGEMENT** (Continued)

Adequate commercial insurance was carried in each of the years 2001, 2002, and 2003 to cover losses in excess of pool coverage limits.

Laketran participates in the State of Ohio Workers' Compensation plan, paying premiums directly to the State.

Laketran provides medical and life insurance to its employees by participating in the group plan offered by the Lake County Commissioners to all County employees. Settled claims resulting from these risks have not exceeded commercial insurance coverage in either of the past two years.

NOTE 11: **CAPITAL ASSETS**

Capital assets consist of the following at December 31, 2003 and 2002:

2003	Beginning Balance	Increases	Decreases	Beginning Balance
Capital Assets Not Being Depreciated:				
Land	$ 2,442,643	$ 0	$ 0	$ 2,442,643
Construction in Progress	977,387	0	(774,917)	202,470
Total Capital Assets Not Being Depreciated	3,420,030	0	(774,917)	2,645,113
Capital Assets, Being Depreciated:				
Buildings	11,378,675	0	0	11,378,675
Transportation Vehicles and Equipment	23,116,348	6,845,896	(579,273)	29,382,971
Furniture, Vehicles, and Equipment	526,443	19,032	(23,150)	522,325
Total Capital Assets Being Depreciated	35,021,466	6,864,928	(602,423)	41,283,971
Less: Accumulated Depreciation	13,357,834	3,295,466	(504,268)	16,149,032
Total Capital Assets, Being Depreciated, Net	21,663,632	3,569,462	(98,155)	25,134,939
Total Capital Assets, Net	$ 25,083,662	$ 3,569,462	$ (873,072)	$ 27,780,052
2002				
Capital Assets Not Being Depreciated:				
Land	$ 2,442,643	$ 0	$ 0	$ 2,442,643
Construction in Progress	2,668,830	1,065,704	(2,757,147)	977,387
Total Capital Assets Not Being Depreciated	5,111,473	1,065,704	(2,757,147)	3,420,030
Capital Assets, Being Depreciated:				
Buildings	11,378,152	523	0	11,378,675
Transportation Vehicles and Equipment	20,244,152	3,634,011	(761,815)	23,116,348
Furniture, Vehicles, and Equipment	573,946	16,357	(63,860)	526,443
Total Capital Assets Being Depreciated	32,196,250	3,650,891	(825,675)	35,021,466
Less: Accumulated Depreciation	11,036,205	3,035,648	(714,019)	13,357,834
Total Capital Assets, Being Depreciated, Net	21,160,045	615,243	(111,656)	21,663,632
Total Capital Assets, Net	$ 26,271,518	$ 1,680,947	$ (2,868,803)	$ 25,083,662

NOTE 12: **CONTINGENCIES**

A. **Litigation**

Laketran is party to legal proceedings. Laketran is of the opinion that ultimate disposition of claims will not have a material effect, if any, on the financial condition of Laketran.

B. **Grants**

Laketran received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of Laketran at December 31, 2003 or 2002.

LAKETRAN
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2003

FEDERAL GRANTOR/ PASS-THROUGH GRANT/ PROGRAM TITLE	Federal CFDA Number	Grant Number	Capital Grants	Capital Maintenance	Grand Total
U.S. Department of Transportation					
Federal Transit Cluster					
Federal Transit Administration Capital Improvements Grants	20.500	OH-90-0428	$ 2,642,874	$ 0	$ 2,642,874
Federal Transit Administration Capital and Operating Assistance Formula Grants	20.507	OH-03-0223	82,920	0	82,920
		OH-03-0329	5,828	0	5,828
		OH-03-0371	27,270	0	27,270
		OH-03-0398	1,070,112	0	1,070,112
		OH-90-0427	792,000	884,993	1,676,993
Subtotal			1,978,130	884,993	2,863,123
Grand Total			$ 4,621,004	$ 884,993	$ 5,505,997

NOTE 1: **BASIS OF ACCOUNTING**

The accompanying Schedule of Expenditures of Federal Awards is presented as follows:

- As described in Note 2 of the financial statements, Laketran's accounts are maintained on the full accrual basis of accounting where revenues are recorded as earned and expenses are recognized when they are incurred.

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

Board of Trustees
Laketran
Grand River, Ohio

We have audited the financial statements of Laketran as of and for the year ended December 31, 2003 and have issued our report thereon dated April 23, 2004. 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 Laketran's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

However, we noted certain matters involving the internal control over financial reporting that we have reported to the management of Laketran in a separate letter dated April 23, 2004.

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

James G. Zupka
Certified Public Accountant

April 23, 2004

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

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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
Laketran
Grand River, Ohio

Compliance

We have audited the compliance of Laketran with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended December 31, 2003. Laketran's major federal program is identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of Laketran's management. Our responsibility is to express an opinion on Laketran's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Laketran'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 Laketran's compliance with those requirements.

In our opinion, Laketran complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2003. The results of our auditing procedures disclosed no instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133.

Internal Control Over Compliance

The management of Laketran 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 Laketran's internal control over compliance with requirements that could have a direct and material effect on its major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

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

However, we noted certain matters involving the internal control structure and its operation that we have reported to the management of Laketran in a separate letter dated April 23, 2004.

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

James G. Zupka
Certified Public Accountant

April 23, 2004

LAKETRAN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 & .505
FOR THE YEAR ENDED DECEMBER 31, 2003

1. **Summary of Auditor's Results**

2003(I)	Type of Financial Statement Opinion	Unqualified
2003(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
2003(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
2003(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
2003(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
2003(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
2003(v)	Type of Major Programs' Compliance Opinion	Unqualified
2003(vi)	Are there any reportable findings under .510?	No
2003(vii)	Major Programs (list): Federal Transit Cluster: 20.500 - Federal Transit Administration Capital Improvements Grants 20.507 - Federal Transit Administration Capital and Operating Assistance Formula Grants	
2003(viii)	Dollar Threshold: Type A\B Programs Type B: > All Others	Type A: > $300,000
2003 (ix)	Low Risk Auditee?	Yes

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

   None.

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

   None.

LAKETRAN
SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2003

No significant findings or questioned costs were included in the prior year's audit report.

Auditor of State
Betty Montgomery

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LAKETRAN

LAKE 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
AUGUST 5, 2004