

**Audited Financial Statements
PORTAGE AREA REGIONAL
TRANSPORTATION AUTHORITY**

For the years ended December 31, 2001 and 2000

**SINGLE AUDIT REPORT
For the year ended December 31, 2001**



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

88 East Broad Street
Columbus, Ohio 43215

Telephone 614-466-4514
800-282-0370

Facsimile 614-728-7398
www.auditor.state.oh.us

Board of Trustees
Portage Area Regional Transportation Authority
2000 Summit Road
Kent, Ohio 4420

We have reviewed the Independent Auditor's Report of the Portage Area Regional Transportation Authority, Portage County, prepared by Dingus and Daga, Inc., for the audit period January 1, 2001 through December 31, 2001. 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 Portage Area Regional Transportation Authority is responsible for compliance with these laws and regulations.

A handwritten signature in black ink, appearing to read "Jim Petro".

JIM PETRO
Auditor of State

July 23, 2002

This Page is Intentionally Left Blank.

PORTAGE AREA REGIONAL TRANSPORTATION AUTHORITY

TABLE OF CONTENTS

| | <u>Page</u> |
|--|-------------|
| INDEPENDENT AUDITOR'S REPORT. | 1 |
| <u>FINANCIAL STATEMENTS AS OF DECEMBER 31, 2001 AND 2000 AND FOR THE YEAR THEN ENDED:</u> | |
| Balance Sheet. | 3 |
| Statement of Revenues and Expenses. | 4 |
| Statement of Changes in Capital and Retained Earnings. | 5 |
| Statement of Cash Flows. | 6 |
| Notes to Financial Statements. | 8 |
| <u>SUPPLEMENTAL REPORTS AND SCHEDULES:</u> | |
| SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS. | 16 |
| NOTES TO THE SUPPLEMENTAL SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS. | 17 |
| REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS. | 18 |
| REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133. ... | 20 |
| SCHEDULE OF FINDINGS AND QUESTIONED COSTS. | 22 |
| SCHEDULE OF PRIOR AUDIT FINDINGS. | 25 |
| CORRECTIVE ACTION PLAN. | 26 |



Dingus and Daga, Inc.

Certified Public Accountants
Tower East • 20600 Chagrin Boulevard • Suite 701
Shaker Heights, Ohio 44122-5398 • 216/561-9200

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Portage Area Regional Transportation Authority
Kent, Ohio

We have audited the balance sheet of Portage Area Regional Transportation Authority (the Authority) as of December 31, 2001, and the related statements of revenue and expenses, changes in capital and retained earnings, and cash flows for the year then ended. These basic financial statements are the responsibility of the Authority's management. 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 basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic 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 Portage Area Regional Transportation Authority as of December 31, 2001, and the results of its operations and changes in capital and retained earnings and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2, the Authority adopted the provisions of Governmental Accounting Standards Board Statement No.33, Accounting and Financial Reporting for Nonexchange Transactions.

In accordance with Government Auditing Standards, we have also issued our report dated May 29, 2002 on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of our audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the basic financial statements, taken as a whole. The accompanying schedule of expenditures of federal awards 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 of the Authority. Such information has been subjected to the auditing procedures applied in the audit of 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.

Dingers and Daga, Inc.

Shaker Heights, Ohio
May 29, 2002

PORTAGE AREA REGIONAL TRANSPORTATION AUTHORITY

BALANCE SHEET
DECEMBER 31, 2001 AND 2000

| | <u>2001</u> | <u>2000</u> |
|---------------------------------------|---------------------|---------------------|
| <u>ASSETS</u> | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | \$ 86,625 | \$ 78,318 |
| Receivables: | | |
| Federal grants | 32,822 | 38,017 |
| State grants | 15,540 | 27,821 |
| Local operating assistance | 53,518 | 48,391 |
| TOTAL CURRENT ASSETS | <u>188,505</u> | <u>192,547</u> |
| RESTRICTED ASSETS: | | |
| Cash and cash equivalents | 138,113 | 141,952 |
| Investments | 532,880 | 502,685 |
| | <u>670,993</u> | <u>644,637</u> |
| PROPERTY, FACILITIES AND EQUIPMENT: | | |
| Land | 160,000 | 160,000 |
| Buildings and improvements | 1,335,201 | 1,330,597 |
| Transportation vehicles and equipment | 1,414,458 | 1,282,920 |
| Computers and software | 188,137 | 174,523 |
| Other | 319,198 | 158,479 |
| Total | <u>3,416,994</u> | <u>3,106,519</u> |
| Less: Accumulated depreciation | 1,076,197 | 910,891 |
| | <u>2,340,797</u> | <u>2,195,628</u> |
| TOTAL ASSETS | <u>\$ 3,200,295</u> | <u>\$ 3,032,812</u> |
| <u>LIABILITIES AND EQUITY</u> | | |
| CURRENT LIABILITIES: | | |
| Accounts payable | \$ 43,287 | \$ 94,512 |
| Accrued expenses | 32,653 | 35,258 |
| TOTAL LIABILITIES | <u>75,940</u> | <u>129,770</u> |
| EQUITY: | | |
| Contributed capital | 2,263,392 | 2,654,923 |
| Retained earnings | 860,963 | 248,119 |
| TOTAL EQUITY | <u>3,124,355</u> | <u>2,903,042</u> |
| TOTAL LIABILITIES AND EQUITY | <u>\$ 3,200,295</u> | <u>\$ 3,032,812</u> |

See notes to financial statements.

PORTAGE AREA REGIONAL TRANSPORTATION AUTHORITY

STATEMENT OF REVENUES AND EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000

| | <u>2001</u> | <u>2000</u> |
|--|-------------------|---------------------|
| OPERATING REVENUES: | | |
| Passenger fares for transit service | \$ 81,936 | \$ 93,031 |
| Total | <u>81,936</u> | <u>93,031</u> |
| OPERATING EXPENSES OTHER THAN DEPRECIATION: | | |
| Labor and fringe benefits | 940,570 | 756,616 |
| Services | 259,137 | 203,654 |
| Fuel, materials and supplies | 154,358 | 162,758 |
| Utilities | 28,141 | 19,181 |
| Claims and insurance | 47,369 | 37,376 |
| Miscellaneous | 28,711 | 14,753 |
| Total | <u>1,458,286</u> | <u>1,194,338</u> |
| DEPRECIATION: | | |
| On assets acquired with government grants | 374,252 | 283,882 |
| On assets acquired with Authority equity | 23,307 | 33,076 |
| Total | <u>397,559</u> | <u>316,958</u> |
| TOTAL OPERATING EXPENSES | <u>1,855,845</u> | <u>1,511,296</u> |
| NET OPERATING LOSS | (1,773,909) | (1,418,265) |
| NON-OPERATING REVENUES: | | |
| Federal grants and reimbursements | 422,836 | 428,719 |
| State grants, reimbursements and special fare assistance | 146,342 | 127,704 |
| Local grants and reimbursements | 675,847 | 401,235 |
| Interest income | 35,847 | 48,474 |
| Other | 181,987 | 141,955 |
| Total | <u>1,462,859</u> | <u>1,148,087</u> |
| NET LOSS BEFORE CAPITAL CONTRIBUTIONS | (311,050) | (270,178) |
| Capital contributions | <u>549,642</u> | <u> </u> |
| NET PROFIT (LOSS) | <u>\$ 238,592</u> | <u>\$ (270,178)</u> |

See notes to financial statements.

PORTAGE AREA REGIONAL TRANSPORTATION AUTHORITY

STATEMENTS OF CHANGES IN CAPITAL AND RETAINED EARNINGS
FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000

| | CONTRIBUTED CAPITAL FEDERAL AND STATE GRANTS | RETAINED EARNINGS | TOTAL |
|--|---|----------------------|---------------------|
| BALANCES, DECEMBER 31, 1999 | \$ 2,442,352 | \$ 201,339 | \$ 2,643,691 |
| CAPITAL FUNDING RECEIVED | 534,168 | | 534,168 |
| DISPOSAL OF ASSETS ACQUIRED WITH GOVERNMENT GRANTS | (4,639) | | (4,639) |
| NET LOSS | | (270,178) | (270,178) |
| AMORTIZATION OF CAPITAL GRANTS - Transfer to retained earnings of an amount equal to the depreciation for the year on assets acquired with government grants | <u>(316,958)</u> | <u>316,958</u> | |
| BALANCES, DECEMBER 31, 2000 | \$ 2,654,923 | \$ 248,119 | \$ 2,903,042 |
| DISPOSAL OF ASSETS ACQUIRED WITH GOVERNMENT GRANTS | (17,279) | | (17,279) |
| NET LOSS | | 238,592 | 238,592 |
| AMORTIZATION OF CAPITAL GRANTS - Transfer to retained earnings of an amount equal to the depreciation for the year on assets acquired with government grants | <u>(374,252)</u> | <u>374,252</u> | |
| BALANCES, DECEMBER 31, 2001 | <u>\$ 2,263,392</u> | <u>\$ 860,963</u> | <u>\$ 3,124,355</u> |

See notes to financial statements.

PORTAGE AREA REGIONAL TRANSPORTATION AUTHORITY

STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000

| | <u>2001</u> | <u>2000</u> |
|--|--------------------|--------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Cash received from customers | \$ 81,936 | \$ 93,031 |
| Cash payments to suppliers for goods and services | (747,872) | (558,019) |
| Cash payments to employees for services | (764,244) | (625,728) |
| NET CASH USED FOR OPERATING ACTIVITIES | <u>(1,430,180)</u> | <u>(1,090,716)</u> |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES: | | |
| Operating grants received | 1,264,565 | 905,797 |
| Other | 138,628 | 109,959 |
| NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES | <u>1,403,193</u> | <u>1,015,756</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES: | | |
| Capital grants received | 542,451 | 537,702 |
| Acquisition and construction of capital assets | (560,006) | (535,722) |
| Proceeds from sale of assets | 13,163 | 11,430 |
| NET CASH PROVIDED/(USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES | <u>(4,392)</u> | <u>13,410</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Interest received | 35,847 | 48,474 |
| NET CASH PROVIDED BY INVESTING ACTIVITIES | <u>35,847</u> | <u>48,474</u> |
| NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS | 4,468 | (13,076) |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | 220,270 | 233,346 |
| CASH AND CASH EQUIVALENTS, END OF YEAR | <u>\$ 224,738</u> | <u>\$ 220,270</u> |

See notes to financial statements.

PORTAGE AREA REGIONAL TRANSPORTATION AUTHORITY

STATEMENT OF CASH FLOWS (CONTINUED)
 FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000

RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED FOR
 OPERATING ACTIVITIES:

| | 2001 | 2000 |
|---|------------------------------|------------------------------|
| Net Operating loss | <u>\$ (1,773,909)</u> | <u>\$ (1,418,265)</u> |
| Adjustments to reconcile operating loss to net cash used for operating activities: | | |
| Depreciation | 397,559 | 316,958 |
| Change in assets and liabilities: | | |
| Increase (Decrease) in: | | |
| Accounts payable | (51,225) | 6,474 |
| Accrued expenses | (2,605) | 4,117 |
| Total adjustments | <u>343,729</u> | <u>327,549</u> |
| Net cash used for operating activities | <u><u>\$ (1,430,180)</u></u> | <u><u>\$ (1,090,716)</u></u> |

See notes to financial statements.

PORTAGE AREA REGIONAL TRANSPORTATION AUTHORITY

NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2001 and 2000

1. ORGANIZATION:

Portage Area Regional Transportation Authority (the Authority) was formed as the public agency responsible for public transportation in Portage County. The Authority 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, the Authority is not subject to federal, state or local income taxes.

Through May 1993, Portage Area Regional Transportation Authority acted as a pass-through agency to the Kent State University Campus Bus Service which operated virtually all mass transportation service for the Kent/Ravenna area. In 1993, the Authority commenced directly providing fixed route and demand responsive service in the Kent/Ravenna area. The Federal Transportation Administration and the Ohio Department of Transportation provide financial assistance and makes grants directly to the Authority for operations and acquisition of property and equipment.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Basis of Accounting

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

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

Nonexchange Transactions - In fiscal year 2001, the Authority implemented the provisions of Governmental Accounting Standards Board Statement No. 33, Accounting and Financial Reporting for Nonexchange Transactions. This statement requires that capital contributions be recognized as revenue and not as contributed capital. Accordingly, during the year ended December 31, 2001 \$549,642 in capital contribution were recognized as revenue in the statement of revenue and expenses for the Authority.

PORTAGE AREA REGIONAL TRANSPORTATION AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

For the Years Ended December 31, 2001 and 2000

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd):

Financial Reporting Entity

For financial reporting purposes all departments and operations for which the Authority 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.

Property, Facilities and Equipment

Property, facilities and equipment are stated at cost. Donated property is capitalized at estimated fair value at the date of donation.

Depreciation

Depreciation on all assets is computed on the straight-line method based on the estimated useful lives of individual assets (5 to 25 years). Cost of property retired is removed from the asset and the accumulated depreciation account.

Operating Assistance Revenue

Federal and state operating assistance is recognized in the year earned. The amount of state operating assistance earned during the year is based upon the grant amount awarded during the state's fiscal year which ends after the Authority's calendar year-end. The federal operating assistance grant is awarded in the same year it is earned by the Authority.

Federal capital assistance for preventative maintenance expenses is recognized in the year earned, based on the grant amount expected to be awarded for the Authority's calendar year-end.

Cash and Cash Equivalents

Cash and cash equivalents include deposits in the State Asset Reserve of Ohio (STAROhio) investment pool. For purposes of the statement of cash flows, highly liquid investments with an initial maturity date of three months or less are considered to be cash equivalents.

PORTAGE AREA REGIONAL TRANSPORTATION AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

For the Years Ended December 31, 2001 and 2000

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd):

Investment Policy

State statutes and Authority by-laws authorize allowable investments. The Authority 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 Asset Reserve of Ohio (STAROhio) investment pool.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts 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.

3. DEFERRED COMPENSATION:

In 2000, the Authority adopted Governmental Accounting Standards Board (GASB) Statement No. 32, "Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans."

4. DEPOSITS AND INVESTMENTS:

Deposits

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

At December 31, 2001, the carrying amounts of the Authority's deposits and investments (cash and certificate of deposit) were \$757,618 and the bank balances were \$814,341. Deposits totaling \$300,000 were covered by federal depository insurance at December 31, 2001. The remaining deposits of \$514,341 were covered by collateral pools held in the name of the financial institutions. Certificates of deposit in the amount of \$532,880 are classified as investments on the balance sheet since they have an initial maturity date in excess of three months.

PORTAGE AREA REGIONAL TRANSPORTATION AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

For the Years Ended December 31, 2001 and 2000

4. DEPOSITS AND INVESTMENTS (Cont'd):

Investment Pool

At December 31, 2001, Portage Area Regional Transportation Authority had \$54,090 invested in the State Treasury Asset Reserve of Ohio (STAROhio). STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price, which is the price the investment could be sold for on December 31, 2001. These investments are not categorized because they are not evidenced by securities that exist in physical or book entry form.

Investments

At December 31, 2001, \$66,631 in repurchase agreements is considered uninsured and unregistered because they are held by the counterparty, its trust or its agent, but not in the Authority's name. The repurchase agreements are classified as cash equivalents on the balance sheet since they are highly liquid investments with an initial maturity date of three months or less.

5. GRANTS, REIMBURSEMENTS AND SPECIAL FARE ASSISTANCE:

Grants, reimbursements and special fare assistance included in the statement of revenues and expenses for the years ended December 31, 2001 and 2000, consist of the following:

| | | |
|---------------------------------------|-------------------|-------------------|
| FEDERAL TRANSIT ADMINISTRATION | <u>2001</u> | <u>2000</u> |
| Capital assistance | \$ 266,626 | \$ 274,841 |
| Planning grants | 55,061 | 50,993 |
| CMAQ grants | 28,206 | 40,606 |
| ADA grants | <u>72,943</u> | <u>62,279</u> |
| Total | <u>\$ 422,836</u> | <u>\$ 428,719</u> |
| OHIO DEPARTMENT OF TRANSPORTATION | | |
| Capital assistance | \$ 66,867 | \$ 73,898 |
| Elderly and disabled fare assistance | 28,939 | 26,308 |
| Planning grants | 6,871 | 11,928 |
| ADA grants | 11,917 | 15,570 |
| Fuel tax reimbursement | <u>31,748</u> | <u> </u> |
| Total | <u>\$ 146,342</u> | <u>\$ 127,704</u> |

PORTAGE AREA REGIONAL TRANSPORTATION AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

For the Years Ended December 31, 2001 and 2000

6. RESTRICTED ASSETS:

Restricted assets represent deposits which can only be used by the Authority to acquire and refurbish an administrative and operations facility.

| | |
|-----------------------------|-------------------|
| Balance - January 1, 2000 | \$ 644,637 |
| Less: Building improvements | (3,839) |
| Add: Interest income | <u>30,195</u> |
| Balance – December 31, 2001 | <u>\$ 670,993</u> |

7. PENSION PLAN:

The Public Employees Retirement System of Ohio (PERS) is a cost-sharing multiple-employer public employee defined benefit pension plan. PERS provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. The authority to establish and amend benefits is provided by State statute per Chapter 145 of the Ohio Revised Code. The Public Employees Retirement System issues a stand-alone financial report. Interested parties may obtain a copy by making a written request to 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 contributions. The Authority's employees are required to contribute 8.5% of their annual covered payroll. The Authority is required to contribute 13.55% of annual covered payroll. The payroll for employees covered by PERS for the years ended December 31, 2001 and 2000, were \$761,699 and \$624,914; respectively the Authority's total payroll for both years was the same as payroll for employees covered by PERS. The Authority was required to contribute \$103,001 in 2001, \$66,355 in 2000 and \$75,786 in 1999.

PORTAGE AREA REGIONAL TRANSPORTATION AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

For the Years Ended December 31, 2001 and 2000

8. OTHER POSTRETIREMENT BENEFITS:

In addition to the pension benefits described in Note 8, the Public Employees Retirement System of Ohio provides postretirement health care coverage to age and service retirees with 10 or more years of qualifying Ohio service credit and to primary survivor recipients of such restraints. Health care coverage for disability recipients is available. The health care coverage provided by the retirement system is considered an Other Post-employment Benefit (OPEB) as described in GASB Statement No.12. A portion of each employer's contribution to PERS is set aside for the funding of post-retirement health care. The Ohio Revised Code provides statutory authority for employee and employer contributions. Employees are required to contribute 8.5 percent of their covered payroll to PERS. The 2001 employer contribution rate for local government units was 13.55 percent of covered payroll including 4.3 percent used to fund post retirement health care benefits. The 2000 rate reflected a temporary 20 percent rate rollback. The Authority's total contributions to PERS for pension benefits (excluding the amount relating to postretirement benefits) for the years ended December 31, 2001, and 2000 were approximately \$103,000 and \$66,355, respectively, equal to 100 percent of the required contribution for each year.

The assumptions and calculations noted below were based on the Retirement System's latest actuarial review performed as of December 31, 2000. An entry-age normal actuarial cost method of valuation is used in determining the present value of OPEBs. The difference between assumed and actual experience (actuarial gains and losses) become part of unfunded actuarial accrued liability. For actuarial purposes, a smoothed market approach is used in determining the value of plan assets. Under this approach, assets are adjusted annually to reflect 25 percent of unrealized mark appreciation or depreciation on investment assets. The investment return assumption rate for 2000 was 7.75 percent. An annual increase of 4.75 percent compounded annually is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases over and above the 4.75 percent base increase, were assumed to range from .54 percent to 5.1 percent. Health care costs were assumed to increase 4.75 percent annually.

PORTAGE AREA REGIONAL TRANSPORTATION AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

For the Years Ended December 31, 2001 and 2000

8. OTHER POSTRETIREMENT BENEFITS (Cont'd):

OPEBs are advance-funded on an actuarially determined basis. The number of active contributing participants was 411,076. The Authority's contributions for other postemployment benefits to PERS for the years ended December 31, 2001 and 2000 were \$32,681 and \$21,054, respectively, equal to 100 percent of the required contributions for each year.

The actuarial value of the Retirement System's net assets available for OPEB at December 31, 2000 was \$11.7 million. The actuarially accrued liability and the unfunded liability, based on the actuarial costs method used, were \$14.4 million and \$2.6 million, respectively.

9. OTHER EMPLOYEE BENEFITS:

Compensated Absences

Employees of the Authority earn vacation and sick leave at various rates under the Authority policy. In case of death, termination or retirement, an employee (or his estate) is paid for portions of these benefits. The Authority records a liability for vacation, holiday and sick hours earned but not used at year-end at the employee's current wage rate. The Authority's obligation for these amounts at December 31, 2001 and 2000 were \$10,365 and \$10,125, respectively.

10. RISK MANAGEMENT:

The Authority is a member of 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 eight member transit agencies. The Authority pays an annual premium to OTIP for its general insurance coverage, and quarterly pays into a loss and administration fund pursuant to its bylaws. The Agreement of Formation provides that OTIP will be self-sustaining through member premiums, and will reinsure through commercial companies for property damage and claims in excess of \$100,000 and casualty losses in excess of \$250,000 for each insured occurrence.

PORTAGE AREA REGIONAL TRANSPORTATION AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

For the Years Ended December 31, 2001 and 2000

10. RISK MANAGEMENT (Cont'd):

The Authority 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. The Authority's share of the potential losses is 1.937% at December 31, 2001.

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 years.

11. SUBSEQUENT EVENTS:

The voters of Portage County passed a sales and use tax levy of one quarter of one percent (0.25%) for five years on November 6, 2001. Revenues from this sales and use tax levy will be available beginning in February 1, 2002.

12. NEW ACCOUNTING STANDARDS:

The GASB has issued Statement No., 34 Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments. This statement revises accounting and reporting standards for general purpose external financial reporting by governmental units. Statement No. 34 is effective for the year ending December 31, 2004. The Authority has not completed an analysis of the impact of this statement on its reported financial condition and results of operation.

PORTAGE AREA REGIONAL TRANSPORTATION AUTHORITY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2001

| <u>FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM TITLE</u> | <u>FEDERAL CFDA NUMBER</u> | <u>GRANT NUMBER</u> | <u>EXPENDITURES</u> |
|---|------------------------------------|-------------------------|---------------------|
| <u>U. S. DEPARTMENT OF TRANSPORTATION</u> | | | |
| TRANSIT CAPITAL GRANTS: | | | |
| <u>DIRECT PROGRAMS</u> | | | |
| Federal Transit Administration Capital and Operating Assistance Formula Grants | 20.507 | OH-90-X091 | \$ 4,265 |
| | | OH-90-X109 | 20,836 |
| | | OH-90-X205 | 28,206 |
| | | OH-90-X229 | 35,906 |
| | | OH-90-X264 | 3,951 |
| | | OH-90-X289 | 52,632 |
| | | OH-90-X313 | 31,759 |
| | | OH-90-X327 | 92,788 |
| | | OH-90-X355 | 173,155 |
| | | OH-90-X373 | 528,980 |
| TOTAL EXPENDITURES OF FEDERAL AWARDS | | | <u>\$ 972,478</u> |

See accompanying note to the supplemental schedule of expenditures of federal awards.

PORTAGE AREA REGIONAL TRANSPORTATION AUTHORITY
NOTES TO THE SUPPLEMENTAL SCHEDULE OF EXPENDITURES OF FEDERAL
AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2001

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Portage Area Regional Transportation Authority and is presented on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. 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 financial statements.



Dingus and Daga, Inc.

Certified Public Accountants
Tower East • 20600 Chagrin Boulevard • Suite 701
Shaker Heights, Ohio 44122-5398 • 216/561-9200

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
Portage Area Regional Transportation Authority
Kent, Ohio

We have audited the basic financial statements of Portage Area Regional Transportation Authority, (the Authority) as of and for the year ended December 31, 2001, and have issued our report thereon dated May 29, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. 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 basic 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.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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.

Dingus and Doga, Inc.

Shaker Heights, Ohio
May 29, 2002



Dingus and Daga, Inc.

Certified Public Accountants

Tower East • 20600 Chagrin Boulevard • Suite 701

Shaker Heights, Ohio 44122-5398 • 216/561-9200

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
Portage Area Regional Transportation Authority
Kent, Ohio

Compliance

We have audited the compliance of Portage Area Regional Transportation Authority (the Authority) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal program for the year ended December 31, 2001. The Authority's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the Authority's management. Our responsibility is to express an opinion on Portage Area Regional Transportation 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 with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Authority's compliance with those requirements.

As described in item 01-1 in the accompanying Schedule of Findings and Questioned Costs, Portage Area Regional Transportation Authority did not comply with requirement regarding period of availability of funds, that are applicable to its Federal Transit Administration Capital, Operating and Planning Assistance Formula Grants. Compliance with such requirements is necessary, in our opinion, for the Authority to comply with requirements applicable to that program.

In our opinion, except for the noncompliances described in the preceding paragraph, the Authority 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, 2001.

Internal Control Over Compliance

The management of Portage Area Regional Transportation 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 the internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the Authority's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 01-2 through 01-3.

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. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.

This report is intended solely for the information 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 be not be used by anyone other than these specified parties.

Dingus and Doga, Inc.

Shaker Heights, Ohio
May 29, 2002

PORTAGE AREA REGIONAL TRANSPORTATION AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended December 31, 2001

PART I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

| | |
|---|-------------|
| Type of auditor's report issued: | unqualified |
| Internal control over financial reporting: | |
| Material weakness(es) identified? | no |
| Reportable condition(s) identified not considered to be material weaknesses? | no |
| Noncompliance material to financial statements noted? | no |

Federal Awards

| | |
|---|-----------|
| Internal control over major programs: | |
| Material weakness(es) identified? | no |
| Reportable condition(s) identified not considered to be material weaknesses? | yes |
| Type of auditor's report issued on compliance for major programs: | qualified |
| Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510 (a) | yes |

Identification of major programs:

| <u>CFDA Number(s)</u> | <u>Name of Federal Program or Cluster</u> |
|-----------------------|---|
| 20.507 | Federal Transit Administration Capital and Operating Assistance Formula Grants |

PORTAGE AREA REGIONAL TRANSPORTATION AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Cont'd)

Year Ended December 31, 2001

PART I - SUMMARY OF AUDITORS' RESULTS (Cont'd)

Federal Awards (Cont'd)

| | |
|---|-----------|
| Dollar threshold used to distinguish between Type A and Type B programs: | \$300,000 |
| Auditee qualified as low-risk auditee? | no |

PART II - FINANCIAL STATEMENT FINDINGS

No matters are reportable.

PART III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Refer to Findings 01-1 through 01-3.

01-1. Period of Availability of Funds

Condition - The Authority has approximately 8 open grants. It appears that the funding period may have lapsed on certain of these grants. It also appears that the scope of certain grants may no longer be relevant to the Authority's current activities.

Criteria/Effect - The above noted condition does not meet the requirements related to the period of availability of funds per FTA Circular 5010.B. The Authority does not appear to be in compliance with such requirements.

Questioned Cost - None

Recommendation - The Authority should close out inactive grants which are no longer utilized.

01-2. Cash Management

Condition – The Authority did not have any certificate of completion from the Treasurer of State of Ohio regarding the continuing education program.

PORTAGE AREA REGIONAL TRANSPORTATION AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Cont'd)

Year Ended December 31, 2001

**PART III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS
(Cont'd)**

01-2. Cash Management (Cont'd)

Criteria/Effect – The above noted condition does not meet the requirements for the Ohio Revised Code Sections 135.22, 319.04, 321.46 and 733.27 – Education Requirements.

Questioned Cost – None

Recommendation – The Authority should register with the Treasurer of State of Ohio in 2002 for the Continuing Education Program.

01-3. Reporting

Condition – The Authority did not have an annual notice published in a local newspaper stating the financial report is available for public inspection.

Criteria/Effect – The above noted condition does not meet the requirement for the Ohio Revised Code Section 117.38 – Filing of financial reports.

Questioned Cost – None

Recommendation – The Authority should publish a notice in a local newspaper stating the financial report is available for public inspection once they receive their Audited Financial Statements.

PORTAGE AREA REGIONAL TRANSPORTATION AUTHORITY

SCHEDULE OF PRIOR AUDIT FINDINGS

Year Ended December 31, 2001

| <u>FINDING</u> | <u>STILL APPLICABLE</u> | <u>COMMENTS</u> |
|--|-----------------------------|---|
| 00-1. Competitive Procurement and Contracts | No | The Authority implemented changes in their procurement manual in order to be in compliance with federal and state requirements. |
| 00-2. Period of Availability of Funds | Yes | The Authority is not in full compliance with federal and state requirements. Refer to finding # 01-1 |

2001 CORRECTIVE ACTION PLAN

The Controller and the General Manager have completed the following corrective actions:

01-1 Period of Availability of Funds

PARTA has submitted to FTA a "grant close out" schedule.

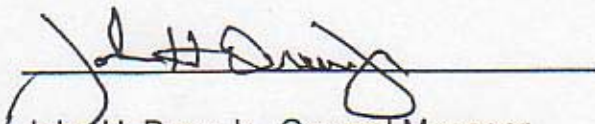
All open grants are active with revisions made between PARTA and FTA which will allow draw down of funds to be expedited.

01-2 Cash Management

Please be advised that Rebecca Schrader and I will be attending the Center for Public Investment Management conference to take place on July 17, 2002 in Hudson, Ohio. This conference will certify completion from the Treasurer of State regarding the continuing education program.

01-3 Reporting

With respect to third compliance issue, you indicated that PARTA did not place a notice in a local newspaper stating that the financial records are available for public inspection. Immediately following the completion of the 2001 audit, PARTA plans on placing such public notice in the Record Courier, a periodical of general circulation.


John H. Drew Jr., General Manager

PARTA Transportation Center

2000 Summit Rd.
P.O. Box 190
Kent, Ohio 44240

(330) 678-1287 Reservations & Operations
(330) 678-7745 Administrative Offices
(330) 678-7751 Fax



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140
Telephone 614-466-4514
800-282-0370
Facsimile 614-466-4490

PORTAGE AREA REGIONAL TRANSIT AUTHORITY

PORTAGE 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 13, 2002**