

**LORAIN COUNTY TRANSIT**

**BASIC FINANCIAL STATEMENTS AND SINGLE AUDIT**

**FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002**





**Auditor of State  
Betty Montgomery**

Board of Trustees  
Lorain County Transit  
6100 Broadway, Suite 301  
Lorain, Ohio 44053

We have reviewed the Independent Auditor's Report of the Lorain County Transit, Lorain County, prepared by James G. Zupka, C.P.A., Inc., for the audit period January 1, 2003 to 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. The Lorain County Transit is responsible for compliance with these laws and regulations.

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

BETTY MONTGOMERY  
Auditor of State

May 3, 2004

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LORAIN COUNTY TRANSIT  
BASIC FINANCIAL STATEMENTS AND SINGLE AUDIT  
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

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

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**INDEPENDENT AUDITOR'S REPORT**

To the Board of Trustees  
Lorain County Transit  
Elyria, Ohio

We have audited the accompanying basic financial statements of Lorain County Transit (the Transit), a component unit of Lorain County, Ohio, as of December 31, 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 the Transit. Our responsibility is to express an opinion on these basic financial statements based on our audit.

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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Transit, as of December 31, 2003 and 2002, and the results of changes in financial position and 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 a report dated February 2, 2004 on our consideration of the Transit's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards for the year ended December 31, 2003 is presented for the purpose of additional analysis as required by *U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

February 2, 2004

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James G. Zupka  
Certified Public Accountant

**LORAIN COUNTY TRANSIT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2002  
Unaudited**

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

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

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

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

**FINANCIAL HIGHLIGHTS**

- Operating revenue increased about \$38,000 (9%) due primarily to increased fare revenues and an 18% increase in ridership.
- Non-operating revenue increased about \$617,000 (30%) as a result of additional federal grant dollars for operating purposes.
- Capital funding revenue increased of about \$27,000 (2%) due to increased state funding.
- Operating expenses increased \$101,000 (2%) as a result of paying for a pre-development plan for an intermodal transportation center, purchase of new tires and increased maintenance costs.
- Net assets deficit decreased a total of \$581,000 from 2002 due to an increase in overall revenue of \$682,000 that is offset by an increase of expenses of \$101,000.

**LORAIN COUNTY TRANSIT  
MANAGEMENT DISCUSSION AND ANALYSIS  
Year Ended December 31, 2003  
Unaudited**

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**BASIC FINANCIAL STATEMENTS**

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

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

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

Net Assets, Invested in Capital Assets, Net of Related Debt: This component of net assets consists of all capital assets, reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. For 2003, LCT did not have any related debt.

Restricted Net Assets: This component of net assets consists of restricted assets, when constraints are placed on the asset by creditors (such as debt covenants), grantors, contributors, laws, regulations, etc. For 2003, LCT did not have any restricted net assets.

Unrestricted Net Assets: Consists of net assets that do not meet the definition of "net assets invested in capital assets, net of related debt", or "restricted net assets". This account resembles the former operating reserves account.

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

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

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

**LORAIN COUNTY TRANSIT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2003  
Unaudited**

**BASIC FINANCIAL STATEMENTS**

**Table 1 - Statement of Net Assets**

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

	<u>2003 (000's)</u>	<u>2002 (000's)</u>	<u>Difference</u>
<b><u>Assets</u></b>			
Current Assets	\$ 1,351	\$ 1,605	\$ (254)
Other Assets:			
Federal Grants Receivable	2,087	1,668	419
Capital Assets	<u>1,462</u>	<u>1,817</u>	<u>(355)</u>
<b>Total Assets</b>	<b><u>\$ 4,900</u></b>	<b><u>\$ 5,090</u></b>	<b><u>\$ (190)</u></b>
<b><u>Liabilities and Net Assets</u></b>			
<b><u>Liabilities</u></b>			
Current Liabilities	\$ 437	\$ 767	\$ (330)
Other Liabilities	<u>2,087</u>	<u>1,668</u>	<u>419</u>
<b>Total Liabilities</b>	<b><u>2,524</u></b>	<b><u>2,435</u></b>	<b><u>89</u></b>
<b><u>Net Assets</u></b>			
Invested in Capital Assets	1,462	1,817	(355)
Unrestricted	<u>914</u>	<u>838</u>	<u>76</u>
<b>Total Net Assets</b>	<b><u>2,376</u></b>	<b><u>2,655</u></b>	<b><u>(279)</u></b>
<b>Total Liabilities and Net Assets</b>	<b><u>\$ 4,900</u></b>	<b><u>\$ 5,090</u></b>	<b><u>\$ (190)</u></b>

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

**Major Factors Affecting the Statement of Net Assets**

Current assets show a \$254,000 decrease over 2002 due primarily to a decrease in cash, as we used our carryover funds to pay for operations.

The Federal Grants Receivable increase of \$419,000 was due to requesting funds later in December for 2003 versus 2002, and requesting larger amounts.

Current liabilities increased \$330,000 primarily from accounts payable.

The effect of this decrease in current assets and decrease in current liabilities was an overall decrease of unrestricted net assets of \$76,000.

**LORAIN COUNTY TRANSIT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2003  
Unaudited**

**BASIC FINANCIAL STATEMENTS**

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

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

	<u>2003(000's)</u>	<u>2002(000;s)</u>	<u>Difference</u>
<b><u>Revenues</u></b>			
Operating Revenues:			
Passenger Fares	\$ 447	\$ 411	\$ 36
Advertising and Other Operating Revenue	<u>13</u>	<u>11</u>	<u>2</u>
Total Operating Revenues	<u>460</u>	<u>422</u>	<u>38</u>
Non-Operating Revenues:			
Federal Operating Grants	1,015	475	540
State Operating Grants	342	135	207
Local Operating Funds	1,260	1,398	(138)
Other Operating Revenue	<u>55</u>	<u>47</u>	<u>8</u>
Total Non-Operating Revenue	<u>2,672</u>	<u>2,055</u>	<u>617</u>
Capital Funding	<u>1,704</u>	<u>1,677</u>	<u>27</u>
<b>Total Revenues</b>	<u>4,836</u>	<u>4,154</u>	<u>682</u>
<b><u>Expenses</u></b>			
Administrative	329	337	(8)
Materials and Supplies	8	13	(5)
Advertising	61	75	(14)
Contracted Operations and Maintenance	4,136	4,080	56
Other Expenses	226	153	73
Depreciation	<u>355</u>	<u>356</u>	<u>(1)</u>
<b>Total Expenses</b>	<u>5,115</u>	<u>5,014</u>	<u>101</u>
<b>Increase (Decrease) in Net Assets</b>	<u>\$ (279)</u>	<u>\$ (860)</u>	<u>\$ 581</u>

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

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

Passenger fares increased \$36,000 (9%). This is a direct result of the number of passenger trips increasing from 599,576 in 2002 to 705,858 in 2003, an increase of 18%.

Overall, revenue increased, primarily due to becoming eligible for and receiving federal dollars for operations. This increase was offset somewhat by a decrease in local funding from Lorain County. Total expenses increased slightly due to the payment of \$87,000 for a pre-development plan to remodel an historic train station into an intermodal transportation center.

**LORAIN COUNTY TRANSIT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2003  
Unaudited**

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**

At year end, Lorain County Transit had \$1.5 million net invested in a variety of capital assets as reflected in the following table. This represents an increase of \$355,000, which is due to accumulated depreciation. LCT's capital plan is dependent on future funding.

Because control of OCT will be transferred to Lorain County in March 2004, any future plans for capital acquisition and/or disposition are uncertain.

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

	<u>2003</u>	<u>2002</u>	<u>2003</u> <u>Acquisitions</u>	<u>2003</u> <u>Disposals</u>
Vehicles	\$1,206,044	\$ 1,536,302	\$ 0	\$ 0
Bus Shelters	30,432	34,078	0	0
Bus Washer	6,647	8,125	0	0
Park-n-Ride Lot	75,434	79,097	0	0
Office Furniture and Fixtures	2,670	4,588	0	0
Administration Building	131,667	141,667	0	0
Computer Hardware/Software	8,620	12,327	0	0
Radios	<u>129</u>	<u>560</u>	<u>0</u>	<u>0</u>
<b>Total Assets (net of Depreciation)</b>	<u>\$ 1,461,643</u>	<u>\$ 1,816,744</u>	<u>\$ 0</u>	<u>\$ 0</u>
<b>Change in Net Value</b>	<u>\$ (355,101)</u>			

**Debt Administration**

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

**ECONOMIC FACTORS**

Significant economic factors affecting Lorain County Transit are federal funding provided by the Federal Transit Administration, reduced funding by the Ohio Department of Transportation, budgetary constraints by the Board of Lorain County Commissioners, and the higher than average unemployment rate in Lorain County.

**LORAIN COUNTY TRANSIT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2003  
Unaudited**

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**IN CONCLUSION**

Lorain County Transit is projected to be fiscally sound for FY 2004. However, LCT is the 10<sup>th</sup> largest public transportation system in the State of Ohio and the only one of these ten without a dedicated source of funding.

In August 2000, LCT completely restructured its fixed route system. Since then ridership has dramatically increased from 259,290 in 2000 to 705,858 in 2003. This shows the system is working and the ridership has not peaked. The need for this service is definitely there.

Financially, without a dedicated source of funding or a substantial multi-year funding commitment from the County Commissioners, LCT will continue to use its reserves, as it did in fiscal years 2002 and 2003.

However, there was one major change to Lorain County Transit in 2003. In September, the Board of Commissioners voted to dissolve the Lorain County Transit Board and to have the transit system become a County department directly under the Commissioners. As of this writing, there has been no indication as to what, if any, changes the Commissioners may make.

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

**FINANCIAL CONTACT**

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

Respectfully submitted,

Thomas Ferguson  
Chief Finance Officer

LORAIN COUNTY TRANSIT  
STATEMENTS OF NET ASSETS  
DECEMBER 31, 2003 AND 2002

**ASSETS**

**Current Assets**

	<u>2003</u>	<u>2002</u>
Cash and Cash Equivalents	\$ 699,947	\$ 944,374
Receivables:		
Due from Federal Agencies	573,464	250,149
Due from State Agencies	47,522	267,546
Due from Local Agencies	24,648	137,496
Prepaid Insurance	<u>5,113</u>	<u>5,070</u>
<b>Total Current Assets</b>	<u>1,350,694</u>	<u>1,604,635</u>

**Other Assets**

Grants Receivable:		
Federal Grants	2,087,102	1,668,252
Capital Assets, net	<u>1,461,643</u>	<u>1,816,744</u>
<b>Total Other Assets</b>	<u>3,548,745</u>	<u>3,484,996</u>

<b>TOTAL ASSETS</b>	<u>\$ 4,899,439</u>	<u>\$ 5,089,631</u>
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**LIABILITIES AND NET ASSETS**

**Current Liabilities**

Accounts Payable	\$ 356,583	\$ 692,512
Deferred Revenue	0	5,160
Accrual Payroll and Related Benefits	<u>80,078</u>	<u>69,290</u>
<b>Total Current Liabilities</b>	436,661	766,962

**Other Liabilities**

Deferred Revenue	<u>2,087,102</u>	<u>1,668,252</u>
<b>Total Liabilities</b>	<u>2,523,763</u>	<u>2,435,214</u>

**Net Assets**

Unrestricted	914,033	837,673
Invested in Capital Assets	<u>1,461,643</u>	<u>1,816,744</u>
<b>Total Net Assets</b>	<u>2,375,676</u>	<u>2,654,417</u>

<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 4,899,439</u>	<u>\$ 5,089,631</u>
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See accompanying notes to the basic financial statements.

LORAIN COUNTY TRANSIT  
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS  
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

<b><u>Operating Revenues</u></b>	<u>2003</u>	<u>2002</u>
Passenger Fares	\$ 447,482	\$ 410,722
Advertising Revenue	7,132	11,314
Other Revenue	5,524	30
<b>Total Operating Revenues</b>	<u>460,138</u>	<u>422,066</u>
<b><u>Operating Expenses Other Than Depreciation</u></b>		
Purchased Transportation	2,511,252	2,559,132
Administrative Salaries and Wages	245,979	253,841
Fringe Benefits	83,374	82,799
Materials and Supplies	7,741	13,090
Maintenance Services	1,624,738	1,520,556
Train Station	87,000	0
Tire Lease and Equipment Rental	56,822	47,649
Utilities	15,567	16,151
Casualty and Liability Insurance	7,616	11,712
Advertising	61,271	74,802
Miscellaneous	58,617	77,981
<b>Total Operating Expenses Excluding Depreciation</b>	<u>4,759,977</u>	<u>4,657,713</u>
Operating Loss Before Depreciation	(4,299,839)	(4,235,647)
Depreciation Expense	355,101	356,102
<b>Operating (Loss) Income</b>	<u>(4,654,940)</u>	<u>(4,591,749)</u>
<b><u>Non-Operating Revenues and Expenses</u></b>		
Federal Grants and Reimbursements	1,015,165	474,715
State Operating Grants, Reimbursements, and Special Fare Assistance	341,884	134,544
Local Operating Grants and Reimbursements	1,259,787	1,398,466
Contributed Services	46,618	20,433
Interest Income	8,820	26,307
<b>Total Non-Operating Revenues and Expenses</b>	<u>2,672,274</u>	<u>2,054,465</u>
<b>Income/(Loss) Before Capital Contributions</b>	<u>(1,982,666)</u>	<u>(2,537,284)</u>
<b><u>Capital Funding</u></b>		
Federal Grants and Reimbursements	1,508,964	1,513,131
State Grants and Reimbursements	194,961	153,730
Local Grants and Reimbursements	0	10,299
<b>Total Capital Funding</b>	<u>1,703,925</u>	<u>1,677,160</u>
Increase (Decrease) in Net Assets	(278,741)	(860,124)
Total Net Assets, Beginning of Year	<u>2,654,417</u>	<u>3,514,541</u>
<b>TOTAL NET ASSETS, END OF YEAR</b>	<u>\$ 2,375,676</u>	<u>\$ 2,654,417</u>

See accompanying notes to the basic financial statements.

LORAIN COUNTY TRANSIT  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

	<u>2003</u>	<u>2002</u>
<b><u>Cash Flows from Operating Activities</u></b>		
Cash Received from Customers	\$ 460,138	\$ 422,066
Cash Payments for Goods and Services	(4,719,978)	(4,242,603)
Cash Payments for Employees' Services	<u>(318,565)</u>	<u>(326,308)</u>
<b>Net Cash Used for Operating Activities</b>	<u>(4,578,405)</u>	<u>(4,146,845)</u>
<b><u>Cash Flows from Noncapital Financing Activities</u></b>		
Operating and Planning Grants Received	<u>2,724,524</u>	<u>1,906,053</u>
<b>Net Cash Provided by Noncapital Financing Activities</b>	<u>2,724,524</u>	<u>1,906,053</u>
<b><u>Cash Flows from Capital and Related Financing Activities</u></b>		
Capital Grants Received:		
Federal	1,185,649	1,672,810
State and Local	414,985	211,318
Acquisition and Construction of Capital Assets	<u>0</u>	<u>(436,675)</u>
<b>Net Cash Used by Capital and Related Financing Activities</b>	<u>1,600,634</u>	<u>1,447,453</u>
<b><u>Cash Flows from Investing Activities</u></b>		
Interest Received from Investments	<u>8,820</u>	<u>26,307</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(244,427)	(767,032)
Cash and Cash Equivalents, Beginning of Year	<u>944,374</u>	<u>1,711,406</u>
<b>Cash and Cash Equivalents at End of Year</b>	<u>\$ 699,947</u>	<u>\$ 944,374</u>
<b><u>Reconciliation of Operating Loss to Net Cash Used in Operating Activities</u></b>		
Operating Loss	\$ (4,654,940)	\$ (4,591,749)
Adjustments to Reconcile Operating Loss to Net Cash Used in Operating Activities:		
Depreciation	355,101	356,102
Contributed Services	46,618	20,433
Changes in Assets and Liabilities:		
(Increase) Decrease in:		
Prepaid Insurance	(43)	763
Accounts Payable	(335,929)	57,274
Accrued Payroll and Related Benefits	<u>10,788</u>	<u>10,332</u>
<b>Net Cash Used for Operating Activities</b>	<u>\$ (4,578,405)</u>	<u>\$ (4,146,845)</u>

See accompanying notes to the basic financial statements.

LORAIN COUNTY TRANSIT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

NOTE 1: **ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Organization**

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

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

**Summary of Significant Accounting Policies**

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

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

**Reporting Entity**

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

LORAIN COUNTY TRANSIT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002  
(CONTINUED)

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

**Basis of Presentation**

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

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

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

**Measurement Focus and Basis of Accounting**

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

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 Lorain County Transit's enterprise funds 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.

**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.

LORAIN COUNTY TRANSIT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002  
(CONTINUED)

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

**Cash, Cash Equivalents, and Investments**

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

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

The Transit invested funds in STAROhio during 2003 and 2002. 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, 2003.

**Capital Assets and Depreciation**

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

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

<u>Description</u>	<u>Years</u>
Transportation Equipment	6-10
Other Equipment	10
Facilities	25

LORAIN COUNTY TRANSIT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002  
(CONTINUED)

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

**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, there is no related debt of capital assets. Net assets are reported as restricted when there are limitations imposed on their use either through constitutional provisions or enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. For 2003, there are no restricted net assets.

**Recognition of Revenue, Receivables, and Deferred Revenues**

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

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

**Operations**

Lorain County Transit has no dedicated local funding source. The Transit received local operating subsidies from Lorain County of \$1,040,004 and \$1,200,000 for years 2003 and 2002, respectively. The Transit is dependent on Lorain County for operating subsidies. Annual subsidies from Lorain County will continue to be required until such time as a dedicated local funding source is obtained (e.g., sales tax levy).

**Contributed Services**

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

LORAIN COUNTY TRANSIT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002  
(CONTINUED)

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

**Compensated Absences**

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

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

NOTE 2: **DEPOSITS AND INVESTMENTS**

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

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

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

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

LORAIN COUNTY TRANSIT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002  
(CONTINUED)

NOTE 2: **DEPOSITS AND INVESTMENTS** (Continued)

2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Interim deposits in eligible institution applying for interim funds;
5. Bonds and other obligations of the State of Ohio;
6. No-load money market mutual funds consisting exclusively of obligations described in the first two bullets of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions, and
7. The State Treasury Asset Reserve of Ohio (STAROhio).

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

LORAIN COUNTY TRANSIT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002  
(CONTINUED)

NOTE 2: **DEPOSITS AND INVESTMENTS** (Continued)

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

**Deposits**

- Category 1 Insured or collateralized with securities held by the Transit or by its agent in the Transit's name.
- Category 2 Collateralized with securities held by the pledging financial institution's trust department or agent in the Transit's name.
- Category 3 Uncollateralized or collateralized with securities held by the pledging financial institution's trust department or agent but not in the Transit's name.

**Investments**

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

**Deposits**

All deposits are carried at cost. The carrying amount of the Transit's deposits were \$470,006 and \$409,781 at December 31, 2003 and 2002, respectively, with bank balances of \$477,512 and \$423,258. Of the bank balances, \$145,781 and \$225,969 were covered by Federal Depository Insurance in 2003 and 2002, respectively. The remaining amounts of \$331,731 and \$197,289 for 2003 and 2002, respectively, were classified as risk category 3. In addition, the Transit had petty cash on hand at December 31, 2003 and 2002 of \$140 and \$140, respectively.

**Investments**

All investments are carried at fair value. The fair value of the Transit's short-term investments held with STAROhio were \$229,801 and \$534,453 at December 31, 2003 and 2002, respectively. These investments are uncategorized.

The Transit did not have any long-term investments during 2003 and 2002.

LORAIN COUNTY TRANSIT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002  
(CONTINUED)

NOTE 3: **CAPITAL ASSETS**

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

	<u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<u>2003</u>				
Capital Assets being Depreciated				
Transportation Equipment	\$ 3,090,900	\$ 0	\$ 0	\$ 3,090,900
Facilities and Improvements	378,049	0	0	378,049
Office Furniture and Equipment	<u>73,184</u>	<u>0</u>	<u>0</u>	<u>73,184</u>
Total Capital Assets being Depreciated	3,542,133	0	0	3,542,133
Less Accumulated Depreciation	<u>1,725,389</u>	<u>355,101</u>	<u>0</u>	<u>2,080,490</u>
<b>Total Capital Assets, Net</b>	<b><u>\$ 1,816,744</u></b>	<b><u>\$ (355,101)</u></b>	<b><u>\$ 0</u></b>	<b><u>\$ 1,461,643</u></b>
<u>2002</u>				
Capital Assets being Depreciated				
Transportation Equipment	\$ 2,690,690	\$ 400,210	\$ 0	\$ 3,090,900
Facilities and Improvements	341,584	36,465	0	378,049
Office Furniture and Equipment	<u>73,184</u>	<u>0</u>	<u>0</u>	<u>73,184</u>
Total Capital Assets being Depreciated	3,105,458	436,675	0	3,542,133
Less Accumulated Depreciation	<u>1,369,288</u>	<u>356,101</u>	<u>0</u>	<u>1,725,389</u>
<b>Total Capital Assets, Net</b>	<b><u>\$ 1,736,170</u></b>	<b><u>\$ 80,574</u></b>	<b><u>\$ 0</u></b>	<b><u>\$ 1,816,744</u></b>

NOTE 4: **DEFINED BENEFIT PENSION PLAN**

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

**Ohio Public Employees Retirement System**

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

The Lorain County Transit contributes to the Ohio Public Employees Retirement System (OPERS), a cost-sharing, multiple-employer defined benefit pension plan. OPERS provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State statute per Chapter 145 of the Ohio Revised Code. OPERS issues a stand alone financial report. That report may be obtained by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-6705 or 1-800-222-7377.

LORAIN COUNTY TRANSIT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002  
(CONTINUED)

NOTE 4: **DEFINED BENEFIT PENSION PLAN** (Continued)

**Ohio Public Employees Retirement System** (Continued)

The Ohio Revised Code provides statutory authority for employee and employer contributions. The employee contribution rate is 8.5 percent. The 2003 and 2002 employer contribution rates were 13.55 percent of covered payroll of which 5.0 percent and 5.0 percent were the portions used to fund health care for the years 2003 and 2002, respectively. The Transit's contributions to OPERS for the years ending December 31, 2003 and 2002 were \$33,202 and \$34,272, respectively. The amounts contributed for 2003 and 2002 were 91.2 percent and 91.8 percent, respectively.

OPERS provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivors is available. The health care coverage provided by OPERS is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution to OPERS is set aside for the funding of post retirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The portions of the 2003 and 2002 employer contributions used to fund health care were \$12,299 and \$12,643, respectively.

The significant actuarial assumptions and calculations relating to postemployment health care benefits were based on the System's latest actuarial review performed as of December 31, 2002. An entry age normal actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of unfunded actuarial accrued liability. All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach assets are adjusted annually to reflect 25 percent of unrealized market appreciation or depreciation on investment assets. The investment assumption rate for 2002 was 8.0 percent. An annual increase of 4.0 percent compounded annually is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4.0 percent base increase, were assumed to range from 0.50 percent to 6.3 percent. Health care costs were assumed to increase 4.0 percent annually.

LORAIN COUNTY TRANSIT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002  
(CONTINUED)

NOTE 4: **DEFINED BENEFIT PENSION PLAN** (Continued)

**Ohio Public Employees Retirement System** (Continued)

Benefits are advanced-funded on an actuarially determined basis. The number of active contributing participants was 364,881. The actuarial value of the OPERS' net assets available for OPEB at December 31, 2002 was \$10.0 billion. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$18.7 billion and \$8.7 billion, respectively.

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

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

LORAIN COUNTY TRANSIT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002  
(CONTINUED)

NOTE 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, 2003 and 2002, respectively, consist of the following:

	<u>2003</u>	<u>2002</u>
<b><u>Federal</u></b>		
FTA Operating Assistance	\$ 861,963	\$ 298,796
FTA Planning Grants	153,202	175,919
FTA Capital Grants	<u>1,508,964</u>	<u>1,513,131</u>
<b>Total - Federal</b>	<b><u>\$2,524,129</u></b>	<b><u>\$1,987,846</u></b>
<b><u>State</u></b>		
ODOT Operating Assistance and Reimbursement	\$ 276,226	\$ 0
ODOT Planning Assistance	0	22,566
ODOT Elderly Fare Assistance	65,658	72,953
ODOT Capital Assistance	<u>194,961</u>	<u>192,755</u>
<b>Total - State</b>	<b><u>\$ 536,845</u></b>	<b><u>\$ 288,274</u></b>
<b><u>Local</u></b>		
Operating Assistance and Reimbursements	\$1,259,787	\$1,398,466
Capital Assistance	<u>0</u>	<u>10,299</u>
<b>Total - Local</b>	<b><u>\$1,259,787</u></b>	<b><u>\$1,408,765</u></b>

NOTE 6: **RISK MANAGEMENT**

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

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

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

LORAIN COUNTY TRANSIT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002  
(CONTINUED)

NOTE 6: **RISK MANAGEMENT** (Continued)

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

NOTE 7: **OPERATIONAL CONTRACT**

The Transit contracts its operational service to First Transit, Inc., a subsidiary of FirstGroup America, Inc. FirstGroup, founded in 1978, is a leading provider of public transit contracting and management services in the United States. First Transit, Inc. provides drivers, mechanics, schedulers, dispatchers, and operational management to Transit for which First Transit, Inc. charges an hourly rate. In accordance with Federal Transit Administration (FTA) Circular 9030.1C, the Transit splits the monthly First Transit, Inc. bill into 60% for purchased transportation and 40% for capitalization of maintenance. For 2003, the Transit received from FTA approximately 30% reimbursement for purchased transportation and 80% for capitalization of maintenance. The Transit owns the vehicle fleet but First Transit, Inc. provides liability and property damage insurance for the fleet. First Transit, Inc. also provides general liability insurance naming the Transit as additional insured. Amounts paid to First Transit, Inc. in 2003 and 2002 were \$4,086,076 and \$3,742,718, respectively.

NOTE 8: **SUBSEQUENT EVENT**

On September 4, 2003, the Lorain County Board of Commissioners passed a resolution that transferred control of the Lorain County Transit Board to the Lorain County Board of Commissioners, effective March 1, 2004, in accordance with Ohio Revised Code Section 306.01B.

LORAIN COUNTY TRANSIT  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 FOR THE YEAR ENDED DECEMBER 31, 2003

<b>Federal Grantor/ Pass Through Grantor/Program Title</b>	<b>Federal CFDA Number</b>	<b>Federal Grant Number</b>	<b>Grant Expenditures</b>
<b><u>U.S. Department of Transportation</u></b>			
<b><u>Federal Transit Cluster</u></b>			
Federal Transit Administration			
Capital, Operating, and Planning Assistance			
Formula Grants:			
Capital Equipment Purchases	20.507		
		OH-05-0075	\$ 967
		OH-03-0219	69,600
		OH-90-0278	1,007
		OH-90-0418	1,088,322
Operating Assistance		OH-90-4440	1,211,031
Planning Assistance		OH-90-2357	25,804
		OH-90-2389	<u>127,398</u>
Total CFDA 20.507			<u>2,524,129</u>
<b>Total Expenditures of Federal Awards</b>			<b><u>\$ 2,524,129</u></b>

See note to Schedule of Expenditures of Federal Awards.

LORAIN COUNTY TRANSIT  
NOTE TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2003

NOTE 1: **BASIS OF PRESENTATION**

The accompanying Schedule of Expenditures of Federal Awards reflects the expenditures of the Lorain County Transit under programs financed by the U.S. Government for the year ended December 31, 2003. The schedule has been prepared on the full accrual basis of accounting where revenues are recorded as earned and expenses are recognized when they are incurred.

**JAMES G. ZUPKA, C.P.A., INC.**

*Certified Public Accountants*

*5240 East 98<sup>th</sup> Street*

*Garfield Hts., Ohio 44125*

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Ohio Society of Certified Public Accountants

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

To the Board of Trustees  
Lorain County Transit  
Elyria, Ohio

We have audited the financial statements of the Lorain County Transit (the Transit), a component unit of Lorain County, Ohio, as of and for the year ended December 31, 2003, and have issued our report thereon dated February 2, 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 the Transit's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

**Internal Control Over Financial Reporting**

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

However, we noted certain matters involving the internal control over financial reporting that we have reported to the management of the Transit in a separate letter dated February 2, 2004.

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

February 2, 2004

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James G. Zupka  
Certified Public Accountant

**JAMES G. ZUPKA, C.P.A., INC.**

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*5240 East 98<sup>th</sup> Street*

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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**

To the Board of Trustees  
Lorain County Transit  
Elyria, Ohio

**Compliance**

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

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

In our opinion, the Transit complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 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 the Transit is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Transit's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

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

However, we noted certain matters involving the internal control structure and its operation that we have reported to the management of the Transit in a separate letter dated February 2, 2004.

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

February 2, 2004

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James G. Zupka  
Certified Public Accountant

LORAIN COUNTY TRANSIT  
 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 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(iv)	Are there any reportable findings under .510?	No
2003(vii)	Major Programs (list): Federal Transit Cluster and Federal Transit Administration, Capital Operating and Planning Assistance Formula Grant (CFDA #20.507)	
2003(viii)	Dollar Threshold: Type A\B Programs	Type A: > \$300,000 Type B: > all others
2003(ix)	Low Risk Auditee?	Yes

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

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

None.

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

None.

LORAIN COUNTY TRANSIT  
STATUS OF PRIOR YEAR AUDIT FINDINGS AND MANAGEMENT RECOMMENDATIONS  
DECEMBER 31, 2003

The prior audit report as of December 31, 2002 did not include any audit findings. However, it did include management recommendations. Each of these has either been satisfied, corrected, or carried forward to the 2003 report.



**Auditor of State  
Betty Montgomery**

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800-282-0370

Facsimile 614-466-4490

**LORAIN COUNTRY TRANSIT**

**LORAIN COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
MAY 18, 2004**