SOUTH EAST AREA TRANSIT
SINGLE AUDIT
FINANCIAL STATEMENTS
For the Year Ended December 31, 2006

Mary Taylor, CPA
Auditor of State

Board of Trustees
South East Area Transit
375 Fairbanks St.
Zanesville, Ohio 43701-3043

We have reviewed the *Independent Auditors' Report* of the South East Area Transit, Muskingum County, prepared by Jones, Cochenour & Co., for the audit period January 1, 2006 through December 31, 2006. 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 South East Area Transit is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

July 11, 2007

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statements of South East Area Transit (the "Authority"), a component unit of the City of Zanesville, Ohio, as of the year ended December 31, 2006, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of December 31, 2006, and the respective changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with the *Government Auditing Standards*, we have also issued a report dated May 30, 2007 on our consideration of the authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. While we do not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report when considering the results of our audit.

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

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

Jones, Cochenour & Co.

Jones, Cochenour & Co.
May 30, 2007

SOUTH EAST AREA TRANSIT
Management's Discussion and Analysis
For the Year Ended December 31, 2006
(Unaudited)

As management of South East Area Transit ("Authority"), we offer readers of the Authority's basic financial statements this narrative overview and analysis of the financial activities of the Authority for the year ended December 31, 2006. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities and to identify any significant changes in financial position. We encourage readers to consider the information presented here in conjunction with the basic financial statements taken as a whole.

Financial Highlights

- **The Authority has net assets of $1,905,874. These net assets result from the difference between total assets of $2,479,000 and total liabilities of $573,126.**

- **Current assets of $340,704 primarily consist of Cash and Cash Equivalents of $162,751; Accounts Receivable of $69,246 and Intergovernmental Receivable of $74,090.**

- **Current liabilities of $573,126 primarily consist of Notes Payable of $220,000, Accounts Payable of $136,828, and Compensated Absences of $103,588.**

Basic Financial Statements and Presentation

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

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

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

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

Notes to the Financial Statements

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

Financial Analysis of the Authority

Table 1 provides a summary of the Authority's net assets for 2006 and 2005:

Table 1
Condensed Summary of Net Assets

	2006	Restated 2005
Assets:		
Current Assets	$ 340,704	$ 369,470
Capital Assets (net of accumulated depreciation)	2,138,296	2,262,682
Total Assets	2,479,000	2,632,152
Liabilities:		
Current Liabilities	573,126	285,421
Total Liabilities	573,126	285,421
Net Assets:		
Invested in Capital Assets	2,138,296	2,262,682
Unrestricted	(232,422)	84,049
Total Net Assets	$ 1,905,874	$ 2,346,731

Current assets decreased $28,766 or 7.79% primarily due to a decrease in cash and cash equivalents of $34,784.

Capital assets decreased $124,386 as a result of current year acquisitions of $211,343 and depreciation expense of $335,729.

Current liabilities increased $287,705 or 100.80% which is primarily due to proceeds from a new line of credit of $220,000 and an increase in accrued payroll taxes and withholding of $38,662.

The largest portion of the Authority's net assets reflect investment in capital assets consisting of buildings, buses and equipment less any related debt used to acquire those assets still outstanding. The Authority uses these capital assets to provide public transportation services for the counties of Muskingum and Guernsey; consequently, these assets are not available for future spending. Although the City's investments in its capital assets is reported net of related debt, it should be noted that no debt has been incurred to finance these capital assets. However, the proceeds of $220,000 from a new line of credit ($250,000 total credit available) was used to pay current operating expenses of the Authority. At December 31, 2006, unrestricted net assets is a deficit balance of $232,422.

Working capital is an organization's current assets less its current liabilities. Working capital is an indicator of liquidity or an organization's ability to pay current operating expenses on time. At December 31, 2006 the Authority had a negative working capital of $232,422, which also represents the total of the Authority's unrestricted net assets.

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

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

	2006	Restated 2005
Operating Revenues (Expenses):		
Operating Revenues	$ 917,628	$ 1,131,325
Operating Expenses (excluding depreciation)	(2,736,933)	(2,809,174)
Depreciation Expense	(335,729)	(367,424)
Operating Loss	(2,155,034)	(2,045,273)
Nonoperating Revenues:		
Federal Grants and Assistance	966,506	826,305
State Grants and Assistance	366,943	359,835
Local Grants and Assistance	216,660	176,660
Interest Income	4,660	2,291
Total Nonoperating Revenues	1,554,769	1,365,091
Capital Grant Revenue	159,408	172,644
Change in Net Assets During Year	(440,857)	(507,538)
Net Assets, Beginning of Year, Restated	2,346,731	2,854,269
Net Assets, End of Year	$ 1,905,874	$ 2,346,731

Financial Operating Activities

For 2006, the most significant operating expenses for the Authority are Salaries, Fringe Benefits, Management Fees, Contract Services, Fuel and Lubrication, Parts and Supplies and Insurance. These expenses account for 93.2% of the total operating expenses. Salaries, which accounts for 40.5% of the total, represents costs associated with salaried and hourly employees. Fringe Benefits, which accounts for 25.1% of the total, represents costs associated with OPERS, health and life insurance, unemployment and worker's compensation. Management Fees, which account for 4.3% of the total, represents costs associated with compensation for the General Manager of the Authority. Contract Services, which account for 4.7% of the total, represents costs associated with compensating bus operators in Guernsey County and other contract services. Fuel and Lubrication, which accounts for 5.4% of the total, represents costs associated with parts and supplies for vehicles. Insurance, which accounts for 5.8% of the total, represents costs associated with physical damage coverage.

For 2006, funding for the most significant operating expenses indicated above is from Special Transit Fares as well as from Nonoperating Revenue in the form of Federal, State and Local Grants and Assistance. These revenues account for 80.3% of the total combined revenues of $2,631,805. Special Transit Fares revenue was $536,217, and accounts for 21.4% of the total revenues. Federal Grants and Assistance revenue was $966,506, and accounts for 36.8% of the total revenue. State Grants and Assistance revenue was $366,943, and accounts for 13.9% of the total revenue. Local Grants and Assistance revenue was $216,660, and accounts for 8.2% of the total revenue. Capital grants account for 6.1% of the total, and Farebox Revenue, Charter Revenue, Maintenance Revenue, Interest Income and Other Revenue make up the remaining 13.6%.

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

Capital Assets and Debt Administration

The Authority's investment capital assets as of December 31, 2006, amounts to $2,138,296 (net of accumulated depreciation). This investment in capital assets includes buildings, buses and equipment.

Additional information concerning the Authority's capital assets can be found in note 5 of the notes to the basic financial statements.

As of December 31, 2006, the Authority has no long-term debt.

Current Known Facts and Conditions

In the year 2006, the Authority transported 69,327 Fixed Route passengers, 18,770 Demand/Response passengers, and 44,258 passengers for contracts, for a total of 132,355 passengers in Muskingum County. The Authority covered 434,779 revenue miles and 28,250 revenue hours in Muskingum County.

In the year 2006, the Authority transported 21,160 Fixed Route passengers, 805 Demand/Response passengers, and 10,465 passengers for contracts, for a total of 32,430 passengers in Guernsey County. The Authority covered 151,574 revenue miles and 9,604 revenue hours in Guernsey County.

In the year 2005, the Authority transported 117,059 Fixed Route passengers, 21,542 Demand/Response passengers, and 69,569 passengers for contracts, for a total of 208,170 passengers in Muskingum County. The Authority covered 541,073 revenue miles and 33,865 revenue hours in Muskingum County. The Authority covered 541,073 revenue miles and 33,865 revenue hours in Muskingum County.

In the year 2005, the Authority transported 26,904 Fixed Route passengers, 821Demand/Response passengers, and 7,434 passengers for contracts, for a total of 35,159 passengers in Guernsey County. The Authority covered 194,979 revenue miles and 12,371 revenue hours in Guernsey County.

Contacting the Authority's Financial Management

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

SOUTH EAST AREA TRANSIT
Balance Sheet
December 31, 2006

ASSETS		
CURRENT ASSETS		
Cash and cash equivalents (including $40,000 restricted by ODOT)		$ 162,751
Accounts receivable		69,246
Intergovernmental receivable		74,090
Materials and supplies inventory		29,912
Prepaid expense		4,705
	TOTAL CURRENT ASSETS	340,704
CAPITAL ASSETS		
Land		334,255
Buildings		1,635,698
Buses and other vehicles		2,248,691
Furniture, fixtures and equipment		502,043
	TOTAL CAPITAL ASSETS	4,720,687
Less: Accumulated Depreciation		(2,582,391)
	CAPITAL ASSETS - NET	2,138,296
	TOTAL ASSETS	2,479,000
LIABILITIES		
CURRENT LIABILITIES		
Note payable		220,000
Accounts payable		136,828
Accrued payroll		18,881
Accrued payroll taxes and withholdings		47,565
Compensated absences		103,588
Funds held for bus purchase		40,000
Unredeemed fares		6,264
	TOTAL LIABILITIES	573,126
NET ASSETS:		
Invested in capital assets		2,138,296
Unrestricted		(232,422)
	TOTAL NET ASSETS	$ 1,905,874

See Notes to the Basic Financial Statements

SOUTH EAST AREA TRANSIT
Statement of Revenues, Expenses and Changes in Net Assets
For the Year Ended December 31, 2006

OPERATING REVENUES:		
Farebox revenue	$	101,104
Special transit fares		563,217
Maintenance services		54,338
Advertising revenue		25,460
Other revenue		173,509
TOTAL OPERATING REVENUES		917,628
OPERATING EXPENSES:		
Salaries		1,109,091
Fringe benefits		687,023
Management fees		117,878
Professional services		41,851
Contract services		125,401
Fuel and lubrication		202,201
Tires		18,078
Parts and supplies		148,689
Utilities		44,860
Insurance		159,847
Dues and subscriptions		9,713
Travel and meeting		5,221
Advertising		43,718
General administrative facilities		17,827
		5,535
TOTAL OPERATING EXPENSES EXCLUDING DEPRECIATION		2,736,933
OPERATING (LOSS) BEFORE DEPRECIATION EXPENSE		(1,819,305)
Depreciation		335,729
OPERATING LOSS		(2,155,034)
NONOPERATING REVENUES:		
Federal grants and assistance		966,506
State grants and assistance		366,943
Local grants and assistance		216,660
Interest income		4,660
TOTAL NONOPERATING REVENUES		1,554,769
NET (LOSS) BEFORE CAPITAL GRANT REVENUE		(600,265)
CAPITAL GRANT REVENUE		
Federal		141,696
State		17,712
TOTAL CAPITAL GRANT REVENUE		159,408
(DECREASE) IN NET ASSETS		(440,857)
Net Assets, Beginning of Year - as originally reported		2,407,627
Prior Period Adjustments		(60,896)
Net Assets, Beginning of Year - Restated		2,346,731
NET ASSETS, END OF YEAR	$	1,905,874

See Notes to the Basic Financial Statements

SOUTH EAST AREA TRANSIT
Statement of Cash Flows
For the Year Ended December 31, 2006

CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	$	683,665
Cash received from maintenance services		54,338
Cash received from advertising		25,460
Cash received from other receipts		173,509
Cash payments for operating and administrative expenses		(2,709,055)
NET CASH FROM OPERATING ACTIVITIES		(1,772,083)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Proceeds from noncapital grants and assistance		1,524,574
Proceeds from line of credit		220,000
NET CASH FROM NONCAPITAL FINANCING ACTIVITIES		1,744,574
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Proceeds from capital grants and assistance		159,408
Payments for the purchase of property, facilities, and equipment		(211,343)
Insurance proceeds for vehicle accident		40,000
NET CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES		(11,935)
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash received from interest		4,660
NET (DECREASE) IN CASH AND CASH EQUIVALENTS		(34,784)
Cash and Cash Equivalents, Beginning of Year		197,535
Cash and Cash Equivalents, End of Year	$	162,751
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES:		
Operating (Loss)	$	(2,155,034)
ADJUSTMENTS TO RECONCILE OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES:		
Depreciation Expense		335,729
Changes in Assets and Liabilities:		
(Increase) Decrease in accounts receivable		18,127
(Increase) Decrease in prepaid expense		(250)
(Increase) Decrease in inventories		1,640
Increase (Decrease) in accounts payable		(8,340)
Increase (Decrease) in accrued payroll liabilities		37,208
Increase (Decrease) in compensated absences payable		(2,380)
Increase (Decrease) in unredeemed fares		1,217
NET CASH FROM OPERATING ACTIVITIES	$	(1,772,083)

See Notes to the Basic Financial Statements

1. DESCRIPTION OF THE AUTHORITY AND REPORTING ENTITY

Description of the Authority

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

At December 31, 2006, the Authority had 44 full-time equivalent employees. Approximately 73% of the Authority's employees at December 31, 2006 are subject to a collective bargaining agreement expiring on May 31, 2008.

Description of the Reporting Entity

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Authority are prepared in accordance with generally accepted accounting principles (GAAP). The Authority applies all relevant Governmental Accounting Standards Board (GASB) pronouncements, as well as all Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its business-type activities and enterprise funds, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. The Authority has elected not to apply FASB statements and interpretations issued on or before November 30, 1089, to its business-type activities and enterprise funds. The most significant of the Authority's accounting policies are described below.

Basis of Accounting

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

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

Budgetary Accounting and Control

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Cash and Cash Equivalents

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

Recognition of Receivables and Revenue

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

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

Inventory of Materials and Supplies

Inventory items are stated at the lower of the cost or market. Inventory generally consists of maintenance parts and supplies for rolling stock and other transportation equipment.

Capital Assets

Property, facilities and equipment are stated at historical cost. The cost of normal maintenance and repairs are charged to operations as incurred. Improvements and interest are capitalized and depreciated over the remaining useful lives of the related properties, with the exception of land which is nondepreciable. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets as follows:

Description	Years
Buildings	20
Transportation Vehicles	5-12
Furniture and Fixtures	3-15
Other Equipment	5-15

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

Restricted Assets

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

Net Assets

Equity is displayed in three components as follows:

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

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

Unrestricted – This consists of net assets that do not meet the definition of "restricted" or "invested in capital assets."

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Compensated Absences

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

1. **The compensated absence is earned on the basis of services already performed by employees; and**

2. **It is probable that the compensated absence will be paid in a future period.**

The Authority records compensated absences for vacation and sick leave in accordance with GASB No. 16. The Authority accrues vacation benefits as earned by its employees. Unused vacation benefits are paid to the employee upon separation from the Authority. Vacation days are limited to a maximum of twenty days. Upon voluntary termination, the Authority pays the employee 50 percent of accrued sick pay for a maximum of 80 days. An employee cannot carry over vacation to the following year; however, the Authority pays an employee with one or more years of service his or her accrued vacation upon termination of employment.

Estimates

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

3. CASH AND INVESTMENTS

The investments and deposits of the Authority are governed by the provisions of the Ohio Revised Code. In accordance with these statutes, only financial institutions located in Ohio are eligible to hold public deposits. The statutes also permit the Authority to invest in monies in certificates of deposits, saving accounts, money market accounts, the State Treasurer's investment pool (STAROhio) and obligations of the United States government or certain agencies thereof. The Authority may also enter into repurchase agreements with any eligible depository for a period not exceeding 30 days.

Public depositories must give security for all public funds on deposit. These institutions may either specifically collateralize individual accounts in lieu of amounts insured by the Federal Deposit Insurance Corporation (FDIC), or may pledge a pool of government securities with a market value equal to 105% of public monies on deposit at the institution. Repurchase agreements must be secured by the specific government securities upon which the repurchase agreements are based. These securities must be obligations of or guaranteed by the United States and mature or be redeemable within five years of the date of the related repurchase agreement. The market value of the securities subject to a repurchase agreement must exceed the value of the principal by 2% and be marked to market daily. State law does not require that security maintained for public deposits and investments be held in the Authority's name.

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

Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the Authority's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the Authority.

3. CASH AND INVESTMENTS - CONTINUED

At December 31, 2006, the bank balance of all Authority deposits was $241,495, and the book balance was $162,751. Based on the criteria described in GASB Statement No. 40, "Deposit and Investment Risk Disclosures", as of December 31, 2006, $127,148 of the Authority's bank balance of $227,148 at one bank was exposed to custodial risk, as discussed above, while $100,000 was covered by Federal Deposit Insurance. The $127,148 exposed to custodial risk was collateralized with securities held by the Authority or its agency in the Authority's name.

Investments

The Authority held no investments at December 31, 2006.

4. ACCOUNTS RECEIVABLE

Receivables at December 31, 2006 consisted of accounts (billings for user charges for services) and intergovernmental grants. All receivables are considered collectible in full; therefore, an allowance for uncollectible accounts is not considered necessary.

A summary of the principal items of intergovernmental receivables at December 31, 2006 consisted of the following amounts:

Federal Operting Assistance Receivable	$	44,420
State Operating Assistance Receivable		29,670
	$	74,090

5. CAPITAL ASSETS

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

Asset Type:	Balance at 12/31/2005	Additions	Deletions	Balance at 12/31/2006
Land	$ 334,255	$ -	$ -	$ 334,255
Buildings	1,619,031	16,667	-	1,635,698
Buses and Other Vehicles	2,110,885	194,676	(56,870)	2,248,691
Furniture, Fixtures and Equipment	502,843	-	(800)	502,043
Total Capital Assets	4,567,014	211,343	(57,670)	4,720,687
Accumulated Depreciation				
Buildings	676,741	81,204	-	757,945
Buses and Other Vehicles	1,144,506	220,322	(56,870)	1,307,958
Furniture, Fixtures and Equipment	483,085	34,203	(800)	516,488
	2,304,332	335,729	(57,670)	2,582,391
	$ 2,262,682	$ (124,386)	$ -	$ 2,138,296

6. NOTE PAYABLE

In 2006, the Authority obtained a line of credit from a local bank in the amount of $250,000, to be used as a source of short-term operating funds. The loan matures on December 7, 2007 and is renewable for an additional year. The balance at December 31, 2006 is $220,000. The loan is secured by the assets of the Authority. The current interest rate is 8.25%. A member of the Board of Trustees is an officer of the bank.

7. DEFINED BENEFIT PENSION PLANS

Ohio Public Employees Retirement System (OPERS) administers three separate pension plans as described below:

- **The Traditional Pension Plan (TP) – cost-sharing multiple-employer defined benefit pension plan.**
- **The Member-Directed Plan (MD) – a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year.) Under the Member-Directed Plan members accumulate retirement assets equal to the value of member and (vested) employer contributions plus any investment earnings thereon.**
- **The Combined Plan (CO) – is a cost-sharing multiple-employer defined benefit pension plan. Under the Combined Plan employer contributions are invested by the retirement system to provide a formula retirement benefit similar in nature to the Traditional Plan benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the Member-Directed plan.**

OPERS provides basic retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the Traditional Plan and Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by statement statute per Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report which may be obtained by writing to the Public Employee Retirement system, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-6705 or 1-800-222-7377.

The Ohio Revised Code provides statutory authority for member and employer contributions. Plan members are required to contribute 9.0 percent of their annual covered payroll to fund pension obligations and the Authority was required to contribute 13.70 percent of covered payroll during 2006. The Authority's required contributions, including the pick up portion for certain employees for the years ended December 31, 2006, 2005 and 2004 were $164,405, $101,507, and $154,313, respectively. All required payments of contributions have been made through December 31, 2005 and 2004. Of the 2006 amount, $12,907 was unpaid at December 31, 2006 and is recorded as a liability.

8. POSTEMPLOYMENT BENEFITS

Ohio Public Employees Retirement System (OPERS) administers three separate pension plans: The Traditional Pension Plan (TP) - a cost-sharing multiple-employer defined benefit pension plan; the Member-Directed Plan (MD) - a defined contribution plan; and the Combined Plan (CO) - a cost-sharing multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

OPERS provides retirement, disability, survivor and post retirement health care benefits to qualifying members of both the Traditional and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage. In order to qualify for post-retirement health care coverage, age and service retirees under the Traditional Pension and Combined Plans must have ten or more years of qualifying Ohio service credit. Health care coverage for disability recipients and qualified survivor recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post-employment 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 postretirement health care based on authority granted by the Ohio Revised Code. The 2006 employer contribution rate was 13.70 percent of covered payroll, and 4.00 percent was used to fund health care for the year.

The assumptions and calculations below were based on the System's latest actuarial review performed as of December 31, 2005.

An entry-age normal actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of the unfunded actuarial accrued liability. All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach assets are adjusted to reflect 25% of unrealized market appreciation or depreciation on investment assets annually. The investment assumption rate for 2005 was 8.00 percent. An annual increase of 4.00%, compounded annually, is the base portion of the individual pay increase

8. POSTEMPLOYMENT BENEFITS – CONTINUED

assumption. This assumes no change in the number of active employees. Additionally, annual payincreases over and above the 4.00% base increase, were assumed to range from 0.50% to 6.30%. Health care costs were assumed to increase at the projected wage inflation rate plus an additional factor ranging from 1 percent to 6 percent for the next 8 years. In subsequent years (9 and beyond) health care costs were assumed to increase at 4.00 percent (the projected wage inflation rate).

OPEBs are advance-funded on an actuarially determined basis. At December 31, 2005, the number of active contributing participants in the Traditional and Combined Plans totaled 376,109. The number of active contributing participants for both plans used in the December 31, 2004, actuarial valuation was $355,287. The actuarial value of the Retirement System's net assets available for OPEB at December 31, 2004 were $10.8 billion.

The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used were, $29.5 billion and $18.7 billion, respectively.

On September 9, 2004, the OPERS Retirement Board adopted a Health Care Prevention Plan (HCPP) with an effective date of January 1, 2007. In addition to the HCPP, OPERS has taken additional action to improve the solvency of the Health Care Fund in 2005 by creating a separate investment pool for health care assets. As an additional component of the HCPP, member and employer contribution rates increased as of January 1, 2006, which will allow additional funds to be allocated to the health care plan.

Under the HCPP, retirees eligible for health care coverage will receive a graded monthly allocation based on their years of service to retirement. The Plan incorporates a cafeteria approach, offering a broad range of health care options that allow benefit recipients to use their monthly allocation to purchase health care coverage customized to meet their individual needs. If the monthly allocation exceeds the cost of the option selected, the excess is deposited into a Retiree Medical Account that can be used to fund future health care expenses.

9. GRANTS, REIMBURSEMENTS AND SPECIAL FARE ASSISTANCE

Grants, reimbursements and special fare assistance in the statement of revenues, expenses and changes in equity for the year ended December 31, 2006 consist of the following:

Federal:		
FTA Capital Assistance	**$**	**141,696**
FTA Operating Assistance		**966,506**
	$	**1,108,202**
State:		
ODOT Operating Assistance	**$**	**366,943**
ODOT Elderly Fare (Capital) Assistance		**17,712**
	$	**384,655**
Local:		
City of Zanesville	**$**	**160,000**
Village of South Zanesville		**4,660**
Village of Byesville		**2,000**
Muskingum County		**40,000**
Guernsey County		**10,000**
	$	**216,660**

10. RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets, flood and earthquake, errors and omission, employment related matters, injuries to employees and employee theft and fraud. The Authority joined together with certain other transit authorities in the State to form Ohio Transit Insurance Pool Association, Inc. (OTIP). OTIP is a joint self-insurance pool pursuant to Section 2744.081 of the Ohio Revised Code, currently operating as a common risk management and insurance program for ten member transit agencies. The Authority pays an annual premium to OPIT for its general insurance coverage and makes quarterly payments into a loss and administration fund pursuant to OTIP's bylaws. The Agreement of Formation of the OTIP provides that OTIP will be self-sustaining through member premiums and will reinsure through commercial companies for property damage and claims in excess of $250,000 and all liability claims in excess of $250,000 for each insured occurrence and amounts in excess of $10 million for liability claims.

The Authority continues to carry commercial insurance for all other risks of loss, including workers' compensation and employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

11. CONTINGENCIES

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

12. INVOLUNTARY CONVERSION

In 2006, one of the Authority's buses was totaled in an accident. The insurance proceeds of $40,000 are restricted by the terms of a capital grant received from the Ohio Department of Transportation (ODOT) that the Authority used towards the original purchase of the bus. The $40,000 is included on the balance sheet as Cash and Cash Equivalents and Funds Held for Bus Purchase. Management plans to use these funds towards the purchase of a replacement bus during 2007.

13. PRIOR PERIOD ADJUSTMENTS

The Authority had the following prior period adjustments for 2005:

The Authority previously failed to report a liability for accrued sick pay. The liability and associated expense was $54,362 for 2005.	**$**	**54,362**
The Authority overstated accounts receivable for an operating grant from ODOT. ODOT reduced the amount of the original grant due to a shortage of matching funds obtained by the Authority.		**6,534**
Total Prior Period Adjustments	**$**	**60,896**

These prior period adjustments had the effect of overstating the beginning net assets for 2006 by $60,896.

SOUTH EAST AREA TRANSIT
Schedule of Federal Awards Expenditures
For the Year Ended December 31, 2006

	PROJECT NUMBER	GRANT CONTRACT NUMBER	FEDERAL CFDA NUMBER	FUNDS EXPENDED
FROM U.S. DEPARTMENT OF TRANSPORTATION				
Passed through Ohio Department of Transportation:				
Federal Transit Capital Assistance Formula Grant	RPT-0060-025-064	OH-18-X025	20.509	$ 141,696
Federal Transit Operating Assistance Formula Grants:				
Muskingum County	RPT-4060-025-061	OH-18-X025	20.509	711,308
Guernsey County	RPT-4060-025-062	OH-18-X025	20.509	234,468
Intercity	RPT-4060-025-063	OH-18-X025	20.509	20,730
Total Federal Awards Expenditures				$ 1,108,202

Note 1- Significant Accounting Policies

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

Note 2- Matching Requirements

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

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

Board of Trustees
South East Area Transit
Zanesville, Ohio

We have audited the basic financial statements of South East Area Transit as of and for the year ended December 31, 2006, and have issued our report thereon dated May 30, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standard applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered South East Area Transit's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of South East Area Transit's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether South East Area Transit's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, 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*.

We noted certain matters we reported to management of South East Area Transit in a separate letter dated May 30, 2007.

This report is intended solely for the information and use of management 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.

Jones, Cochenour & Co.
May 30, 2007

Jones, Cochenour & Co.
Certified Public Accountants

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH *OMB CIRCULAR A-133*

Board of Trustees
South East Area Transit
Zanesville, Ohio

Compliance

We have audited the compliance of South East Area Transit with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133* that are applicable to each of its major federal programs for the year ended December 31, 2006. South East Area Transit's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of South East Area Transit's management. Our responsibility is to express an opinion on South East Area 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; 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 South East Area 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 South East Area Transit's compliance with those requirements.

In our opinion, South East Area Transit complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2006.

Internal Control Over Compliance

The management of South East Area 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 South East Area 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 significant deficiency, or combination of significant deficiencies in internal controls in which there is more than a remote likelihood that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management 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.

Jones, Cochenour & Co.
May 30, 2007

SOUTH EAST AREA TRANSIT
Schedule of Findings
For the Year Ended December 31, 2006

1. SUMMARY OF AUDITORS' RESULTS

Type of Financial Statement Opinion	**Unqualified**
Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	**No**
Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	**No**
Was there any reported material non-compliance at the financial statement level (GAGAS)?	**No**
Were there any material internal control weakness conditions reported for major federal programs?	**No**
Were there any other reportable internal control weakness conditions reported for major federal programs?	**No**
Type of Major Programs' Compliance Opinion	**Unqualified**
Are there any reportable findings under § .510?	**No**
Major Programs (list):	**Federal Transit – Capital and Operating Assistance Formula Grants – CFDA #20.509**
Dollar Threshold: Type A/B Programs	**$300,000**
Low Risk Auditee?	**Yes**

2. FINDINGS RELATED TO FINANCIAL STATEMENTS

There are no findings for the year ended December 31, 2006

3. FINDINGS RELATED TO FEDERAL AWARDS

There are no findings for the year ended December 31, 2006.

Mary Taylor, CPA
Auditor of State

SOUTH EAST AREA TRANSIT AUTHORITY

MUSKINGUM COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
JULY 24, 2007

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