



Dave Yost • Auditor of State

**SOUTH EAST AREA TRANSIT
MUSKINGUM COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Independent Auditor's Report	1
Management's Discussion and Analysis.....	3
Basic Financial Statements:	
Statement of Net Position	7
Statement of Revenues, Expenses, and Changes in Net Position.....	8
Statement of Cash Flows	9
Notes to the Basic Financial Statements	11
Schedule of Federal Awards Expenditures.....	21
Notes to the Schedule of Federal Awards Expenditures	22
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	23
Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Federal Program and on Internal Control Over Compliance Required by OMB Circular A-133.....	25
Schedule of Findings and Questioned Costs – OMB Circular A-133 § .505	29
Schedule of Prior Audit Findings – OMB Circular A-133 § .315(b).....	34
Corrective Action Plan – OMB Circular A-133 § .315(c).....	35

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

South East Area Transit
Muskingum County
375 Fairbanks Street
Zanesville, Ohio 43701

To the Board of Trustees:

Report on the Financial Statements

We have audited the accompanying financial statements of the South East Area Transit, Muskingum County, Ohio (the Authority), as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the Authority's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the Authority's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the South East Area Transit, Muskingum County, Ohio as of December 31, 2013, and the changes in financial position and its cash flows for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

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Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require this presentation to include *Management's Discussion and Analysis*, listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

Supplementary and Other Information

Our audit was conducted to opine on the Authority's basic financial statements taken as a whole.

The Schedule of Federal Awards Expenditures (the Schedule) presents additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations and is also not a required part of the financial statements.

The Schedule is management's responsibility, and derives from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. We subjected this Schedule to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling the Schedule directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves in accordance with auditing standards generally accepted in the United States of America. In our opinion, this Schedule is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 16, 2014, 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 grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.



Dave Yost
Auditor of State

Columbus, Ohio

September 16, 2014

**SOUTH EAST AREA TRANSIT
MUSKINGUM COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2013
(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, 2013. 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 position of \$1,333,676. Net position results from a difference between total assets of \$1,658,796 and total liabilities of \$325,120.
- ⤴ Current assets of \$396,672 primarily consist of Cash and Cash Equivalents of \$89,973; Accounts Receivable of \$20,993 and Intergovernmental Receivable of \$254,620.
- ⤴ Current liabilities of \$281,155 primarily consist of Notes Payable of \$180,000, Accounts Payable of \$31,983, and Payroll related items of \$59,609.

Basic Financial Statements and Presentation

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

The Statement of Revenues, Expenses, and Changes in Net Position 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 the federal government.

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

**SOUTH EAST AREA TRANSIT
MUSKINGUM COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2013
(UNAUDITED)**

Financial Analysis of the Authority

Table 1 provides a summary of the Authority's net position for 2013 and 2012:

Condensed Summary of Net Position

	2013	2012
Assets:		
Current Assets	\$ 396,672	\$ 486,578
Capital Assets (net of accumulated depreciation)	1,262,124	1,263,676
Total Assets	<u>1,658,796</u>	<u>1,750,254</u>
Liabilities:		
Current Liabilities	281,155	530,831
Long-Term Liabilities	43,965	46,525
Total Liabilities	<u>325,120</u>	<u>577,356</u>
Net Position:		
Invested in Capital Assets	1,262,124	1,263,676
Unrestricted	71,552	(90,778)
Total Net Position	<u><u>\$ 1,333,676</u></u>	<u><u>\$ 1,172,898</u></u>

Current Assets decreased \$89,906 primarily due to decreases in cash on hand caused by regular payment of payables offset by increased receivables caused by an increase in services provided.

Capital assets decreased \$1,552 as a net result of annual depreciation of assets offset by asset purchases and sales.

Current liabilities decreased \$249,676 primarily due to decreased accounts payable due to regular payment of payables.

The largest portion of the Authority's net position reflect investment in capital assets consisting of buildings, buses, and equipment less any related debt used to acquire these 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.

The Authority maintains a line of credit to pay current operating expenses. At December 31, 2013, the balance of the line of credit was \$180,000, and unrestricted net position had a surplus balance of \$71,552.

Working capital is an organization's current assets less its current liabilities. Working capital is an indicator or liquidity or an organization's ability to pay current operating expenses on time. At December 31, 2013, the Authority had a positive working capital balance of \$115,517.

**SOUTH EAST AREA TRANSIT
MUSKINGUM COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2013
(UNAUDITED)**

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

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

	2013	2012
Operating Revenues (Expenses)		
Operating Revenues	\$ 2,589,654	\$ 2,326,909
Operating Expenses (excluding depreciation)	(2,705,238)	(2,433,529)
Depreciation Expenses	<u>(232,745)</u>	<u>(280,619)</u>
Operating Loss	(348,329)	(387,239)
 Non Operating Revenues		
Capital Grant Revenue	400,899	232,862
Loss on Disposal of Asset	-	(16,013)
Other Non-Operating Income	<u>68,208</u>	<u>52,606</u>
Total Non-Operating Revenues	469,107	269,455
 Change in Net Position During Year	120,778	(117,784)
 Net Position, Beginning of Year	<u>1,172,898</u>	<u>1,290,682</u>
 Prior Period Restatement	<u>40,000</u>	<u> </u>
 Adjusted Net Position, Beginning of Year	<u>1,212,898</u>	<u> </u>
 Net Position, End of Year	<u><u>\$ 1,333,676</u></u>	<u><u>\$ 1,172,898</u></u>

Financial Operating Activities

Operating revenues increased by \$262,745 caused by an increase in contract services provided to Muskingum County & Guernsey County Job & Family Services.

Non-Operating Revenues increased by \$199,652 due to the acquisition of capital assets (parking lot repaving project and a couple of vehicles) and the establishment of capital funds.

Operating expenses (including Wages, Fringes Benefits, and Purchased Transportation) increased \$271,709 which is consistent with the increases of contract revenue.

Capital Assets and Debt Administration

The Authority's investment in capital assets as of December 31, 2013 is \$1,262,124 (net of accumulated depreciation). This investment in capital assets includes land, buildings, buses, and equipment.

Additional information concerning the Authority's capital assets can be found in Note 6 of the Notes to the Basic Financial Statements.

**SOUTH EAST AREA TRANSIT
MUSKINGUM COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2013
(UNAUDITED)**

As of December 31, 2013, long term liabilities consist entirely of compensated absences for accrued sick pay of \$43,965.

The Authority has no long term debt, but does have a line of credit of \$180,000 outstanding at December 31, 2013.

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 our Transit Director at 375 Fairbanks Street, Zanesville, Ohio 43701.

**South East Area Transit
Muskingum County
Statement of Net Position
For the Year Ended December 31, 2013**

Assets

Current Assets:

Cash and Cash Equivalents	\$ 89,973
Accounts Receivable	20,993
Intergovernmental Receivable	254,620
Materials & Supplies Inventory	31,086
Total Current Assets	<u>396,672</u>

Non-Current Assets:

Property, Facilities and Equipment	
Land - Non Depreciable	334,255
Operating Facilities	1,747,102
Buses & Other Vehicles	1,547,805
Furniture, Fixtures, & Equipment	501,540
Subtotal	<u>4,130,702</u>
Less Accumulated Depreciation	<u>(2,868,578)</u>
Total Property, Facility and Equipment (net of accumulated depreciation)	<u>1,262,124</u>
Total Assets	<u><u>1,658,796</u></u>

Liabilities

Current Liabilities

Notes Payable	180,000
Accounts Payable	31,983
Accrued Payroll	7,533
Accrued Payroll Taxes & Withholdings	2,030
Accrued Vacation Time	50,046
Unredeemed Fares	9,563
Total Current Liabilities	<u>281,155</u>

Long-Term Liabilities

Accrued Sick Time	<u>43,965</u>
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Total Liabilities	325,120
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Net Position

Invested in Capital Assets	1,262,124
Unrestricted	71,552
Total Net Position	<u><u>\$ 1,333,676</u></u>

See Accompanying Notes to the Basic Financial Statements

**South East Area Transit
Muskingum County
Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended December 31, 2013**

Operating Revenues	
General Public Fares	\$ 92,169
Special Transit Fares	1,173,993
Intergovernmental Funding	1,232,747
Advertising Revenue	31,150
Maintenance Services	28,739
Other Operating Revenue	30,856
Total Operating Revenues	<u>2,589,654</u>
Operating Expenses	
Labor	841,886
Fringe Benefits	690,182
Services	170,066
Materials & Supplies	297,008
Utilities	36,925
Casualty & Liability Insurance	79,479
Purchased Transportation	560,046
Miscellaneous Expenses	12,118
Interest Expense	9,008
Leases & Rentals	8,520
Total Operating Expenses	<u>2,705,238</u>
Operating Gain/Loss Excluding Depreciation	(115,584)
Depreciation	<u>232,745</u>
Operating Gain/Loss	(348,329)
Non-Operating Revenues (Expenses)	
Federal Capital Maintenance Grant	230,033
Federal Grant - Capital	170,866
Other Non-Operating Income	68,208
Total Non-Operating Revenue	<u>469,107</u>
Net Gain/Loss	120,778
Net Position, Beginning of Year (Restated - See Note 3)	<u>1,212,898</u>
Net Position, End of Year	<u><u>\$ 1,333,676</u></u>

See Accompanying Notes to the Basic Financial Statements

**South East Area Transit
Muskingum County
Statement of Cash Flows
For the Year Ended December 31, 2013**

Operating Activities

Cash Received From Customers	\$ 1,272,549
Cash Received From Grants for Operating	1,119,427
Cash Received From Advertising Fees	31,150
Cash Received From Maintenance Services	28,739
Cash Received From Other Receipts	20,568
Cash Payments for Operating and Administrative Expenses	<u>(2,898,666)</u>
Net Cash Used	<u>(426,233)</u>

Non-Capital Financing Activities

Increase (Decrease) on Line of Credit	(20,837)
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Capital and Related Financing Activities

Proceeds From Capital Grants and Assistance	400,899
Proceeds From Sale of Equipment / Other	68,208
Payments For The Purchase of Capital Assets	<u>(231,211)</u>
Net Cash Provided	237,896

Investing Activities

Cash Received From Interest	<u>17</u>
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Net Increase in Cash & Equivalents

(209,157)

Cash & Equivalents - Beginning of Year

299,130

Cash & Equivalents - End of Year

\$ 89,973

Reconciliation of Operating Gain (Loss) to Net Cash Used in Operating Activities

Operating Gain (Loss)	\$ (348,329)
Adjustments to Reconcile Operating Gain (Loss) to Net Cash Used in Operating Activities	
Depreciation	232,745
Changes in Assets & Liabilities	
(Increase) Decrease in Accounts Receivable	(116,653)
(Increase) Decrease in Inventories	(2,597)
Increase (Decrease) in Accounts Payable	(145,864)
Increase (Decrease) in Payroll Liabilities	(46,478)
Increase (Decrease) in Compensated Absences	1,512
Increase (Decrease) in Unredeemed Fares	<u>(569)</u>
Net Cash (Used) in Operating Activities	<u><u>\$ (426,233)</u></u>

See Accompanying Notes to the Basic Financial Statements

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**SOUTH EAST AREA TRANSIT
MUSKINGUM COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013**

1. DESCRIPTION OF THE AUTHORITY AND REPORTING ENTITY

Description of the Authority

The Muskingum Authority of Public Transit which is doing business as the 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 Southeast 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, 2013, the Authority had 31 full-time equivalent employees and 3 part-time employees. Approximately 65% of the Authority's employees at December 31, 2013 are subject to a collective bargaining agreement expiring on May 31, 2016.

Description of the Reporting Entity

The accompanying financial statements comply with the provisions of the Government Accounting Standards Board (GASB) Statement No. 14, The Financial Reporting Entity, as well as GASB Statement No. 39, Determining Whether Certain Organizations are Component Units, an amendment of GASB Statement No. 14, and GASB Statement No. 61, Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34. . These statements require that financial statements of the reporting entity to include all of the organizations, activities, functions, and component units for which the reporting entity is financially accountable.

Component units are legally separate organizations for which the Authority is financially accountable. The Authority is financially accountable for an organization if the Authority appoints a voting majority of the organization's governing board and (1) the Authority is able to significantly influence the programs or services performed or provided by the organization; or (2) the Authority is legally entitled to or can access the organization's resources; the Authority is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the Authority is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the Authority in that the County approves the budget, the levying of taxes, the issuance of debt, and there is a potential for the organization to provide specific financial benefits to, or impose specific financial burden on, the primary government. The Authority does not have financial accountability over any entities.

The Authority is managed by an eleven member Board of Trustees, who establishes policies and sets direction for the management of the Authority. Six members are appointed by the Mayor of Zanesville with the consent of City Council, two members are appointed by the Muskingum County Commissioners, and the remaining three members are appointed by the Guernsey County Commissioners, the Mayor of Cambridge, 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 accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting. The most significant of the Authority's accounting policies are described below.

**SOUTH EAST AREA TRANSIT
MUSKINGUM COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Budgetary Accounting and Control

The Authority's annual budget is prepared on the accrual basis of accounting as permitted by law.

Cash and Cash Equivalents

Cash and cash equivalents consist of funds deposited in checking accounts and are stated at cost, which approximates market value. Cash and cash equivalents represent the funds that are used for the general operations. For the purpose 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 Revenues

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

Grants and assistance revenues are received from reimbursable, non-reimbursable, and entitlement type grant programs. These grant programs involve transactions that are categorized as either government-mandated or voluntary non-exchange transactions. Grants and assistance revenues from government-mandated and voluntary non-exchange transactions are recorded as a receivable and 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 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 non-depreciable. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets as follows:

<u>Description</u>	<u>Years</u>
Buildings and Improvements	5-20
Transportation Vehicles	4-12
Furniture, Fixtures and Equipment	3-15

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.

**SOUTH EAST AREA TRANSIT
MUSKINGUM COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Operating Revenues and Expenses

The Authority has classified its revenues as either operating or non-operating. Operating revenues are those that are generated directly from the primary activities. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the Authority. Revenues and expenses not meeting this definition are reported as non-operating.

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 position that is legally restricted by outside parties or by law through constitutional provisions or enabling legislation. When both restricted and unrestricted resources are available for use, generally it is the Authority's policy to use restricted resources first.

Unrestricted – This consists of net position that does not meet the definition of “restricted” or “invested in capital assets”.

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:

- The compensated absence is earned on the basis of services already provided by the employees; and
- 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% 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 accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes.

**SOUTH EAST AREA TRANSIT
MUSKINGUM COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013
(Continued)**

3. RESTATEMENT OF NET POSITION

SEAT is restating the beginning net position for 2013 to account for a restatement of \$40,000 which was originally reflected as a liability in 2006. These funds were insurance proceeds for a vehicle which was not replaced until 2013. SEAT carried these funds as a liability on the financial statements in prior years rather than as income in 2006 with a footnote indicating the holding of the funds were temporarily restricted for the purpose of obtaining a replacement vehicle. The accounting change had the following change on net position at January 1, 2012:

Net Position at January 1, 2012	\$1,172,898
Restatement	<u>40,000</u>
Restated Net Position at January 1, 2012	<u><u>\$1,212,898</u></u>

4. 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 (STAR Ohio) and obligations of the United States government or certain agencies thereof. The Authority may also enter in repurchase agreements with any eligible depository for a period not extending 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 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.

**SOUTH EAST AREA TRANSIT
MUSKINGUM COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013
(Continued)**

4. CASH AND INVESTMENTS (Continued)

At December 31, 2013, the bank balance of all Authority deposits was \$165,114, and the book balance was \$89,973. Based on the criteria described in GASB Statement No. 40, "Deposit and Investment Risk Disclosures", as of December 31, 2013, none of the Authority's funds were exposed to custodial risk.

Investments

The Authority held no investments at December 31, 2013.

5. ACCOUNTS RECEIVABLE

Receivables at December 31, 2013 consisted of accounts (billings for user charges for services) and intergovernmental grants. Management estimated allowances for bad debt based on a review of accounts receivable at year end and it was determined that most accounts were collectable and in good standing and a small allowance was established based on prior year data.

A summary of the principal items of intergovernmental receivables at December 31, 2013 consisted of the following amounts: Ohio Department of Transportation \$112,036, Ohio Department of Taxation \$4,223, Guernsey County Job and Family Services \$28,236 and Muskingum County Job and Family Services \$110,124.

6. CAPITAL ASSETS

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

<u>Asset Type</u>	<u>Balance at 12-31-2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at 12-31-2013</u>
Nondepreciable Capital Assets:				
Land	\$334,255	\$0	\$0	\$334,255
Depreciable Capital Assets:				
Buildings	1,657,538	89,564	0	1,747,102
Buses & Vehicles	1,593,887	58,935	105,017	1,547,805
Furniture, Fixtures and Equipment	438,551	82,694	19,705	501,540
Total Depreciable Capital Assets	3,689,976	231,193	124,722	3,796,447
Accumulated Depreciation				
Buildings	1,135,052	56,407	0	1,191,459
Buses & Vehicles	1,188,812	173,950	105,017	1,257,745
Furniture, Fixtures and Equipment	436,691	2,388	19,705	419,374
Total Accumulated Depreciation	2,760,555	232,745	124,722	2,868,578
Net Depreciable Capital Assets	929,421	(1,552)	0	927,869
Capital Assets - Net	<u>\$1,263,676</u>	<u>(\$1,552)</u>	<u>\$0</u>	<u>\$1,262,124</u>

**SOUTH EAST AREA TRANSIT
MUSKINGUM COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013
(Continued)**

7. NOTE PAYABLE

In 2013, the Authority renewed a line of credit from a local bank in the amount of \$291,096 to be used as a source of short-term operating funds. The outstanding balance at December 31, 2013 is \$180,000. The loan is un-secured. The interest rate is variable. A member of the Board of Trustees is an officer of the bank. He resigned from the Board on January 1, 2014.

8. DEFINED BENEFIT PENSION PLANS

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

- The Traditional Pension Plan – cost-sharing multiple-employer defined benefit pension plan.
- The Member-Directed Plan – 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 – 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, but less than, 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 a statement statute per Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report. Interested parties may obtain a copy by visiting <https://www.opers.org/investments/cafr.shtml>, writing to the OPERS, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-5601 or 800-222-7377.

The Ohio Revised Code provides statutory authority for member and employer contributions and currently limits the employer contribution to a rate not to exceed 14 percent of covered payroll for state and local employer units. Member contribution rates, as set forth in the Ohio Revised Code, are not to exceed 10 percent of covered payroll for members in State and local divisions. For the year ended December 31, 2013, members in state and local divisions contributed 10 percent of the covered payroll. For 2013, member and employer contribution rates were consistent across all three plans.

The Authority's 2013 contribution rate was 14 percent of covered payroll. The portion of employer contributions used to fund pension benefits is net of post-employment health care benefits. For 2013, the portion of employer contributions allocated to health care was 1 percent for members in the Traditional Plan and the Combined Plan. Employer contribution rates are actuarially determined.

The Authority's required contribution for the years ended December 2013, 2012, and 2011 were \$117,864, \$109,119, and \$119,766, respectively. For fiscal year 2013, 99 percent has been contributed with the balance being reported as a payable. The full amount has been contributed for fiscal years 2012 and 2011.

**SOUTH EAST AREA TRANSIT
MUSKINGUM COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013
(Continued)**

9. POST-EMPLOYMENT BENEFITS

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

OPERS maintains a cost-sharing multiple-employer defined benefit post-employment health care plan for qualifying members of both the Traditional Pension and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage. The plan includes a medical plan, prescription drug program and Medicare Part B premium reimbursement.

In order to qualify for post-employment health care coverage, age-and-service retirees under the Traditional Pension and Combined Plans must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The Ohio Revised Code permits, but does not mandate, OPERS to provide health care benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

Disclosures for the health care plan are presented separately in the OPERS financial report which may be obtained by visiting <https://www.opers.org/investments/cafr.shtml>, by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 614-222-5601 or 800-222-7377.

Funding Policy – The post-employment health care plan was established under, and is administrated in accordance with, Internal Revenue Code 401(h). The Ohio Revised Code provides the statutory authority requiring public employers to fund post-retirement health care through contributions to OPERS. A portion of each employer's contribution to OPERS is set aside for the funding of post-retirement health care.

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2013, state and local employers contributed at a rate of 14.0 percent of covered payroll. The Ohio Revised Code currently limits the employer contribution to a rate not to exceed 14 percent of covered payroll for state and local employer units.

Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of post-employment health care benefits. For 2013, the portion of employer contributions allocated to health care was 1 percent for members in the Traditional Plan and the Combined Plan.

The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care benefits provided, by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected. Active members do not make contributions to the post-employment health care plan. The Authority's contributions allocated to fund post-employment health care benefits for the year ended December 31, 2013 was \$8,419; 99 percent has been contributed for 2013.

**SOUTH EAST AREA TRANSIT
MUSKINGUM COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013
(Continued)**

9. POST-EMPLOYMENT BENEFITS (Continued)

Changes to the health care plan were adopted by the OPERS Board of Trustees on September 19, 2012, with a transition plan commencing on January 1, 2014. With the recent passage of the pension legislation under SB 343 and the approved health care changes, OPERS expects to be able to consistently allocate 4 percent of the employer contributions toward the health care fund after the end of the transition period.

10. 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, 2013 consist of the following:

Federal:	
FTA Capital Assistance	\$ 400,899
FTA Operating Assistance	1,031,413
	<u>\$ 1,432,312</u>
State:	
ODOT Operating Assistance	\$ 66,368
ODOT Elderly Fare Assistance	13,366
	<u>\$ 79,734</u>
Local:	
City of Zanesville	\$ 80,000
Village of South Zanesville	2,500
Muskingum County	10,000
City of Cambridge	5,000
Guernsey County	24,000
Muskingum County Job and Family Services	663,967
Guernsey County Job and Family Services	386,235
	<u>\$ 1,171,702</u>

On April 25, 2012, the Board of Trustees established a capital replacement line item on its accounting system in which it places 11 percent of negotiated special transit fares. The purpose of these monies is to provide a local match portion for the Authority for federal capital maintenance grants or federal capital replacement grants that are available through the Ohio Department of Transportation, as needed. For the year ending December 31, 2013, the Authority collected \$53,338 in the capital replacement line item. This amount was reported in the financial statements within Special Transit Fares.

11. 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 Risk Pool Association, Inc. (OTRIP). OTRIP is a joint self-insurance pool pursuant to Section 2744.081 of the Ohio Revised Code, currently operating as a common risk management and insurance program for 10 member transit agencies. The Authority pays an annual premium to OTRIP for its general insurance coverage and makes quarterly payments into a loss and administration fund pursuant to OTRIP's bylaws. The Agreement of Formation of the OTRIP provides that OTRIP will be self-sustaining through member premiums.

**SOUTH EAST AREA TRANSIT
MUSKINGUM COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013
(Continued)**

11. RISK MANAGEMENT (Continued)

Per occurrence, catastrophic loss coverage is maintained by OTRIP equal to \$200,000,000 for qualified property losses (including auto physical damage) and \$10,000,000 for automobile liability.

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.

12. CONTINGENCIES

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

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**SOUTH EAST AREA TRANSIT
MUSKINGUM COUNTY**

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2013**

FEDERAL GRANTOR/ Pass Through Grantor Program Title	Grant Number	Federal CFDA Number	Expenditures
<u>U.S. DEPARTMENT OF TRANSPORTATION</u>			
<i>Passed Through Ohio Department of Transportation:</i>			
Formula Grants for Other Than Urbanized Areas	OH-18-X030	20.509	\$ 1,261,446
	OH-18-X029		15,148
ARRA - Formula Grants for Other Than Urbanized Areas	OH-86-X004		89,564
Total Formula Grants for Other Than Urbanized Areas			<u>1,366,158</u>
Federal Transit - Capital Investment Grant	OH-04-0100	20.500	9,995
	OH-04-X052		56,159
Total Federal Transit - Capital Improvement Grant			<u>66,154</u>
Total U.S. Department of Transportation			<u>1,432,312</u>
Total Federal Awards Expenditures			<u><u>\$ 1,432,312</u></u>

The Notes to the Schedule of Federal Awards Expenditures is an integral part of the Schedule.

**SOUTH EAST AREA TRANSIT
MUSKINGUM COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2013**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The Authority prepares its Schedule of Federal Awards Expenditures (the Schedule) on the same basis of accounting used to prepare its financial statements, which is described in Note 2, Summary of Significant Accounting Policies.

NOTE B - MATCHING REQUIREMENTS

The Authority is required to contribute non-federal funds (matching funds) to support federally funded programs. The expenditure of non-federal matching funds is not included in this Schedule.



Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY GOVERNMENT AUDITING STANDARDS

South East Area Transit
Muskingum County
375 Fairbanks Street
Zanesville, Ohio 43701

To the Board of Trustees:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the South East Area Transit, Muskingum County, Ohio (the Authority), as of and for the year ended December 31, 2013, and the related notes to the financial statements, and have issued our report thereon dated September 16, 2014.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinion on the financial statements, but not to the extent necessary to opine on the effectiveness of the Authority's internal control. Accordingly, we have not opined on it.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the Authority's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

Compliance and Other Matters

As part of reasonably assuring whether the Authority's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matters we must report under *Government Auditing Standards*, which is described in the accompanying Schedule of Findings and Questioned Costs as item 2013-001.

743 East State Street, Athens Mall Suite B, Athens, Ohio 45701-2157
Phone: 740-594-3300 or 800-441-1389 Fax: 740-594-2110

www.ohioauditor.gov

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the Authority's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost
Auditor of State

Columbus, Ohio

September 16, 2014



Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

South East Area Transit
Muskingum County
375 Fairbanks Street
Zanesville, Ohio 43701

To the Board of Trustees:

Report on Compliance for Each Major Federal Program

We have audited the South East Area Transit's, Muskingum County, Ohio (the Authority), compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect the Authority's major federal program for the year ended December 31, 2013. The *Summary of Auditor's Results* in the accompanying Schedule of Findings and Questioned Costs identifies the Authority's major federal program.

Management's Responsibility

The Authority's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to its federal program.

Auditor's Responsibility

Our responsibility is to opine on the Authority's compliance for the Authority's major federal program based on our audit of the applicable compliance requirements referred to above. Our compliance audit followed auditing standards generally accepted in the United States of America; the standards for financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. These standards and OMB Circular A-133 require us to plan and perform the audit to reasonably assure whether noncompliance with the applicable compliance requirements referred to above that could directly and materially affect a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our compliance opinion on the Authority's major program. However, our audit does not provide a legal determination of the Authority's compliance.

Opinion on the Major Federal Program

In our opinion, the Authority complied, in all material respects with the compliance requirements referred to above that could directly and materially affect its major federal program for the year ended December 31, 2013.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance which OMB Circular A-133 requires us to report, described in the accompanying Schedule of Findings and Questioned Costs as item 2013-003. This finding did not require us to modify our compliance opinion on the major federal program.

The Authority's response to our noncompliance finding is described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the Authority's response and, accordingly, we express no opinion on it.

Report on Internal Control over Compliance

The Authority's management is responsible for establishing and maintaining effective internal control over compliance with the applicable compliance requirements referred to above. In planning and performing our compliance audit, we considered the Authority's internal control over compliance with the applicable requirements that could directly and materially affect a major federal program, to determine our auditing procedures appropriate for opining on each major federal program's compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not to the extent needed to opine on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the Authority's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. Therefore, we cannot assure we have identified all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a material weakness.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program's applicable compliance requirement. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program's compliance requirement will not be prevented, or timely detected and corrected. A *significant deficiency in internal control over compliance* is a deficiency or a combination of deficiencies in internal control over compliance with a federal program's applicable compliance requirement that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 2013-002 to be a material weakness.

The Authority's response to our internal control over compliance finding is described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the Authority's response and, accordingly, we express no opinion on it.

South East Area Transit
Muskingum County
Independent Auditor's Report on Compliance with Requirements Applicable
to Each Major Federal Program and on Internal Control Over Compliance Required
by OMB Circular A-133
Page 3

This report only describes the scope of our tests of internal control over compliance and the results of this testing based on OMB Circular A-133 requirements. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost
Auditor of State

Columbus, Ohio

September 16, 2014

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**SOUTH EAST AREA TRANSIT
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 § .505
DECEMBER 31, 2013**

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unmodified
<i>(d)(1)(ii)</i>	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(iv)</i>	Were there any material internal control weaknesses reported for major federal programs?	Yes
<i>(d)(1)(iv)</i>	Were there any significant deficiencies in internal control reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unmodified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510(a)?	Yes
<i>(d)(1)(vii)</i>	Major Programs (list): <ul style="list-style-type: none"> • Formula Grants for Other Than Urbanized Areas – CFDA No. 20.509 	
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	No

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

FINDING NUMBER 2013-001

Noncompliance

Ohio Rev. Code § 5705.41(D)(1) prohibits a subdivision or taxing entity from making any contract or ordering any expenditure of money unless a certificate signed by the fiscal officer is attached thereto. The fiscal officer must certify that the amount required to meet any such contract or expenditure has been lawfully appropriated and is in the treasury, or is in the process of collection to the credit of an appropriate fund free from any previous encumbrance.

There are several exceptions to the standard requirement stated above that a fiscal officer's certificate must be obtained prior to a subdivision or taxing authority entering into a contract or order involving the expenditure of money. The main exceptions are: "then and now" certificates, blanket certificates, and super blanket certificates, which are provided for in §§ 5705.41(D)(1) and 5705.41(D)(3), respectively, of the Ohio Revised Code.

**SOUTH EAST AREA TRANSIT
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 § .505
DECEMBER 31, 2013
(Continued)**

2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)

FINDING NUMBER 2013-001 (Continued)

Noncompliance – Ohio Rev. Code § 5705.41(D)(1) (Continued)

1. “Then and Now” certificate - If the fiscal officer can certify that both at the time that the contract or order was made (“then”), and at the time that the fiscal officer is completing the certification (“now”), that sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the Authority can authorize the drawing of a warrant for the payment of the amount due. The Authority has thirty days from receipt of the “then and now” certificate to approve payment by ordinance or resolution. Amounts of less than \$3,000 may be paid by the fiscal officer without a resolution or ordinance upon completion of the “then and now” certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the Authority.
2. Blanket Certificates - Fiscal officers may prepare so-called “blanket” certificates not running beyond the current fiscal year. The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation. Purchase orders may not exceed an amount established by resolution or ordinance of the legislative authority, and cannot extend past the end of the fiscal year. In other words, blanket certificates cannot be issued unless there has been an amount approved by the legislative authority for the blanket.
3. Super Blanket Certificate - The Authority may also make expenditures and contracts for any amount from a specific line item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line item appropriation.

Although the Authority utilized purchase orders for the majority of disbursements, they were not issued for 8 percent of the expenditures we tested and they were not obtained prior to incurring the obligation for an additional 11 percent of the expenditures we tested in 2013. Additionally, there was no evidence that the Authority followed the aforementioned exceptions. Failure to properly certify the availability of funds can result in overspending funds and negative cash fund balances.

We recommend the Authority obtain the fiscal officer’s certification of the availability of funds prior to the commitment being incurred. The most convenient certification method is to use purchase orders that include the certification language § 5705.41(D) requires to authorize disbursements. The fiscal officer should sign the certification at the time the Authority incurs a commitment, and only when the requirements of § 5705.41(D) are satisfied. The Fiscal Officer should post approved purchase commitments to the proper appropriation code, to reduce the available appropriation.

Officials’ Response: We did not receive a response from Officials to this finding.

**SOUTH EAST AREA TRANSIT
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 § .505
DECEMBER 31, 2013
(Continued)**

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
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Lack of System of Controls over Federal Activity

Finding Number	2013-002
CFDA Title and Number	Formula Grants for Other Than Urbanized Areas – CFDA No. 20.509
Federal Award Number / Year	RPT-4060-030-131, RPT-0060-033-132, RPT-4060-030-133, RPT-0060-029-133, RPT-0060-004-095
Federal Agency	Department of Transportation – Federal Transit Administration
Pass-Through Agency	Ohio Department of Transportation

Material Weakness – Activities Allowed, Allowable Costs/Cost Principles, Period of Availability, and Reporting

In order to properly ensure compliance with the various federal requirements related to federal grant funding, management and staff who will be involved in the process should attend regular training to become familiar with and stay up to date with the various grant requirements, as well as be cognizant of the various resources available should questions arise. A system of controls should be established in order to ensure compliance with all federal grant requirements are met.

Controls that are essential to the disbursement processes should be established and followed to allow management to review expenditures and determine whether expenditures are allowable and within the period of availability. This includes the proper use of purchase requisitions and purchase orders. A detailed review of quarterly reports and supporting documentation should be conducted by an individual other than the preparer to determine accuracy prior to submission to the grantor.

During our review of 2013 grant records, we noted the lack of a sufficient system of controls over the Authority's compliance with federal grant requirements. The following are control weaknesses that were noted:

- Due to a lack of adequate reviews by management to determine the period of availability of expenditures, several 2012 obligations were reported as 2013 expenditures that were not eligible for reimbursement under the 2013 operating or capitalized maintenance grants; which require the Authority to fully fund these expenditures with local monies. This resulted in projected federal questioned costs greater than \$10,000 that require reporting to the Ohio Department of Transportation for possible repayment of grant monies. See Finding Number 2013-003.
- Financial and quarterly activity reports contained evidence of review by the Transit Director and/or Board President. However, the reviews failed to detect an error in the operating grant reporting resulting in the Authority receiving less grant monies than it was entitled to claim for reimbursement during 2013.
- Purchase orders were not being consistently prepared prior to the ordering of goods or services, particularly contracted services.

**SOUTH EAST AREA TRANSIT
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 § .505
DECEMBER 31, 2013
(Continued)**

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)
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FINDING NUMBER 2013-002 (Continued)

Material Weakness – Activities Allowed, Allowable Costs/Cost Principles, Period of Availability, and Reporting (Continued)

We recommend the Authority's management and staff that will be involved with and responsible for compliance with grant requirements attend trainings offered by ODOT, as well as familiarize themselves with the specific grant agreements and other resources at their disposal. Furthermore, we recommend that the Authority implement a system of controls that includes the following:

- Accurate reporting of expenditures so that only eligible costs within the period of availability are reported for reimbursement to ODOT;
- The regular review of financial information by the Transit Director and/or Board, with appropriate documentation maintained to evidence the review, to determine the accuracy of financial data submitted to ODOT prior to submission and ensure cash management, reporting, and matching requirements are being met; and,
- Prior approvals of expenditures prior to incurring obligations in order to determine costs are in accordance with allowable activities and cost principles.

Officials' Response: See Correction Action Plan on page 35.

Finding Number	2013-003
CFDA Title and Number	Formula Grants for Other Than Urbanized Areas – CFDA No. 20.509
Federal Award Number / Year	RPT-4060-030-131, RPT-0060-033-132
Federal Agency	Department of Transportation – Federal Transit Administration
Pass-Through Agency	Ohio Department of Transportation

Questioned Cost – Period of Availability

Rural Transit Program 2013 Grant Contract between South East Area Transit and the State of Ohio Department of Transportation § 2.5 states the operating assistance shall be applied toward the eligible operating expenses incurred during the time period of January 1, 2013 to December 31, 2013. Furthermore, the Ohio Department of Transportation Rural Transit Manual, Chapter 5 requires rural transit grantees and service providers to use accrual accounting based on Generally Accepted Accounting Principles (GAAP) and a uniform system of accounts (USOA). Accrual accounting is the most accurate financial reporting method and matches revenues and expenses to the period the revenue was earned or the expense incurred. Accrual accounting applies revenues and expenses for the period January 1 – December 31 to allow for better management of transit funds and to reflect the true cost of business for this period.

**SOUTH EAST AREA TRANSIT
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 § .505
DECEMBER 31, 2013
(Continued)**

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)
--

FINDING NUMBER 2013-003 (Continued)

Questioned Cost – Period of Availability (Continued)

For 2013, costs reported as a basis for reimbursement included 2012 obligations that were not properly reflected as expenditures and accounts payable during 2012 of \$5,360. These ineligible costs which were outside the period of availability resulted in projected questioned costs of \$21,458.

We recommend the Authority use only allowable expenditures that occurred during the period of availability to prepare its quarterly invoices to the Ohio Department of Transportation.

Officials' Response: See Correction Action Plan on page 35.

**SOUTH EAST AREA TRANSIT
MUSKINGUM COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A-133 § .315(b)
DECEMBER 31, 2013**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2012-01	Ohio Rev. Code Section 5705.41(D)(1) – The Authority failed to follow applicable budgetary certification requirements.	No	Not corrected. Repeated as finding number 2013-001.
2012-02	Material Weakness – The Authority did not utilize internal asset disposal forms to document disposed assets resulting in the disposal of several items twice on the financial statements.	Yes	
2012-03	Lack of system of controls over federal activity.	No	Not corrected. Repeated as finding number 2013-002.

**SOUTH EAST AREA TRANSIT
MUSKINGUM COUNTY**

**CORRECTIVE ACTION PLAN
OMB CIRCULAR A-133 § .315(c)
DECEMBER 31, 2013**

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2013-002	<p>Point #1. In September 2013, after our prior year audit that was completed in September 2013, SEAT management team implemented a new review system which reviews all invoices entered for processing.</p> <p>Point #2. Extra efforts will be made to ensure operating grant reporting matches financial reporting and budgets given to ODOT at the beginning of the year.</p> <p>Point #3. In September 2013, after our prior year audit that was completed in September 2013, SEAT management team implemented a new requisition/purchase order system that completes all steps required for proper internal control.</p>	December 31, 2014	Transit Director and Board Treasurer
2013-003	In September 2013, after our prior year audit that was completed in September 2013, SEAT management team implemented a new review system which reviews all invoices entered for processing, to ensure proper year recording for such.	December 31, 2014	Transit Director and Board Treasurer

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Dave Yost • Auditor of State

SOUTH EAST AREA TRANSIT

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
SEPTEMBER 30, 2014**