

***PORTAGE AREA REGIONAL TRANSIT AUTHORITY
PORTAGE COUNTY***

AUDIT REPORT

FOR THE YEAR ENDED DECEMBER 31, 2016



Dave Yost • Auditor of State

Board of Directors
Portage Area Regional Transit Authority
2832 State Rte 59
Ravenna, OH 44266

We have reviewed the *Independent Auditor's Report* of the Portage Area Regional Transit Authority, Portage County, prepared by Charles E. Harris & Associates, Inc., for the audit period January 1, 2016 through December 31, 2016. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Portage Area Regional Transit Authority is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

September 7, 2017

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**PORTAGE AREA REGIONAL TRANSIT AUTHORITY
PORTAGE COUNTY
DECEMBER 31, 2016**

TABLE OF CONTENTS

| TITLE | PAGE |
|--|-------------|
| Independent Auditors' Report..... | 1 |
| Management's Discussion and Analysis | 5 |
| Basic Financial Statements: | |
| Statement of Net Position | 15 |
| Statement of Revenues, Expenses and Changes In Net Position..... | 16 |
| Statement of Cash Flows..... | 17 |
| Notes to the Basic Financial Statements | 19 |
| Required Supplementary Information: | |
| Schedule of the Authority's Contributions – Last Three Years..... | 32 |
| Schedule of the Authority's Contributions – Last Four Years..... | 33 |
| Schedule of Expenditures of Federal Awards..... | 35 |
| Notes to the Schedule of Expenditures of Federal Awards..... | 36 |
| Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i> | 37 |
| Independent Auditors' Report on Compliance with Requirements Applicable to the Major Federal Program and on Internal Control Over Compliance Required by the Uniform Guidance..... | 39 |
| Schedule of Findings..... | 41 |
| Schedule of Prior Audit Findings..... | 42 |

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Rockefeller Building
614 W Superior Ave Ste 1242
Cleveland OH 44113-1306
Office phone - (216) 575-1630
Fax - (216) 436-2411

Charles E. Harris & Associates, Inc.
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

Portage Area Regional Transportation Authority
Portage County
2000 Summit Road
Kent, Ohio 44240

To the Board of Trustees:

Report on the Financial Statements

We have audited the accompanying financial statements of the Portage Area Regional Transportation Authority, Portage County, Ohio (the Authority), as of and for the year ended December 31, 2016, 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 financial position of the Portage Area Regional Transportation Authority, Portage County, Ohio as of December 31, 2016, and the changes in financial position and its cash flows thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

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, and schedules of net pension liabilities and pension contributions 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

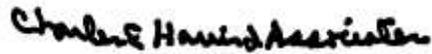
Our audit was conducted to opine on the Authority's basic financial statements taken as a whole.

The Schedule of Expenditure of Federal Awards presents additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards and is not a required part of the financial statements.

The schedule is management's responsibility, and derives from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. We subjected the 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 June 29, 2017, 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.



Charles E. Harris & Associates, Inc.
June 29, 2017

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PORTAGE AREA REGIONAL TRANSPORTATION AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended December 31, 2016
(Unaudited)

As management of the Portage Area Regional Transportation Authority (the 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, 2016. 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.

Overview of Financial Highlights

- The Authority has a total net position of \$28.8 million. This net position results from the difference between total assets and deferred outflows of \$35.6 million and total liabilities and deferred inflows of \$6.9 million.
- Current assets of \$5.4 million consist of non-restricted Cash and Cash Equivalents of \$2.5 million, Receivables of \$1.1 million, other prepaid assets of \$42,288, Inventory of \$.5 million, and restricted assets of \$1.3 million. Restricted assets consist of special deposits for local match of capital projects.
- Assets also include Capital Assets (net of accumulated depreciation) in the amount of \$28.0 million, and Deferred Outflows related to pension, as required to be reported by GASB Statement 68, in the amount of \$2.3 million.
- Current liabilities of \$.9 million consist of Payables of \$396,983, accrued payroll expenses of \$394,908, and unearned revenue of \$123,043.
- Noncurrent liabilities of \$5.8 million consist of Net Pension Liability.
- Deferred Inflows related to pension, as required to be reported by GASB Statement 68, equals \$112,734.

Basic Financial Statements and Presentation

This annual report includes the basic financial statements and accompanying notes prepared in accordance with the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments.

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 and deferred outflows without a corresponding increase to liabilities and deferred inflows result in increased net position, which indicates improved financial position.

The Statement of Revenues, Expenses, and Changes in Net Position presents information showing how the Authority's net position 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.

PORTAGE AREA REGIONAL TRANSPORTATION AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended December 31, 2016
(Unaudited)

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 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

During FY2015, the Authority adopted GASB Statement 68, "Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27," which significantly revised accounting for pension costs and liabilities. Users of this financial statement will gain a clearer understanding of the Authority's actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting deferred outflows related to pension.

The Authority is reporting a net pension liability and deferred inflows/outflows of resources related to pension on the accrual basis of accounting in the statement of net position.

Condensed Summary of Net Position

| | <u>2016</u> | <u>2015</u> |
|--|----------------------|----------------------|
| ASSETS | | |
| Unrestricted Assets | \$ 4,121,748 | \$ 3,476,596 |
| Restricted Assets | 1,267,983 | 1,243,640 |
| Capital Assets, Net | 27,950,645 | 28,470,416 |
| Deferred Outflows on Pension | <u>2,280,546</u> | <u>716,221</u> |
| Total Assets & Deferred Outflows | <u>\$ 35,620,922</u> | <u>\$ 33,906,873</u> |
| LIABILITIES | | |
| Current Liabilities | \$ 914,934 | \$ 754,721 |
| Noncurrent Liabilities | 5,834,493 | 3,995,728 |
| Deferred Inflows on Pension | <u>112,734</u> | <u>70,197</u> |
| Total Liabilities & Deferred Inflows | <u>\$ 6,862,161</u> | <u>\$ 4,820,646</u> |
| NET POSITION | | |
| Net Investment in Capital Assets | \$ 27,950,645 | \$ 28,470,416 |
| Restricted for Capital Assets | 1,267,983 | 1,243,640 |
| Unrestricted Funds Balance | <u>(459,867)</u> | <u>(627,829)</u> |
| Total Net Position (Restated – See Note 1) | <u>\$ 28,758,761</u> | <u>\$ 29,086,227</u> |

PORTAGE AREA REGIONAL TRANSPORTATION AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended December 31, 2016
(Unaudited)

Financial Analysis of the Authority (Cont'd)

In the prior year, the Authority implemented the GASB 68 accounting standard for pension plans. As a result of implementing the new accounting standard, the Authority is reporting a significant net pension liability, related deferred inflows of resources and an increase in expenses related to pension for this fiscal year which have a negative effect on net position. In addition, the Authority is reporting deferred outflows of resources, which has a positive consequence on net position. The increase in pension expense is the difference between the contractually required contributions and the pension expense resulting from the change in the net pension liability that is not reported as deferred inflows or outflows. To further explain the impact of this new accounting standard on the Authority's net position, additional information is presented below.

| | <u>2016</u> | <u>2015</u> |
|--|-----------------------|-----------------------|
| Deferred outflow of resources - pension | \$ 2,280,546 | \$ 716,221 |
| Deferred inflow of resources - pension | (112,734) | (70,197) |
| Net pension liability | <u>(5,834,493)</u> | <u>(3,995,728)</u> |
| Impact of GASB 68 on net position, end of year | <u>\$ (3,666,681)</u> | <u>\$ (3,349,704)</u> |

The largest portion of the Authority's net position reflects investment in capital assets consisting of buses, operating facilities and equipment. The Authority uses these capital assets to provide public transportation services for Portage County citizens. The Authority's largest asset is the Kent Central Gateway Multimodal facility located in Downtown Kent, OH. These assets are not available to liquidate liabilities or to cover other spending.

Condensed Summary of Revenues, Expenses, and Changes in Fund Net Position

| | <u>2016</u> | <u>2015</u> |
|-----------------------------------|----------------------|----------------------|
| Revenues | | |
| Operating Revenues | \$ 3,415,538 | \$ 3,423,025 |
| Non-Operating Revenues | <u>6,656,207</u> | <u>6,641,880</u> |
| Total Revenues | <u>10,071,745</u> | <u>10,064,905</u> |
| Expenses | | |
| Operating Expenses | 9,300,184 | 8,780,904 |
| Depreciation Expense | <u>3,016,560</u> | <u>2,932,565</u> |
| Total Expenses | <u>12,316,744</u> | <u>11,713,469</u> |
| Loss Before Capital Contributions | <u>(2,244,999)</u> | <u>(1,648,564)</u> |
| Capital Contributions | <u>1,917,533</u> | <u>574,744</u> |
| Change in Net Position | (327,466) | (1,073,820) |
| Net Position, Beginning of Year | <u>29,086,227</u> | <u>30,160,047</u> |
| Net Position, End of Year | <u>\$ 28,758,761</u> | <u>\$ 29,086,227</u> |

PORTAGE AREA REGIONAL TRANSPORTATION AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended December 31, 2016
(Unaudited)

Financial Analysis of the Authority (Cont'd)

The Authority's operating revenues have remained the same during the last two (2) years. Operating revenues decreased by \$7,487 to \$3.42 million in FY2016. This represents a .2% decrease from FY2015 to FY2016.

The Authority's operating expenses, excluding depreciation, have increased during the last two (2) years. Operating expenses increased by \$519,280 or 5.9% from FY2015 to FY2016. This is primarily due to an increase to Labor and Fringe Benefits.

The Authority's Capital Contributions increased in FY2016 from \$.57 million to \$1.9 million. In FY2016 the Authority received Capital Investment Grants to acquire five (5) used refurbished Transit Vehicles in the amount of \$576,000, acquire five (5) new replacement Light Transit Vehicles in the amount of \$258,436, design and renovation of the existing maintenance garage to be compliant for CNG vehicles in the amount of \$589,353, and the acquisition and implementation of a Real-Time AVL system for the fixed route service in the amount of \$384,900. The Authority's annual Federal allocation is approximately \$1.1 million, which consists of Capital Contributions and Capitalized Maintenance of the Authority's Capital Assets. The amount of Capital Contribution depends on the timing and payment of Capital projects.

Revenues:

For purposes of this presentation, the Authority groups its revenues into the following categories:

Contract Services – This category includes service contracts with entities to provide transportation services in Portage County in conjunction with the transportation to the general public. These revenues decreased 1.6% from FY2015 to FY2016 primarily due to a decrease in contract service requests.

Passenger Fares – General Public farebox fares and ticket sales are included in this line item. This category decreased \$20,761, or 6.4%, in FY2016. The Authority also realized a decrease in general public passengers in FY2016 for both demand response and fixed routes services, which would explain the decrease in fare revenue. A consultant was hired to investigate the reason(s) for the decline in passengers.

Multimodal Parking Fees – In FY2013 the Authority began operating the Kent Central Gateway Multimodal Facility. The Kent Central Gateway is located at 201 E. Erie St. in downtown Kent. It consists of a bus transfer facility with 10 bus bays and an indoor waiting area, and a 3-floor parking garage with 348 parking spaces. These revenues increased \$56,513, or 12.0%, from FY2015 to FY2016 primarily due to an increase in downtown resident parkers.

Federal Grants and Reimbursements – The Authority receives approximately \$1 million each year from the Federal 5307 grant program. In FY2016, \$670,000 was used for capitalized maintenance of the Authority's vehicles and facilities, and the remaining allocation was used for capital projects. This category also includes competitively awarded grant funds in the amount of \$87,524 from the New Freedom 5317 program for reimbursement of Mobility Management expenses. In FY2015, \$660,000 was used for capitalized maintenance and \$89,896 was used for Mobility Management expenses. There was practically no change to this category from FY2015 to FY2016.

State Grants, Reimbursements and Special Fare Assistance – The Ohio Department of Transportation allocates grants for elderly and disabled programs, of which, the Authority received \$96,194 in FY2016 and \$126,608 in FY2015. The Authority also receives grant funds for reimbursement of capitalized maintenance costs, of which, the Authority received \$229,963 in FY2016 and \$240,332 in FY2015. This category also includes reimbursement for state fuel taxes paid by the Authority. State grant funds decreased 10% overall from FY2015 to FY 2016.

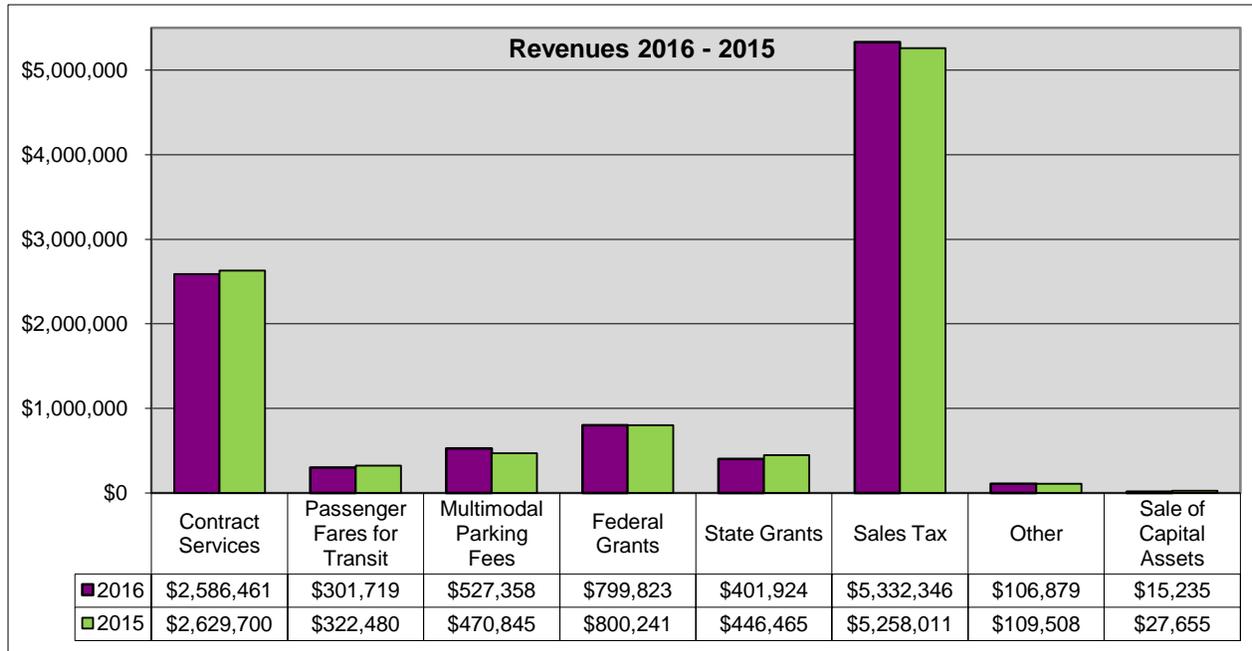
PORTAGE AREA REGIONAL TRANSPORTATION AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended December 31, 2016
(Unaudited)

Financial Analysis of the Authority (Cont'd)

Sales Tax Revenues – .25 mills is levied against Portage County sales tax, and in 2005 the Authority renewed the levy to be permanent. For FY2016, Sales Tax Revenues increased 1.4% and generated \$5,332,346, or 56.1% of the Authority's revenue for transit operations. For FY2015, Sales Tax Revenues generated approximately 54.8% of the Authority's revenue for transit operations (excluding capital contributions).

Other Income – This category summarizes miscellaneous income and revenue from various sources such as advertising, rebates, recycling, and 3rd-party maintenance service. This category decreased from FY2015 to FY2016 by 7.2% primarily due to a decrease in need for 3rd-party maintenance service.

Sale of Capital Assets – This category consists of assets competitively sold after they have reached their useful lives. In FY2016 the Authority sold or scrapped seven (7) buses totaling \$15,235. In FY2015 the Authority sold or scrapped ten (10) buses and a rotary lift totaling \$27,655.



Expenses: Transit

For purposes of this presentation, the Authority groups its expenses into the following categories:

Labor and Fringe Benefits – These personnel costs accounted for approximately 75.6% of all the Authority's transit operating expenses (excluding depreciation) in FY2016. There was a 12.5% overall increase in this category due to personnel changes and a cost of living pay rate increase. In FY2015, the personnel costs accounted for approximately 71.4% of all the Authority transit operating expenses (excluding depreciation).

Services – These expenses are associated with work performed by outside consultants such as advertising, legal fees, maintenance, training, employee background checks, and drug testing. The services category accounted for approximately 6.8% of all the Authority's transit operating expenses (excluding depreciation) in FY2016. These expenses increased \$41,437 from FY2015 to FY2016, which was a 5.0% increase. There were additional professional service expenses in FY2016 consisting of legal review of the procurement contract template documents, IT contract reviews, and designing an advertising campaign to roll out the new AVL / Real-Time system called "Spot PARTA".

PORTAGE AREA REGIONAL TRANSPORTATION AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended December 31, 2016
(Unaudited)

Financial Analysis of the Authority (Cont'd)

There were also increased expenses related to pre-employment drug screening and physicals, CDL testing, and recruitment giveaways.

Fuel & Materials & Supplies – The largest expense in this category is diesel fuel. The Authority participates each year in a joint procurement for diesel fuel with other regional transit authorities to leverage buying power and manage these expenses. From FY2015 to FY2016 the cost per gallon of fuel decreased 29.7%. In addition, less diesel gallons were purchased and more gasoline gallons were purchased base on the type of vehicles in the Authority's fleet. This was the primary reason for the 25.1% decrease in this expense category.

Utilities – These expenses include public utilities (i.e. gas, electric, phone, sewer, water), as well as satellite and cell phone. The utility expenses decreased \$11,916, or 9.4% from FY2015 to FY2016 as a result of a mild winter and plan changes to several of the accounts.

Casualty and Liability Insurance – The Authority belongs to an insurance pool of 10 transit agencies and premiums are based on an annual actuarial study and allocation done by the Ohio Transit Risk Pool. These premium calculations decreased \$16,909, or 6.1%, from FY2015 to FY2016. This shows a good safety record among the members of the pool.

Miscellaneous – This category includes advertising & promotions, dues & subscriptions, travel & meetings, and other miscellaneous expenses. These expenses decreased slightly in the amount of \$4,779 from FY2015 to FY2016.

Depreciation – This category includes depreciation on all capital assets, except land and construction in process. These expenses are calculated using the straight-line method. This expense slightly increased \$82,377, or 2.9%, from FY2015 to FY2016 as a result of the capital asset balance.

Expenses: Multimodal

Multimodal –The Authority began operating the Kent Central Gateway Multimodal Facility in the Spring of FY2013 and the associated operating expenses are in this category. The Kent Central Gateway is located at 201 E. Erie St. in downtown Kent. It consists of a bus transfer facility with 10 bus bays and an indoor waiting area, and a 3-floor parking garage with 348 parking spaces. The expenses include Labor & Fringe Benefits, Services, Fuel & Materials & Supplies, Utilities, Miscellaneous, & Depreciation. Overall these expenses increased \$11,423, or 2.3%, from FY2015 to FY2016 primarily due to labor and fringe benefits.

Labor and Fringe Benefits – These personnel costs increased \$17,071, or 8.4%, from FY2015 to FY2016. Although the Kent Central Gateway was designed to operate unmanned, the Authority determined this was not effective in assisting with parking issues; therefore, created additional attendant positions. This has helped to identify and address issues in a timely manner and deter fraud.

Services – These expenses are associated with work performed by outside consultants including parking management and security. These expenses increased \$8,152, or 8.3% from FY2015 to FY2016 due to normal service warranties ending and normal expenses of operating a parking deck.

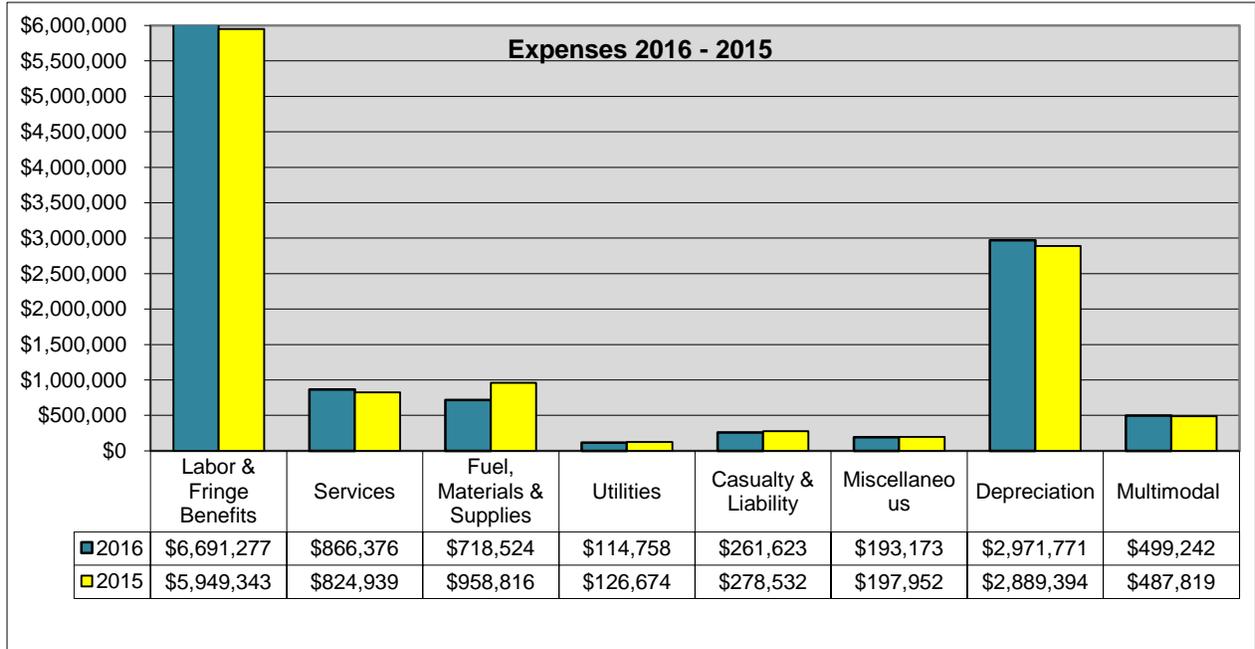
Fuel, Materials and Supplies – These expenses are associated with supplies for parking (i.e. tickets, monthly hangtags), as well as supplies to maintain the facility. These expenses decreased \$3,402, or 9.6%, from FY2015 to FY2016 due to a better understanding of operating a parking deck.

Utilities – These expenses include public utilities (i.e. gas, electric, phone, sewer, water). The utility expenses decreased \$12,153, or 12.7 %, from FY2015 to FY2016 as a result of milder winters as well as getting the heating pumps to the HVAC system to work properly.

PORTAGE AREA REGIONAL TRANSPORTATION AUTHORITY
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 Year Ended December 31, 2016
 (Unaudited)

Financial Analysis of the Authority (Cont'd)

Depreciation – This category includes depreciation on all capital assets associated with the Kent Central Gateway (excluding the land). In FY2016 the Authority acquired an electric car charging station. The depreciation expense increased \$1,618, or 3.7% from FY2015 to FY2016.



Operations – These are expenses directly related to dispatching and running vehicles in revenue service to carry passengers, including administrative and clerical support. Included are wages and fringe benefits of operators, dispatchers, customer service, as well as diesel fuel and security costs.

Maintenance – The expenses included in this category are associated with ensuring vehicles and facilities are operable, cleaned, fueled, inspected, and repaired. Included are maintenance labor costs, fringe benefits, and materials and supplies.

General Administration – The expenses included in this category are administrative personnel labor and fringe benefits, insurance, professional services, advertising and office supplies.

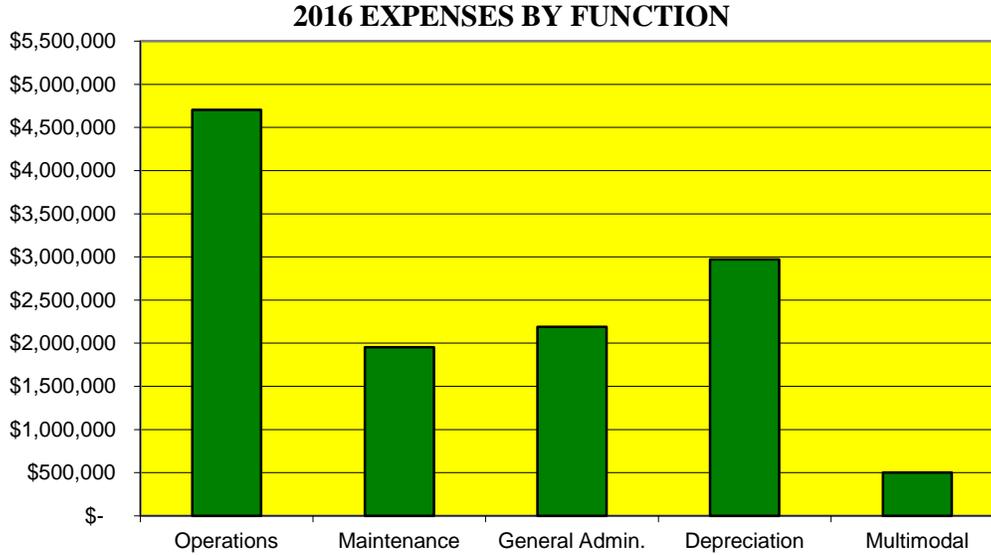
Multimodal – The expenses included in this category are associated with operating the Kent Central Gateway Multimodal Facility.

2016 EXPENSES BY FUNCTION

| | | |
|------------------------|-----------------------------|-------------|
| Operations | \$ 4,703,190 | 38% |
| Maintenance | 1,953,044 | 16% |
| General Administration | 2,189,498 | 18% |
| Depreciation | 2,971,770 | 24% |
| Multimodal | <u>499,242</u> | <u>4%</u> |
| TOTAL | <u>\$ 12,316,744</u> | 100% |

PORTAGE AREA REGIONAL TRANSPORTATION AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended December 31, 2016
(Unaudited)

Financial Analysis of the Authority (Cont'd)



Condensed Summary of Cash Flows

| | | |
|--|----------------------------|----------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | <u>2016</u> | <u>2015</u> |
| Cash Received from customers | \$ 3,470,613 | \$ 3,323,078 |
| Other Non-Operating Revenues | 100,532 | 108,286 |
| Cash payments to employees for services | (6,534,878) | (6,334,450) |
| Cash payments to suppliers for goods and services | <u>(2,303,308)</u> | <u>(2,506,318)</u> |
| Net cash used in operating activities | (5,267,041) | (5,409,404) |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES: | | |
| Sales taxes received | 5,303,743 | 5,208,473 |
| Operating grants received | <u>1,201,747</u> | <u>1,246,706</u> |
| Net cash provided by non-capital financing activities | 6,505,490 | 6,455,179 |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES: | | |
| Capital grants received | 1,917,533 | 574,744 |
| Acquisition of fixed assets | (2,496,787) | (948,869) |
| Sale of Capital Assets | <u>15,235</u> | <u>27,655</u> |
| Net cash used in capital and related financing activities | (564,019) | (346,470) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Interest received from investments | <u>6,347</u> | <u>1,222</u> |
| Net cash provided by investing activities | 6,347 | 1,222 |
| NET CHANGE IN CASH AND CASH EQUIVALENTS | 680,777 | 700,527 |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | <u>3,061,257</u> | <u>2,360,730</u> |
| CASH AND CASH EQUIVALENTS, END OF YEAR | <u>\$ 3,742,034</u> | <u>\$ 3,061,257</u> |

PORTAGE AREA REGIONAL TRANSPORTATION AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended December 31, 2016
(Unaudited)

Financial Analysis of the Authority (Cont'd)

Net cash used in operating activities decreased from FY2015 to FY2016 as a result of decreased payments to vendors for goods and services.

Net cash provided by non-capital financing activities increased from FY2015 to FY2016 as a result of the increase in sales tax received.

Net cash used by capital and related financing activities overall increased from FY2015 to FY2016. Capital grants received increased \$1,342,789 from FY2015 to FY2016. Acquisition of capital assets increased \$1,547,918 from FY2015 to FY2016. As stated previously in this report, in FY2016 the Authority received Capital Investment Grants to acquire five (5) used refurbished Transit Vehicles in the amount of \$576,000, acquire five (5) new replacement Light Transit Vehicles in the amount of \$258,436, design and renovation of the existing maintenance garage to be compliant for CNG vehicles in the amount of \$589,353, and the acquisition and implementation of a Real-Time AVL system for the fixed route service in the amount of \$384,900.

Net cash provided by investing activities increased \$5,125 overall from FY2015 to FY2016. The bank balances increased due do an increase in sales tax revenue, which resulted in an increase in interest income revenue.

End of Year Cash & Cash Equivalentents increased as a result of the increase in Sales tax revenue, and an increase in Capital Financing Activities.

Capital Assets

The Authority's investment in capital assets amounts to approximately \$27.95 million, net of accumulated depreciation as of December 31, 2016, a decrease of \$519,771, or 2%. As of December 31, 2015, capital assets were approximately \$28.47 million, net of accumulated depreciation. Capital assets include land and land improvements, revenue producing and service equipment, buildings and structures, shop equipment, office furnishings, and computer equipment. The Authority disposed of capital equipment in FY 2016, which had reached its useful life, and had a book value of \$862,136. The Authority disposed of capital equipment in FY 2015, which had reached its useful life, and had a book value of \$667,863. The Authority was one of fifty-one grantees in the United States awarded a Transportation Investments Generating Economic Recovery (TIGER) Grant in 2009. \$20 Million was awarded to purchase land and construct the Kent Central Gateway Multimodal Transit Facility in downtown Kent, which began operating in April 2013.

Future Outlook

The passage of a permanent .25% sales & use tax in Portage County provides the continuing funding source to stabilize the Authority's future. With the growth in the past few years, the Authority has reached a point where the stabilization of current transportation patterns will be maintained. There is a concern for continuously rising costs for fuel and insurance, and the changes in sales tax received regarding Medicare Managed Care facilities. The continued goal of the Authority will be to improve the efficiency and on-time performance of our service.

The award of the TIGER grant to construct the Kent Central Gateway Multimodal Transit Facility was the catalyst for an accessible downtown Kent experience. Creating a transit-oriented, walkable, vibrant downtown is providing economic development and increasing the livability of the area for residents and students. The Kent Central Gateway includes 10 transit bus bays, bicycle amenities, and potential retail, and office space along Erie Street. In addition, private developers have partnered with the Authority, City of Kent, and Kent State University to plan for revitalization of downtown around the Kent Central Gateway Multimodal facility.

PORTAGE AREA REGIONAL TRANSPORTATION AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended December 31, 2016
(Unaudited)

Request for Information

This financial report is designed to provide a general overview of the Authority's finances for those with an interest in its finances. Questions concerning any of the information in this report or request for additional financial information should be addressed to the Director of Finance, Portage Area Regional Transportation Authority, 2000 Summit Rd., Kent, OH 44240.

PORTAGE AREA REGIONAL TRANSPORTATION AUTHORITY
STATEMENT OF NET POSITION
December 31, 2016

| <u>ASSETS</u> | 2016 |
|---|----------------------|
| CURRENT ASSETS | |
| Cash & Cash Equivalents | \$ 2,474,050 |
| Receivables: | |
| Accounts | 226,339 |
| Accrued Sales Tax | 884,020 |
| Pre-Paid Expenses | 42,288 |
| Materials & Supplies Inventory | 495,051 |
| TOTAL UNRESTRICTED ASSETS | 4,121,748 |
| RESTRICTED ASSETS | |
| Special Deposit - Kent Central Gateway | 86,480 |
| Short-Term Investment – CDARS | 500,000 |
| Special Deposit - Restricted for capital expenses | 681,503 |
| TOTAL RESTRICTED ASSETS | 1,267,983 |
| TOTAL CURRENT ASSETS | 5,389,731 |
| | |
| Capital Assets Not Being Depreciated | 2,187,675 |
| Capital Assets Being Depreciated, Net | 25,762,970 |
| Capital Assets (Net of Accumulated Depreciation) | 27,950,645 |
| | |
| Deferred Outflows on Pension | 2,280,546 |
| | |
| TOTAL ASSETS & DEFERRED OUTFLOWS | 35,620,922 |
| | |
| <u>LIABILITIES</u> | |
| CURRENT LIABILITIES | |
| Accounts Payable | 388,143 |
| Accrued Sales Tax Fee Payable | 8,840 |
| Accrued Payroll and Benefits | 394,908 |
| Unearned Revenue | 123,043 |
| TOTAL CURRENT LIABILITIES | 914,934 |
| | |
| NONCURRENT LIABILITIES | |
| Net Pension Liability | 5,834,493 |
| TOTAL NONCURRENT LIABILITIES | 5,834,493 |
| | |
| Deferred Inflows on Pension | 112,734 |
| | |
| TOTAL LIABILITIES & DEFERRED INFLOWS | 6,862,161 |
| | |
| <u>NET POSITION</u> | |
| Net Investment in Capital Assets | 27,950,645 |
| Restricted for Capital Assets | 1,181,503 |
| Restricted for Kent Central Gateway | 86,480 |
| Unrestricted Funds Balance | (459,867) |
| TOTAL NET POSITION | \$ 28,758,761 |

The notes to the financial statements are an integral part of these statements.

PORTAGE AREA REGIONAL TRANSPORTATION AUTHORITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2016

| | |
|--|---------------|
| <u>OPERATING REVENUES:</u> | 2016 |
| Contract Services | \$ 2,586,461 |
| Passenger Fares for Transit Services | 301,719 |
| Multimodal Parking Fees | 527,358 |
| | <hr/> |
| TOTAL OPERATING REVENUES | 3,415,538 |
| | <hr/> |
| <u>OPERATING EXPENSES:</u> | |
| <i>TRANSIT</i> | |
| Labor and Fringe Benefits | 6,691,277 |
| Services | 866,376 |
| Fuel, Materials and Supplies | 718,524 |
| Utilities | 114,758 |
| Casualty and Liability Insurance | 261,623 |
| Miscellaneous | 193,173 |
| Depreciation | 2,971,771 |
| | <hr/> |
| | 11,817,502 |
| <i>MULTIMODAL</i> | |
| Labor and Fringe Benefits | 219,249 |
| Services | 106,479 |
| Fuel, Materials and Supplies | 31,905 |
| Utilities | 83,813 |
| Miscellaneous | 13,007 |
| Depreciation | 44,789 |
| | <hr/> |
| | 499,242 |
| | <hr/> |
| TOTAL OPERATING EXPENSES | 12,316,744 |
| | <hr/> |
| Operating Income (Loss) | (8,901,206) |
| <u>NON-OPERATING REVENUE:</u> | |
| Federal Grants and Reimbursements | 799,823 |
| State Grants, Reimbursements and Special Fare Assistance | 401,924 |
| Sales Tax | 5,332,346 |
| Interest Income | 6,347 |
| Sale of Capital Assets | 15,235 |
| Other | 100,532 |
| | <hr/> |
| TOTAL NON-OPERATING REVENUE | 6,656,207 |
| | <hr/> |
| Net Income (Loss) Before Capital Contributions | (2,244,999) |
| Capital Contributions | 1,917,533 |
| | <hr/> |
| Changes in Net Position | (327,466) |
| Net Position (Deficit) Beginning of Year | 29,086,227 |
| | <hr/> |
| Net Position (Deficit) End of Year | \$ 28,758,761 |
| | <hr/> <hr/> |

The notes to the financial statements are an integral part of these statements.

PORTAGE AREA REGIONAL TRANSPORTATION AUTHORITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2016

| | 2016 |
|--|------------------------------|
| Increase (Decrease) in Cash and Cash Equivalents | |
| Cash Flows from Operating Activities | |
| Cash Received from Customers | \$ 3,470,613 |
| Other Non-Operating Revenues | 100,532 |
| Cash Payments to Employees for Services | (6,534,878) |
| Cash Payments for Goods and Services | <u>(2,303,308)</u> |
| <i>Net Cash Provided by (Used in) Operating Activities</i> | (5,267,041) |
| Cash Flows from Noncapital Financing Activities | |
| Sales Taxes Received | 5,303,743 |
| Operating Grants Received | <u>1,201,747</u> |
| <i>Net Cash Provided by (Used in) Noncapital Financing Activities</i> | 6,505,490 |
| Cash Flows from Capital Financing Activities | |
| Capital Grants Received | 1,917,533 |
| Acquisition of Capital Assets | (2,496,787) |
| Sale of Capital Assets | <u>15,235</u> |
| <i>Net Cash Provided by (Used in) Capital Financing Activities</i> | (564,019) |
| Cash Flows from Investing Activities | |
| Interest on Investments | <u>6,347</u> |
| <i>Net Cash Provided by (Used in) Investing Activities</i> | <u>6,347</u> |
| <i>Net Increase (Decrease) in Cash and Cash Equivalents</i> | 680,777 |
| <i>Cash and Cash Equivalents Beginning of Year</i> | <u>3,061,257</u> |
| <i>Cash and Cash Equivalents End of Year</i> | <u><u>\$ 3,742,034</u></u> |
| Reconciliation of Operating Loss to Net Cash Provided by (Used in) Operating Activities | |
| <i>Operating Income (Loss)</i> | \$ (8,901,206) |
| Adjustments: | |
| Depreciation | 3,016,560 |
| Other Non-Operating Revenue | 100,532 |
| Accounts Receivable | 55,783 |
| Prepaid Expenses | 34,547 |
| Materials & Supplies Inventory | (50,447) |
| Deferred Outflow Pension | (1,564,325) |
| Accounts Payable | 101,964 |
| Sales Tax Fees Payable | 286 |
| Accrued Wages and Benefits | 58,671 |
| Unearned Revenue | (708) |
| Net Pension Liability | 1,838,765 |
| Deferred Inflow - Pension | <u>42,537</u> |
| <i>Total Adjustments</i> | <u>3,634,165</u> |
| <i>Net Cash Provided by (Used in) Operating Activities</i> | <u><u>\$ (5,267,041)</u></u> |

The notes to the financial statements are an integral part of these statements.

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PORTAGE AREA REGIONAL TRANSPORTATION AUTHORITY
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

A. ORGANIZATION

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

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

Under Ohio law, the Authority is authorized to levy a Sale and Use tax for transit purposes, including both capital improvement and operating expenses, at the rate of .25 percent, .5 percent, 1 percent, or 1.5 percent if approved by a majority of the electors residing within the territorial boundaries of the Authority. Such a Sales and Use tax is in addition to the sales and use taxes levied by the State of Ohio and Portage County. On November 8, 2005 the Portage County Voters elected to pass a continuous Sales and Use tax of one quarter of one percent (0.25%).

Management believes the financial statements included in this report represent all of the funds of the Authority, over which the Authority has the ability to exercise direct operating control.

B. REPORTING ENTITY

In evaluating how to define the Authority for financial reporting purposes, management has considered all agencies, departments and organizations making up the Portage Area Regional Transportation Authority (the primary government) and its potential component units consistent with Governmental Accounting Standards Board Statement No. 14, "The Financial Reporting Entity" as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units" and GASB Statement No. 61, "The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34". The Authority has no component units. These conclusions regarding the financial reporting entity are based on the concept of financial accountability. The Authority is not financially accountable for any other organizations.

C. BASIS OF ACCOUNTING

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

Pursuant to GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, the Authority follows GASB guidance as applicable to enterprise funds.

The Authority will continue applying all applicable pronouncements issued by the Governmental Accounting Standards Board.

PORTAGE AREA REGIONAL TRANSPORTATION AUTHORITY
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. CASH AND CASH EQUIVALENTS

The Authority considers highly liquid investments, with an original maturity of three months or less, to be cash equivalents. Investment procedures are restricted by the provisions of the Ohio Revised Code.

The Authority's investment in the State Treasury Asset Reserve of Ohio (STAR Ohio) is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company and is recognized as an external investment pool by the Authority. The Authority measures their investment in STAR Ohio at the net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides a NAV per share that approximates fair value.

For the fiscal year 2016, there were no limitation or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, notice must be given 24 hours in advance of all deposits and withdrawals exceeding \$25 million. STAR Ohio reserves the right to limit the transaction to \$50 million, requiring the excess amount to be transacted the following business day(s), but only to the \$50 million limit. All accounts of the participant will be combined for these purposes.

E. RESTRICTED ASSETS

Restricted assets are designated annually. These assets are the Authority's required local match for the future purchase of capital assets.

F. PROPERTY, FACILITIES AND EQUIPMENT

Property, facilities and equipment are stated at historical cost. The costs of normal maintenance and repairs are charged to operations as incurred. The Authority maintains a capitalization threshold of \$5,000.

Depreciation is computed using the straight-line method over the following estimated useful lives of the individual assets:

| <u>Description</u> | <u>Estimates Lives</u> |
|------------------------------------|------------------------|
| Building and building improvements | 40 years |
| Transportation equipment | 4-12 years |
| Computers and software | 5 years |
| Other equipment | 5-13 years |

G. MATERIALS AND SUPPLIES

Materials and supplies are stated at the lower of cost or market. Cost is determined on the first-in, first-out (FIFO) basis. The costs of inventory items are recorded as expenses when used.

H. ACCUMULATED UNPAID VACATION AND PERSONAL LEAVE

Employees of the Authority are permitted to carry over year-end vacation and personal/sick leave balances at various rates under the Authority's policy.

PORTAGE AREA REGIONAL TRANSPORTATION AUTHORITY
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. DEFERRED OUTFLOW/INFLOWS OF RESOURCES

In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expenses/expenditure) until then.

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time.

J. NET PENSION LIABILITY AND PENSION EXPENSE

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the pension plans and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by the pension systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension systems report investments at fair value.

The current accounting standard requires the Authority to report their proportionate share of the net pension liability using the earning approach to pension accounting instead of the funding approach as previously used. The funding approach limited pension costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's net pension liability. Under the new standards, the net pension liability equals the Authority's proportionate share of the pension plan's collective present value of estimated future pension benefits attributable to active and inactive employees' past service minus plan assets available to pay these benefits.

Pension obligations, whether funded or unfunded, are part of the employment exchange. The employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension. The unfunded portion of this benefit of exchange is a liability of the Authority. However, the Authority is not responsible for key factors affecting the balance of this liability. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Benefit provisions and both employer and employee contribution rates are determined by State statute. The employee and employer enter the employment exchange with the knowledge that the exchange is limited by law. The pension system is responsible for the administration of the plan.

There is no repayment schedule for the net pension liability. The Authority has no control over the changes in the pension benefits, contributions rate, and return on investments affecting the balance of the net pension liability. In the event that contributions, investment returns, and other changes are insufficient to keep up with required pension payments, State statute does not identify the responsible party for the unfunded portion. Due to the unique nature of how the pension liability is satisfied, this liability is separately identified within the long-term liability section of the statement of net position.

K. GRANTS

Grants are recognized as non-operating revenues in the accounting period in which they are earned and become measurable.

PORTAGE AREA REGIONAL TRANSPORTATION AUTHORITY
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. BUDGETARY ACCOUNTING CONTROL

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

M. USE OF ESTIMATES

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

N. NET POSITION

Net position represents the difference between assets and liabilities. Net Position is displayed in three components as follows:

Net Investment 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 improvement 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. The Authority has \$1,267,983 of restricted net position for capital assets at December 31, 2015.

Unrestricted – This consists of net position that does not meet the definition of "restricted" or "net investment in capital assets".

O. NONEXCHANGE TRANSACTIONS

Nonexchange transactions, in which the Authority receives value without directly giving equal value in return, primarily include grants for operating assistance as well as the acquisition of property, facilities and equipment. Substantially all of the Authority's grants are reimbursement-type grants, which are recorded as revenue in the period the related expenditures are incurred. Any grants received in advance of the period in which the related expenditures are incurred, are recorded as restricted assets and as unearned revenue.

P. CLASSIFICATION OF REVENUES

The Authority has classified its revenues as either operating or nonoperating. Operating revenue includes activities that have the characteristics of exchange transactions including passenger fares and contract services. Nonoperating revenue includes activities that have the characteristics of nonexchange transactions, such as sales tax proceeds and most federal, state, and local grants and contracts.

Q. PERMISSIVE SALES AND USE TAX

A county-wide, .25 percent sales and use tax dedicated to transit generates approximately \$5 million in operational revenue for the authority annually. Voters initially voted to fund the .25 percent sales tax for a five-year term, beginning in 2002. The Authority proposed renewal of the sales tax on a continuing basis in 2005, in an effort to secure this vital source of operational revenue beyond the five-year term. Voters agreed, and the continuing levy replaced the short-term tax beginning in 2006.

PORTAGE AREA REGIONAL TRANSPORTATION AUTHORITY
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

2. CASH AND INVESTMENTS

The investment and deposit of Authority monies are governed by the provisions of the Ohio Revised Code. In accordance with these statutes, only banks located in Ohio and domestic building and loan associations are eligible to hold public deposits. The statutes also permit the Authority to invest its monies in certificates of deposit, commercial paper, savings accounts, money market accounts, the State Treasurer's Asset Reserve investment pool (STAR Ohio) and obligations of the United States government or certain agencies thereof.

The Authority may also enter into repurchase agreements with any eligible depository or any eligible dealer who is a member of the National Association of Securities Dealers for a period not exceeding thirty days. 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 itself (commonly known as a derivative). The Authority is also prohibited from investing in reverse repurchase agreements.

Custodial Credit Risk is the risk that, in the event of a bank failure, the Authority's deposits may not be returned. 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 valued at least 105% of the total value 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 must 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.

Deposits: At December 31, 2016, the carrying amount of the Authority's deposits (excluding petty cash and change funds) was \$1,947,447 and the bank balance of \$1,937,787 was not exposed to custodial credit risk.

Investments:

Interest Rate Risk- The Ohio Revised Code generally limits security purchases to those that mature within five years of the settlement date. It is the Authority's policy to evaluate market conditions, interest rate forecasts, and cash flow requirements to consider the term of an investment, with the goal being to buy where relative value exists along the maturity spectrum.

Credit Risk- The Authority invested in STAR Ohio, with a December 31, 2016 balance of \$1,288,962. This is rated AAAM by Moody's.

Concentration of Credit Risk- The Authority's investment policy is to be diversified in its holding of investments by avoiding concentrations of specific users. During the year, the Authority's investments were in STAR Ohio. Star Ohio investments consist of federal securities and certificates of deposit held by third party banks. Each participant participates on percentage basis as determined by their particular balance.

Interest revenue during fiscal year 2016 amounted to \$6,347.

PORTAGE AREA REGIONAL TRANSPORTATION AUTHORITY
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

3. DEFINED BENEFIT PENSION PLAN

Net Pension Liability

The net pension liability reported on the statement of net position represents a liability to employees for pensions. Pensions are a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. Pensions are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period. The obligation to sacrifice resources for pensions is a present obligation because it was created as a result of employment exchanges that already have occurred.

The net pension liability represents the Authority's proportionate share of each pension plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension plan's fiduciary net position. The net pension liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

The Ohio Revised Code limits the Authority's obligation for this liability to annually required payments. The Authority cannot control benefit terms or the manner in which pensions are financed; however, the Authority does receive the benefit of employees' services in exchange for compensation including pension.

GASB 68 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each pension plan's board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

The proportionate share of each plan's unfunded benefits is presented as a long-term net pension liability on the accrual basis of accounting. Any liability for the contractually-required pension contribution outstanding at the end of the year is included in intergovernmental payable on both the accrual and modified accrual bases of accounting.

Ohio Public Employees Retirement System

The Authority employees, participate in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The Traditional Pension Plan is a cost-sharing, multiple-employer defined benefit pension plan. The Member-Directed Plan is a defined contribution plan and the combined plan is a cost sharing, multiple employer defined benefit pension plan with defined contribution features. While members may elect the member-directed plan and the combined plan, all employee members are in OPERS' traditional plan; therefore, the following disclosure focuses on the traditional pension plan.

OPERS provides retirement, disability, survivor and death benefits, and annual cost of living adjustments to members of the traditional plan. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about OPERS' fiduciary net position that may be obtained by visiting <https://www.opers.org/financial/reports.shtml>, by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 800-222-7377.

PORTAGE AREA REGIONAL TRANSPORTATION AUTHORITY
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

3. DEFINED BENEFIT PENSION PLAN (Continued)

Senate Bill (SB) 343 was enacted into law with an effective date of January 7, 2013. In the legislation, members were categorized into three groups with varying provisions of the law applicable to each group. The following table provides age and service requirements for retirement and the retirement formula applied to final average salary (FAS) for the three member groups under the traditional plan as per the reduced benefits adopted by SB 343 (see OPERS CAFR referenced above for additional information):

| Group A | Group B | Group C |
|---|---|---|
| Eligible to retire prior to January 7, 2013 or five years after January 7, 2013 | 20 years of service credit prior to January 7, 2013 or eligible to retire ten years after January 7, 2013 | Members not in other Groups and members hired on or after January 7, 2013 |
| State and Local | State and Local | State and Local |
| Age and service requirements: Age 60 with 60 months of service credit or Age 55 with 25 years of service credit | Age and service requirements: Age 60 with 60 months of service credit or Age 55 with 25 years of service credit | Age and service requirements: Age 57 with 25 years of service credit or Age 62 with 5 years of service credit |
| Formula: 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30 | Formula: 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30 | Formula: 2.2% of FAS multiplied by years of service for the first 35 years and 2.5% for service years in excess of 35 |

Final average Salary (FAS) represents the average of the three highest years of earnings over a member's career for Groups A and B. Group C is based on the average of the five highest years of earnings over a member's career.

Members who retire before meeting the age and years of service credit requirement for unreduced benefits receive a percentage reduction in the benefit amount.

When a benefit recipient has received benefits for 12 months, an annual cost of living adjustment (COLA) is provided. This COLA is calculated on the base retirement benefit at the date of retirement and is not compounded. For those retiring prior to January 7, 2013, the COLA will continue to be a 3 percent simple annual COLA. For those retiring subsequent to January 7, 2013, beginning in calendar year 2019, the COLA will be based on the average percentage increase in the Consumer Price Index, capped at 3 percent.

Funding Policy - The Ohio Revised Code (ORC) provides statutory authority for member and employer contributions as follows:

| | <u>State and Local</u> |
|--|------------------------|
| 2016 Statutory maximum contribution rates | |
| Employer | 14.00% |
| Employee | 10.00% |
| 2016 Actual contribution rates | |
| Employer: | |
| Pension | 12.00% |
| Post-employment health care benefits | <u>2.00%</u> |
| Total employer | <u>14.00%</u> |
| Employee | <u>10.00%</u> |

PORTAGE AREA REGIONAL TRANSPORTATION AUTHORITY
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

3. DEFINED BENEFIT PENSION PLAN (Continued)

The Authority's contractually required contribution was \$521,403 for 2016. Of this amount, \$44,129 is reported as an intergovernmental payable.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

The net pension liability for OPERS was measured as of December 31, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Authority's proportion of the net pension liability was based on the Authority's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

| | <u>OPERS</u> |
|--|------------------|
| Proportion of the net pension liability – prior measurement date | 0.033129% |
| Proportion of the net pension liability – current measurement date | <u>0.033684%</u> |
| Change in proportionate share | <u>0.000555%</u> |
| | |
| Proportionate share of the net pension liability | \$5,834,493 |
| Pension expense | \$ 838,380 |

At December 31, 2016, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | <u>OPERS</u> |
|--|----------------------------|
| Deferred Outflows of Resources | |
| Net difference between projected and actual earnings on pension plan investments | \$ 1,714,977 |
| Changes in proportionate share and differences between employer contributions and proportionate share of contributions | 44,166 |
| Authority Contributions subsequent to the measurement date | <u>521,403</u> |
| Total deferred outflows of resources | <u><u>\$ 2,280,546</u></u> |
| | |
| Deferred Inflows of Resources | |
| Differences between expected and actual experience | <u><u>\$ 112,734</u></u> |

\$521,403 reported as deferred outflows of resources related to pension resulting from Authority contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

| | <u>OPERS</u> |
|--------------------------|----------------------------|
| Year ending December 31: | |
| 2017 | 395,459 |
| 2018 | 422,882 |
| 2019 | 439,966 |
| 2020 | 388,102 |
| Total | <u><u>\$ 1,646,409</u></u> |

PORTAGE AREA REGIONAL TRANSPORTATION AUTHORITY
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

3. DEFINED BENEFIT PENSION PLAN (Continued)

Actuarial Assumptions - OPERS

Actuarial valuations of an ongoing plan involve estimates of the values of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and cost trends. Actuarially determined amounts are subject to continual review or modification as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation. The total pension liability in the December 31, 2015, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|--|--|
| Wage inflation | 3.75 percent |
| Future salary increases, including inflation | 4.25 to 10.05 percent including wage inflation |
| COLA or Ad Hoc COLA | 3 percent, simple |
| Investment rate of return | 8 percent |
| Actuarial cost method | Individual entry age |

Mortality rates were based on the RP-2000 Mortality Table projected 20 years using Projection Scale AA. For males, 105 percent of the combined healthy male mortality rates were used. For females, 100 percent of the combined healthy female mortality rates were used. The mortality rates used in evaluating disability allowances were based on the RP-2000 mortality table with no projections. For males 120 percent of the disabled female mortality rates were used set forward two years. For females, 100 percent of the disabled female mortality rates were used.

The most recent experience study was completed for the five-year period ended December 31, 2010.

The long-term rate of return on defined benefit investment assets was determined using a building-block method in which best-estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected real rate of return by weighting the expected future real rates of return by the target asset allocation percentage, adjusted for inflation.

OPERS manages investments in four investment portfolios: the Defined Benefits portfolio, the Health Care portfolio, the 115 Health Care Trust portfolio and the Defined Contribution portfolio. The Defined Benefit portfolio includes the investment assets of the Traditional Pension Plan, the defined benefit component of the Combined Plan, the annuitized accounts of the Member-Directed Plan and the VEBA Trust. Within the Defined Benefit portfolio, contributions into the plans are all recorded at the same time, and benefit payments all occur on the first of the month. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The money weighted rate of return, net of investments expense, for the Defined Benefit portfolio is 0.4 percent for 2015.

The allocation of investment assets with the Defined Benefit portfolio is approved by the Board of Trustees as outlined in the annual investment plan. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the defined benefit pension plans. The table below displays the Board-approved asset allocation policy for 2015 and the long-term expected real rates of return:

PORTAGE AREA REGIONAL TRANSPORTATION AUTHORITY
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

3. DEFINED BENEFIT PENSION PLAN (Continued)

| <u>Asset class</u> | <u>Target allocation</u> | Weighted average long-term expected real rate of return <u>(arithmetic)</u> |
|------------------------|------------------------------|--|
| Fixed income | 23.00 % | 2.31 % |
| Domestic equities | 20.70 | 5.84 |
| Real estate | 10.00 | 4.25 |
| Private equity | 10.00 | 9.25 |
| International equities | 18.30 | 7.40 |
| Other investments | <u>18.00</u> | <u>4.59</u> |
| Total | <u>100.00</u> % | <u>5.27</u> % |

Discount Rate- The discount rate used to measure the total pension liability was 8 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefits payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Authority's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate- The following table presents the Authority's proportionate share of the net pension liability calculated using the current period discount rate assumption of 8 percent, as well as what the Authority's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (7 percent) or one-percentage-point higher (9 percent) than the current rate:

| | <u>1% Decrease (7.00%)</u> | <u>Current Discount Rate (8.00%)</u> | <u>1% Increase (9.00%)</u> |
|--|--------------------------------|--|--------------------------------|
| Authority's proportionate share of the net pension liability | \$ 9,295,773 | \$ 5,834,493 | \$ 2,915,013 |

Changes Between Measurement Date and Report Date

In October 2016, the OPERS Board adopted certain assumption changes which will impact their annual actuarial valuation prepared as of December 31, 2016. The most significant change is a reduction in the discount rate from 8.0 percent to 7.5 percent. Although the exact amount of these changes is not known, the impact to the Authority's net pension liability is expected to be significant.

4. POST EMPLOYMENT BENEFITS

Ohio Public Employees Retirement System

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.

PORTAGE AREA REGIONAL TRANSPORTATION AUTHORITY
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

4. POST EMPLOYMENT BENEFITS (continued)

Ohio Public Employees Retirement System (continued)

In March 2016, OPERS received two favorable rulings from the Internal Revenue Service (IRS) allowing OPERS to consolidate all health care assets into the OPERS 115 Health Care Trust. Transition to the new health care trust structure was completed July 1, 2016. As of December 31, 2016, OPERS maintains a cost-sharing multiple-employer defined benefit post-employment health care trust, which fund multiple health care plans including medical coverage, prescription drug coverage, deposits to a Health Reimbursement Arrangement to qualifying benefit recipients of both

the Traditional Pension and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including OPERS sponsored health care coverage. OPERS funds a Retiree Medical Account (RMA) for participants in the Member-Directed Plan. At retirement or refund, participants can be reimbursed for qualified medical expenses from their vested RMA balance.

In order to qualify for health care coverage, age-and-service retirees under the Traditional Pension and Combined plans must have 20 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit 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 45. Please see the Plan Statement in the OPERS 2015 CAFR for details.

The Ohio Revised Code permits, but does not require, OPERS to provide health care to its eligible benefit recipients. Authority to establish and amend health care coverage is provided to the Board in 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/financial/reports.shtml#CAFR>, by writing to OPERS, 277 East Town Street, Columbus, OH 43215-4642, or by calling 614-222-5601 or 800-222-7377.

The Ohio Revised Code provides statutory authority requiring employers to fund post-retirement health care through their 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 2016, the Authority 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 14.0 percent of covered payroll for state and local employer units. Active members do not make contributions to the OPEB plan.

Each year, the OPERS Board of Trustees determines the portion of the employer contribution rate that will be set aside to fund health care plans. The portion of employer contributions allocated to health care for members in the Traditional Pension Plan and Combined Plan was 2.0% during calendar year 2016. As recommended by OPERS' actuary, the portion of employer contributions allocated to health care beginning January 1, 2017 decreased to 1.0% for both plans. The Board is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care provided. Payment amounts vary depending on the number of covered dependents and the coverage selected. The employer contribution as a percentage of covered payroll deposited to the VEBA for participants in the Member-Directed Plan for 2016 was 4.0%.

Actual employer contributions which were used to fund postemployment benefits for the years ended December 31, 2016, 2015 and 2014 were \$93,441, \$89,188 and \$86,712 respectively; 92.1% has been contributed for 2016 and 100% for 2015 and 2014. \$7,355 representing the unpaid contribution for the year 2016 is recorded as an intergovernmental payable. The actual contribution and the actuarially required contribution amounts are the same.

PORTAGE AREA REGIONAL TRANSPORTATION AUTHORITY
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

5. OTHER EMPLOYEE BENEFITS

Compensated Absences - Employees of the Authority earn vacation and sick leave at various rates under the Authority policy. In case of death, termination or retirement, an employee (or his estate) is paid for portions of these benefits. The Authority records a liability for vacation, holiday and sick hours earned but not used at year-end at the employee's current wage rate. The Authority's obligation for this amount at December 31, 2016 was \$305,009.

6. RISK MANAGEMENT

The Authority is a member of the Ohio Transit Risk Pool (OTRP), a self-insurance pool created under Chapter 2744 of the Ohio Revised Code. Through the pool, the Authority receives risk management services and property and casualty loss coverage in exchange for contributions paid. OTRP member's group self-insures the first \$250,000 of any qualified auto physical damage loss and the first \$100,000 of any qualified commercial property loss. Qualified casualty losses are group self-insured to \$1,000,000 subject to a \$1,000 per loss deductible. Per occurrence limits are maintained above the group self-insurance by OTRP equal to approximately \$200,000,000 for qualified property losses and \$10,000,000 for qualified casualty losses. Any underfunding of the plan's self-insured liabilities is shared pro-rata by the members based on pool contribution factors comprised of: service area population, FTE employees, number of vehicles, total property values, claims history and net operating expenses. All factors are single weighted except for claims history which is double weighted in the underwriting analysis.

The Authority continues to carry commercial insurance for all risks of loss, including Workers' Compensation, Employee Health and Accident Insurance, Comprehensive General Liability, Automobile Liability, Errors and Omissions, and Employee Benefits Liability, Commercial Property, Auto Physical Damage, Bonds and Crime. There has not been a reduction in coverage from the prior year.

PORTAGE AREA REGIONAL TRANSPORTATION AUTHORITY
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

7. PROPERTY, FACILITIES, AND EQUIPMENT

Capital asset activity for the year ended December 31, 2016 is as follows:

| <u>Description</u> | Balance 12/31/2015 | 2016 Additions | 2016 Deletions | Balance 12/31/2016 |
|---|-----------------------|---------------------|-------------------|-----------------------|
| Land | \$ 2,187,675 | \$ - | \$ - | \$ 2,187,675 |
| Capital assets being depreciated: | | | | |
| Building and building improvements | 25,356,255 | 757,661 | (153,197) | 25,960,719 |
| Transportation equipment | 14,018,484 | 1,239,265 | (398,927) | 14,858,823 |
| Computers and software | 1,533,497 | 481,127 | (297,955) | 1,716,669 |
| Other equipment | 562,338 | 5,395 | (12,057) | 555,676 |
| Other KCG | 296,376 | 13,341 | - | 309,717 |
| Total Assets being depreciated | 41,766,951 | 2,496,789 | (862,136) | 43,401,604 |
| TOTAL ASSETS | 43,954,626 | 2,496,789 | (862,136) | 45,589,279 |
| Less Accumulated Depreciation: | | | | |
| Building and building improvements | (5,946,166) | (1,420,774) | 153,197 | (7,213,743) |
| Transportation equipment | (7,701,176) | (1,412,350) | 398,927 | (8,714,599) |
| Computers and software | (1,272,006) | (113,335) | 297,955 | (1,087,385) |
| Other equipment | (468,796) | (25,312) | 12,057 | (482,052) |
| Other KCG | (96,065) | (44,789) | - | (140,854) |
| Total Accumulated Depreciation | (15,484,209) | (3,016,560) | 862,136 | (17,638,633) |
| Total Capital Assets being depreciated, net | 26,282,741 | (519,771) | - | 25,762,970 |
| TOTAL CAPITAL ASSETS, net | \$28,470,416 | \$ (519,771) | \$ - | \$27,950,645 |

8. CONTINGENCIES

The Authority received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these grants requires compliance with terms and conditions specified in the grant agreements. These grants are subject to audit by the grantor agencies and disallowed claims resulting from these audits could become a liability of the Authority.

9. SUBSEQUENT EVENTS/PENDING LITIGATION

Management believes there are no pending claims or lawsuits, which would potentially have a material effect on the financial statements.

Portage Area Regional Transit Authority
 Required Supplementary Information
 Schedule of Portage Area Regional Transit Authority Proportionate Share of the Net Pension Liability
 Last Three Years (1)

| | 2016 | 2015 | 2014 |
|--|--------------|--------------|--------------|
| Ohio Public Employees Retirement System (OPERS) - Traditional Plan | | | |
| Authority's proportion of the net pension liability | 0.033684% | 0.033129% | 0.033129% |
| Authority's proportionate share of the net pension liability | \$ 5,834,493 | \$ 3,995,728 | \$ 3,905,477 |
| Authority's covered employee payroll | \$ 4,191,842 | \$ 4,075,475 | \$ 3,930,800 |
| Authority's proportionate share of the net pension liability as a percentage of its covered employee payroll | 139.19% | 98.04% | 99.36% |
| Plan fiduciary net position as a percentage of total pension liability | 81.08% | 86.45% | 86.36% |

(1) Information prior to 2014 is not available and the amounts presented are as of the Authority's measurement date which is the prior year end.

Portage Area Regional Transit Authority
 Required Supplementary Information
 Schedule of Portage Area Regional Transit Authority Contributions
 Last Four Years (1)

| | <u>2016</u> | <u>2015</u> | <u>2014</u> | <u>2013</u> |
|---|------------------|------------------|------------------|------------------|
| Ohio Public Employees Retirement System (OPERS) - Traditional Plan | | | | |
| Contractually required contribution | \$ 521,403 | \$ 503,021 | \$ 489,057 | \$ 511,004 |
| Contributions in relation to contractually required contribution | <u>(521,403)</u> | <u>(503,021)</u> | <u>(489,057)</u> | <u>(511,004)</u> |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| Authority covered employee payroll | \$ 4,345,025 | \$ 4,191,842 | \$ 4,075,475 | \$ 3,930,800 |
| Contributions as a percentage of covered employee payroll | 12.00% | 12.00% | 12.00% | 13.00% |

(1) Information prior to 2013 is not available.

Portage Area Regional Transit Authority

Notes to Required Supplementary Information

For the Year Ended December 31, 2016

Ohio Public Employees Retirement System (OPERS) - Traditional Plan

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for year 2014, 2015 and 2016.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for year 2014, 2015 and 2016. See the notes to the basic financials for the methods and assumptions in this calculation.

**PORTAGE AREA REGIONAL TRANSPORTATION AUTHORITY
PORTAGE COUNTY**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2016**

| FEDERAL GRANTOR Pass Through Grantor Program / Cluster Title | Federal CFDA Number | Pass Through Entity Identifying Number | Total Federal Expenditures |
|---|------------------------------------|---|---------------------------------------|
| U.S. DEPARTMENT OF TRANSPORTATION | | | |
| <i>Direct Program</i> | | | |
| Federal Transit Cluster: | | | |
| Urbanized Area Formula Grants | 20.507 | OH-90-0684 | \$977,637 |
| Urbanized Area Formula Grants | 20.507 | OH-2016-024 | 670,000 |
| Capital Investment Grant | 20.500 | OH-04-0053 | 172,854 |
| Capital Investment Grant | 20.500 | OH-34-0012 | 547,483 |
| Total Federal Transit Cluster: | | | <u>2,367,974</u> |
| Transit Services Programs Cluster: | | | |
| Job Access Reverse Commute Grant | 20.516 | OH-37-0064 | 179,297 |
| New Freedom Program | 20.521 | OH-57-0026 | 170,086 |
| Total Transit Services Programs Cluster: | | | <u>349,383</u> |
| Total U.S. Department of Transportation | | | <u>2,717,357</u> |
| Total Expenditures of Federal Awards | | | <u>\$2,717,357</u> |

The accompanying notes are an integral part of this schedule.

**PORTAGE AREA REGIONAL TRANSPORTATION AUTHORITY
PORTAGE COUNTY**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
2 CFR 200.510(b)(6)
FOR THE YEAR ENDED DECEMBER 31, 2016**

NOTE A – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of the Portage Area Regional Transportation Authority (the Authority) under programs of the federal Authority for the year ended December 31, 2016. The information on this Schedule is prepared in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Authority, it is not intended to and does not present the financial position or cash flows of the Authority.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles contained in OMB Circular A-87 *Cost Principles for State, Local, and Indian Tribal Governments* (codified in 2 CFR Part 225), or the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures may or may not be allowable or may be limited as to reimbursement. The Authority has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

NOTE C - MATCHING REQUIREMENTS

Certain Federal programs require the Authority to contribute non-Federal funds (matching funds) to support the Federally-funded programs. The Authority has met its matching requirements. The Schedule does not include the expenditure of non-Federal matching funds.

Rockefeller Building
614 W Superior Ave Ste 1242
Cleveland OH 44113-1306
Office phone - (216) 575-1630
Fax - (216) 436-2411

Charles E. Harris & Associates, Inc.
Certified Public Accountants

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

Portage Area Regional Transportation Authority
Portage County
2000 Portage Road
Kent, Ohio 44240

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 Portage Area Regional Transportation Authority, Portage County, (the Authority) as of and for the year ended December 31, 2016, and the related notes to the financial statements, and have issued our report thereon dated June 29, 2017.

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 opinions 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.

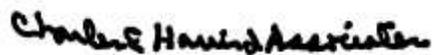
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified 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 no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

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 "Charles Harris Associates".

Charles E. Harris & Associates, Inc.

June 29, 2017

Rockefeller Building
614 W Superior Ave Ste 1242
Cleveland OH 44113-1306
Office phone - (216) 575-1630
Fax - (216) 436-2411

Charles E. Harris & Associates, Inc.

Certified Public Accountants

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO THE MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Portage Area Regional Transportation Authority
Portage County
2000 Portage Road
Kent, Ohio 44240

To the Board of Trustees:

Report on Compliance for the Major Federal Program

We have audited the Portage Area Regional Transportation Authority's (the Authority) compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could directly and materially affect the Portage Area Regional Transportation Authority's major federal program for the year ended December 31, 2016. The *Summary of Auditor's Results* in the accompanying schedule of findings identifies the Authority's major federal program.

Management's Responsibility

The Authority's management is responsible for complying with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

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 the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). These standards and the Uniform Guidance 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 Portage Area Regional Transportation 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, 2016.

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 the Uniform Guidance, 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.

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 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.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

This report only describes the scope of our internal control compliance tests and the results of this testing based on Uniform Guidance requirements. Accordingly, this report is not suitable for any other purpose.



Charles E. Harris & Associates, Inc.

June 29, 2017

**PORTAGE AREA REGIONAL TRANSPORTATION AUTHORITY
PORTAGE COUNTY**

**SCHEDULE OF FINDINGS
2 CFR § 200.515
DECEMBER 31, 2016**

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 weaknesses in internal control 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)? | No |
| <i>(d)(1)(iv)</i> | Were there any material weaknesses in internal control reported for major federal programs? | No |
| <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 2 CFR § 200.516(a)? | No |
| <i>(d)(1)(vii)</i> | Major Programs (list): | Federal Transit Cluster CFDA# 20.507 Urbanized Area Formula Program and CFDA# 20.500 Capital Investment Grant |
| <i>(d)(1)(viii)</i> | Dollar Threshold: Type A/B Programs | Type A: > \$ 750,000 Type B: all others |
| <i>(d)(1)(ix)</i> | Low Risk Auditee under 2 CFR §200.520? | Yes |

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

None

3. FINDINGS FOR FEDERAL AWARDS

None

**PORTAGE AREA REGIONAL TRANSIT AUTHORITY
PORTAGE COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
2 CFR 200.511(b)
DECEMBER 31, 2016**

The prior audit report, for the year ending December 31, 2015 reported no material citations or recommendations



Dave Yost • Auditor of State

PORTAGE AREA REGIONAL TRANSPORTATION AUTHORITY

PORTAGE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
SEPTEMBER 19, 2017**