

**SOUTH EAST AREA TRANSIT
SINGLE AUDIT
FINANCIAL STATEMENTS
For the Year Ended December 31, 2009**



Mary Taylor, CPA

Auditor of State

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

We have reviewed the *Independent Auditors' Report* of the South East Area Transit, Muskingum County, prepared by Jones, Cochenour & Co., for the audit period January 1, 2009 through December 31, 2009. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

September 27, 2010

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SOUTH EAST AREA TRANSIT

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125 West Mulberry Street
Lancaster, Ohio 43130

www.JCCcpa.com

740.653.9581 tel

614.837.2921 tel

740.653.0983 fax

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statements of South East Area Transit (the "Authority"), a component unit of the City of Zanesville, Ohio, as of the year ended December 31, 2009, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of December 31, 2009, and the respective changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with the *Government Auditing Standards*, we have also issued a report dated June 30, 2010 on our consideration of the authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. While we do not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report when considering the results of our audit.

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

much more than an accounting firm

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

A handwritten signature in cursive script that reads "Jones, Cochenour & Co." with a period at the end.

Jones, Cochenour & Co.
June 30, 2010

**SOUTH EAST AREA TRANSIT
Management's Discussion and Analysis
For the Year Ended December 31, 2009
(Unaudited)**

As management of South East Area Transit (“Authority”), we offer readers of the Authority’s basic financial statements this narrative overview and analysis of the financial activities of the Authority for the year ended December 31, 2009. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities and to identify any significant changes in financial position. We encourage readers to consider the information presented here in conjunction with the basic financial statements taken as a whole.

Financial Highlights

- The Authority has net assets of \$1,433,281. These net assets result from the difference between total assets of \$2,176,289 and total liabilities of \$743,008.
- Current assets of \$559,922 primarily consist of Cash and Cash Equivalents of \$214,485; Accounts Receivable of \$64,280 and Intergovernmental Receivable of \$234,248.
- Current liabilities of \$693,424 primarily consist of Notes Payable of \$250,000, Accounts Payable of \$227,918, and Compensated Absences of \$52,422.

Basic Financial Statements and Presentation

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

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

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

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

Notes to the Financial Statements

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

SOUTH EAST AREA TRANSIT
Management's Discussion and Analysis- Continued
For the Year Ended December 31, 2009
(Unaudited)

Financial Analysis of the Authority

Table 1 provides a summary of the Authority's net assets for 2009 and 2008:

Table 1
Condensed Summary of Net Assets

	<u>2009</u>	<u>2008</u>
Assets:		
Current Assets	\$ 559,922	\$ 355,074
Capital Assets (net of accumulated depreciation)	<u>1,616,367</u>	<u>1,902,594</u>
Total Assets	<u>2,176,289</u>	<u>2,257,668</u>
Liabilities:		
Current Liabilities	693,424	672,522
Long-Term Liabilities	<u>49,584</u>	<u>50,628</u>
Total Liabilities	<u>743,008</u>	<u>723,150</u>
Net Assets:		
Invested in Capital Assets	1,616,367	1,902,594
Unrestricted	<u>(183,088)</u>	<u>(368,076)</u>
Total Net Assets	<u>\$ 1,433,279</u>	<u>\$ 1,534,518</u>

Current assets increased \$204,848 or 58% primarily due to an increase of \$120,998 in accounts receivable from funding sources and more cash of \$87,675.

Capital assets decreased \$286,227 as a result of depreciation expense of \$302,841 and asset addition of \$16,614.

Current liabilities increased \$20,902 or 3% due to unredeemed fares increasing by \$8,000 and increases in accrued payroll taxes.

The largest portion of the Authority's net assets reflect investment in capital assets consisting of buildings, buses and equipment less any related debt used to acquire those assets still outstanding. The Authority uses these capital assets to provide public transportation services for the counties of Muskingum and Guernsey; consequently, these assets are not available for future spending. Although the Transit's investments in its capital assets are reported net of related debt, it should be noted that no debt has been incurred to finance these capital assets. However, the authority maintains a line of credit to pay current operating expenses. At December 31, 2009, the balance of the line of credit is \$250,000, and unrestricted net assets is a deficit balance of \$183,086.

Working capital is an organization's current assets less its current liabilities. Working capital is an indicator of liquidity or an organization's ability to pay current operating expenses on time. At December 31, 2009 the Authority had a negative working capital balance of \$133,501.

SOUTH EAST AREA TRANSIT
Management's Discussion and Analysis- Continued
For the Year Ended December 31, 2009
(Unaudited)

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

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

	2009	2008
Operating Revenues (Expenses):		
Operating Revenues	\$ 894,511	\$ 811,668
Operating Expenses (excluding depreciation)	(2,450,196)	(2,527,295)
Depreciation Expense	(302,841)	(318,827)
Operating Loss	(1,858,526)	(2,034,454)
Nonoperating Revenues:		
Federal Grants and Assistance	1,183,510	1,165,313
State Grants and Assistance	354,549	318,228
Local Grants and Assistance	202,500	222,500
Interest Income	115	635
Total Nonoperating Revenues	1,740,674	1,706,676
Capital Grant Revenue	16,614	197,655
Change in Net Assets During Year	(101,238)	(130,123)
Net Assets, Beginning of Year	1,534,518	1,664,641
Net Assets, End of Year	\$ 1,433,280	\$ 1,534,518

Financial Operating Activities

The Authority monitors its sources of revenues very closely for fluctuations. The total revenues have increased by \$117,000 due to increases in fares and grants. The capital grant revenue decreased due to no buses purchased in 2009. The operating expenses decreased \$77,099 which represents a 3% decrease compared to prior year. The Transit strived to cut costs where necessary.

**SOUTH EAST AREA TRANSIT
Management's Discussion and Analysis- Continued
For the Year Ended December 31, 2009
(Unaudited)**

Capital Assets and Debt Administration

The Authority's investment in capital assets as of December 31, 2009 is \$1,616,367 (net of accumulated depreciation). This investment in capital assets includes buildings, buses and equipment.

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

As of December 31, 2009, long-term liabilities consist entirely of compensated absences for accrued sick pay of \$49,584. The Authority has no long-term debt, but does have a line of credit which was \$250,000 at December 31, 2009.

Current Known Facts and Conditions

In the year 2009, the Authority transported 66,628 Fixed Route passengers, 10,202 Demand/Response passengers, and 40,322 passengers for contracts, for a total of 117,152 passengers in Muskingum County. The Authority covered 366,547 revenue miles and 23,970 revenue hours in Muskingum County.

In the year 2009, the Authority transported 6,391 Fixed Route passengers, 1,243 Demand/Response passengers, and 5,789 passengers for contracts, for a total of 13,423 passengers in Guernsey County. The Authority covered 80,276 revenue miles and 5,505 revenue hours in Guernsey County.

In the year 2008, the Authority transported 70,434 Fixed Route passengers, 17,049 Demand/Response passengers, and 38,559 passengers for contracts, for a total of 126,042 passengers in Muskingum County. The Authority covered 363,916 revenue miles and 22,612 revenue hours in Muskingum County.

In the year 2008, the Authority transported 11,532 Fixed Route passengers, 1,272 Demand/Response passengers, and 6,758 passengers for contracts, for a total of 19,562 passengers in Guernsey County. The Authority covered 101,037 revenue miles and 6,871 revenue hours in Guernsey County.

Contacting the Authority's Financial Management

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

**SOUTH EAST AREA TRANSIT
Balance Sheet
December 31, 2009**

ASSETS:

CURRENT ASSETS

Cash and cash equivalents (including \$40,000 restricted by ODOT)	\$	214,485
Accounts receivable- net		64,280
Intergovernmental receivable		234,248
Materials and supplies inventory		38,483
Prepaid expenses		8,425
TOTAL CURRENT ASSETS		<u>559,922</u>

CAPITAL ASSETS

Land		334,255
Buildings		1,635,699
Buses and other vehicles		2,283,900
Furniture, fixtures and equipment		483,510
TOTAL CAPITAL ASSETS		<u>4,737,364</u>

Less: Accumulated depreciation		<u>(3,120,997)</u>
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		<u>1,616,367</u>
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		2,176,289
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LIABILITIES:

CURRENT LIABILITIES

Note payable		250,000
Accounts payable		227,918
Accrued payroll		29,237
Accrued payroll taxes and withholdings		75,927
Compensated absences - accrued vacation pay		52,422
Funds held for bus purchase		40,000
Unredeemed fares		17,921
TOTAL CURRENT LIABILITIES		<u>693,424</u>

LONG-TERM LIABILITIES

Compensated absences - accrued sick pay		<u>49,584</u>
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		<u>743,008</u>
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NET ASSETS:

Invested in capital assets		1,616,367
Unrestricted		<u>(183,088)</u>

		<u>\$ 1,433,280</u>
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See Notes to the Basic Financial Statements

SOUTH EAST AREA TRANSIT
Statement of Revenues, Expenses and Changes in Net Assets
For the Year Ended December 31, 2009

OPERATING REVENUES:		
Farebox revenue	\$	78,645
Special transit fares		472,717
Advertising revenue		45,680
Maintenance services		17,999
Other revenue		279,470
TOTAL OPERATING REVENUES		<u>894,511</u>
OPERATING EXPENSES:		
Salaries		962,916
Fringe benefits		631,628
Management fees		105,387
Professional services		30,347
Contract services		204,325
Fuel and lubrication		163,810
Tires		11,601
Parts and supplies		103,586
Utilities		42,158
Insurance		75,752
Interest expense		7,781
Dues and subscriptions		8,504
Travel and meeting		4,485
Advertising		51,491
General administrative facilities		17,813
Miscellaneous expenses		28,612
TOTAL OPERATING EXPENSES EXCLUDING DEPRECIATION		<u>2,450,196</u>
OPERATING (LOSS) BEFORE DEPRECIATION EXPENSE		(1,555,686)
Depreciation		<u>302,841</u>
OPERATING (LOSS)		(1,858,526)
NON-OPERATING REVENUES:		
Federal grants and assistance		1,183,510
State grants and assistance		354,549
Local grants and assistance		202,500
Interest income		115
TOTAL NON-OPERATING REVENUES		<u>1,740,674</u>
NET (LOSS) BEFORE CAPITAL GRANT REVENUE		(117,852)
CAPITAL GRANT REVENUE:		
Federal		16,614
(DECREASE) IN NET ASSETS		<u>(101,238)</u>
Net Assets, Beginning of Year		<u>1,534,518</u>
NET ASSETS, END OF YEAR	\$	<u><u>1,433,280</u></u>

See Notes to the Basic Financial Statements

SOUTH EAST AREA TRANSIT
Statement of Cash Flows
For the Year Ended December 31, 2009

CASH FLOWS FROM OPERATING ACTIVITIES:

Cash received from customers	\$	564,000
Cash received from advertising fees		45,680
Cash received from maintenance services		17,999
Cash received from other receipts		279,470
Cash payments for operating and administrative expenses		<u>(2,439,311)</u>

NET CASH (USED) BY OPERATING ACTIVITIES (1,532,162)

CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:

Proceeds from non-capital grants and assistance		1,619,562
Payments on line of credit		<u>160</u>

NET CASH FROM NON-CAPITAL FINANCING ACTIVITIES 1,619,722

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

Proceeds from capital grants and assistance		16,614
Payments for the purchase of property, facilities, and equipment		<u>(16,614)</u>

NET CASH (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES -

CASH FLOWS FROM INVESTING ACTIVITIES

Cash received from interest		<u>116</u>
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NET INCREASE IN CASH AND CASH EQUIVALENTS 87,676

Cash and Cash Equivalents, Beginning of Year		<u>126,810</u>
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Cash and Cash Equivalents, End of Year		<u><u>\$ 214,486</u></u>
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RECONCILIATION OF OPERATING (LOSS) TO NET CASH (USED) BY OPERATING ACTIVITIES:

Operating (Loss)		\$ (1,858,526)
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ADJUSTMENTS TO RECONCILE OPERATING (LOSS) TO NET CASH (USED) BY OPERATING ACTIVITIES:

Depreciation Expense		302,841
Changes in Assets and Liabilities:		
(Increase) Decrease in accounts receivable		4,477
(Increase) Decrease in prepaid expense		1,140
(Increase) Decrease in inventories		(1,792)
Increase (Decrease) in accounts payable		(16,152)
Increase (Decrease) in accrued payroll liabilities		30,544
Increase (Decrease) in compensated absences payable		(2,855)
Increase (Decrease) in unredeemed fares		<u>8,161</u>

NET CASH (USED) BY OPERATING ACTIVITIES \$ (1,532,162)

See Notes to the Basic Financial Statements

SOUTH EAST AREA TRANSIT
Notes to the Basic Financial Statements
For the Year Ended December 31, 2009

1. DESCRIPTION OF THE AUTHORITY AND REPORTING ENTITY

Description of the Authority

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

At December 31, 2009 the Authority had 35 full-time equivalent employees and 1 part-time employee. Approximately 72% of the Authority's employees at December 31, 2009 are subject to a collective bargaining agreement expiring on May 31, 2010.

Description of the Reporting Entity

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Authority are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Authority applies all relevant Governmental Accounting Standards Board (GASB) pronouncements, as well as all Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its business-type activities and enterprise funds, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. The most significant of the Authority's accounting policies are described below.

Basis of Accounting

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

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

Budgetary Accounting and Control

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

SOUTH EAST AREA TRANSIT
Notes to the Basic Financial Statements
For the Year Ended December 31, 2009

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Cash and Cash Equivalents

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

Recognition of Receivables and Revenue

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

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

Inventory of Materials and Supplies

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

Capital Assets

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

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

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

Restricted Assets

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

Net Assets

Equity is displayed in three components as follows:

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

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

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

SOUTH EAST AREA TRANSIT
Notes to the Basic Financial Statements
For the Year Ended December 31, 2009

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Compensated Absences

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

1. The compensated absence is earned on the basis of services already performed by employees; and
2. It is probable that the compensated absence will be paid in a future period.

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

Estimates

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

3. CASH AND INVESTMENTS

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

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

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

Deposits

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

SOUTH EAST AREA TRANSIT
Notes to the Basic Financial Statements
For the Year Ended December 31, 2009

3. CASH AND INVESTMENTS - CONTINUED

At December 31, 2009, the bank balance of all Authority deposits was \$138,792, and the book balance was \$214,485. Based on the criteria described in GASB Statement No. 40, "Deposit and Investment Risk Disclosures", as of December 31, 2009, none of the Authority's funds were exposed to custodial risk.

Investments

The Authority held no investments at December 31, 2009.

4. ACCOUNTS RECEIVABLE

Receivables at December 31, 2009 consisted of accounts (billings for user charges for services) and intergovernmental grants. Management estimated allowance for bad debts based on a review of accounts receivable at year end.

A summary of the principal items of intergovernmental receivables at December 31, 2009 consisted of the following amounts:

State/Federal Operating Assistance Receivable	\$ 234,248
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5. CAPITAL ASSETS

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

<u>Asset Type:</u>	<u>Balance at 12/31/2008</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at 12/31/2009</u>
Nondepreciable Capital Assets:				
Land	\$ 334,255	\$ -	\$ -	\$ 334,255
Depreciable Capital Assets:				
Buildings	1,635,698	-	-	1,635,699
Buses and Other Vehicles	2,439,901	16,614	(172,615)	2,283,900
Furniture, Fixtures and Equipment	483,510	-	-	483,510
Total Capital Assets	4,559,109	16,614	(172,615)	4,403,110
<u>Accumulated Depreciation</u>				
Buildings	922,169	60,036	-	982,205
Buses and Other Vehicles	1,548,551	144,930	(81,274)	1,612,207
Furniture, Fixtures and Equipment	520,050	6,535	-	526,585
	2,990,770	211,501	(81,274)	3,120,997
Net Depreciable Capital Assets	1,568,339	(194,887)	(91,341)	1,282,113
Capital Assets - Net	\$ 1,902,594	\$ (194,887)	\$ (91,341)	\$ 1,616,367

6. NOTE PAYABLE

In 2009, the Authority renewed a line of credit from a local bank in the amount of \$250,000 to be used as a source of short-term operating funds. The loan matures on December 7, 2010. The outstanding balance at December 31, 2009 is \$250,000. The loan is secured by the assets of the Authority. The current interest rate is 4.25%. A member of the Board of Trustees is an officer of the bank.

SOUTH EAST AREA TRANSIT
Notes to the Basic Financial Statements
For the Year Ended December 31, 2009

7. DEFINED BENEFIT PENSION PLANS

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

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

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

The Ohio Revised Code provides statutory authority for member and employer contributions. Plan members are required to contribute 10.0% for 2009 and 2008 of their annual covered payroll to fund pension obligations and the Authority was required to contribute 14.00% for 2009 and 2008 of covered payroll. The Authority's required contributions, including the pick up portion for certain employees for the years ended December 31, 2009, 2008, and 2007 were \$137,765, \$153,843, and \$145,857 respectively. All required payments for 2009, 2008, and 2007 have been paid.

8. POSTEMPLOYMENT BENEFITS

The Public Employees Retirement System of Ohio (OPERS) provides post-employment health care benefits to age and service retirants with ten or more years of qualifying Ohio service credit and to primary survivor recipients of such retirants. Health care coverage for disability recipients is also available. The health care coverage provided by the OPERS is considered an Other Post-Employment Benefit (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution to OPERS is set aside for the funding of post retirement health care. The Ohio Revised Code provides statutory Authority requiring public employers to fund post-employment health care through their contributions to the OPERS. The portion of the 2009 employer contribution rate (identified above) that was used to fund health care was 7.0 percent of covered payroll from January 1 through March 31, 2009 and 5.5 percent of covered payroll from April 1 through December 31, 2009, which amounted to \$28,248. The significant actuarial assumptions and calculations relating to post-employment health care benefits were based on the OPERS' latest actuarial review performed as of December 31, 2008. An entry age normal actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actuarial experience (actuarial gains and losses) becomes part of unfunded actuarial accrued liability. All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach assets are adjusted annually to reflect 25 percent of unrealized marker appreciation or depreciation on investment assets, not to exceed a 12 percent corridor. The investment assumption rate for 2008 was 6.5 percent. An annual increase of 4.0 percent compounded annually is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above 4.0 percent base increases were assumed to increase at a project wage inflation rate plus an additional factor ranging from .5% to 3% for the next 6 years. In subsequent years (7 and beyond), health care costs were assumed to increase at 4% (the projected age inflation rate.).

SOUTH EAST AREA TRANSIT
Notes to the Basic Financial Statements
For the Year Ended December 31, 2009

8. POSTEMPLOYMENT BENEFITS – CONTINUED

Benefits are advanced-funded on an actuarially determined basis. The number of active contributing participants was 357,584. The actuarial value of the OPERS’ net assets available for OPEB at December 31, 2008 was \$10.7 billion. The actuarially accrued liability and the unfunded actuarial liability, based on the actuarial cost methods used, were \$29.6 billion and \$18.9 billion, respectively.

OPERS Retirement Board Implements its Health Care Preservation Plan (HCPP). HCPP was adopted on September 9, 2004, and is effective on January 1, 2007. In addition, OPERS created a separate investment pool for health care assets. Members and employers contribution rates increases in January 1, 2006, 2007, and in 2008 will allow additional funds to be allocated to the health care plan.

9. GRANTS, REIMBURSEMENTS AND SPECIAL FARE ASSISTANCE

Grants, reimbursements and special fare assistance in the statement of revenues, expenses and changes in equity for the year ended December 31, 2009 consist of the following:

Federal:	
FTA Capital Assistance (including ARRA funds)	\$ 277,324
FTA Operating Assistance	922,800
	\$ 1,200,124
 State:	
ODOT Operating Assistance	\$ 326,511
ODOT Elderly Fare Assistance	28,038
	\$ 354,549
 Local:	
City of Zanesville	\$ 160,000
Village of South Zanesville	2,500
Muskingum County	40,000
	\$ 202,500

10. RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets, flood and earthquake, errors and omission, employment related matters, injuries to employees and employee theft and fraud. The Authority joined together with certain other transit authorities in the State to form Ohio Transit Insurance Pool Association, Inc. (OTIP). OTIP is a joint self-insurance pool pursuant to Section 2744.081 of the Ohio Revised Code, currently operating as a common risk management and insurance program for ten member transit agencies. The Authority pays an annual premium to OPIT for its general insurance coverage and makes quarterly payments into a loss and administration fund pursuant to OTIP’s bylaws. The Agreement of Formation of the OTIP provides that OTIP will be self-sustaining through member premiums. Per occurrence, catastrophic loss coverage is maintained by OTRP equal to \$200,000,000 for qualified property losses (including auto physical damage) and \$10,000,000 for automobile liability.

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

SOUTH EAST AREA TRANSIT
Notes to the Basic Financial Statements
For the Year Ended December 31, 2009

11. CONTINGENCIES

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

12. FUNDS HELD FOR BUS PURCHASE

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

13. SUBSEQUENT EVENT

There were no subsequent events noted to be disclosed through the report date of June 30, 2010. Any subsequent events after that date have not been evaluated.

**SOUTH EAST AREA TRANSIT
Schedule of Federal Awards Expenditures
For the Year Ended December 31, 2009**

	<u>PROJECT NUMBER</u>	<u>GRANT CONTRACT NUMBER</u>	<u>FEDERAL CFDA NUMBER</u>	<u>FUNDS EXPENDED</u>
<u>FROM U.S. DEPARTMENT OF TRANSPORTATION</u>				
Federal Transit Operating Assistance Formula Grants:				
Muskingum and Guernsey Counties	RPT-4060-026-091	OH-18-X025	20.509	883,241
Intercity	RPT-4060-024-092	OH-18-X025	20.509	39,559
ARRA	RPT-0060-001-093	OH-86-X001	20.509	<u>277,324</u>
Total Federal Awards Expenditures				<u>\$ 1,200,124</u>

Note 1- Significant Accounting Policies

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

Note 2- Matching Requirements

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



125 West Mulberry Street
Lancaster, Ohio 43130

www.JCCcpa.com

740.653.9581 tel

614.837.2921 tel

740.653.0983 fax

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

Board of Trustees
South East Area Transit
Zanesville, Ohio

We have audited the financial statements of South East Area Transit as of and for the year ended December 31, 2009, and have issued our report thereon dated June 30, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions to prevent or detect misstatements on a timely basis. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the organization's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We identified a significant deficiency in internal control over financial reporting that we consider to be a material weakness, as defined above, noted as 2009-001-8600 in the Schedule of Findings.

Compliance and Other Matters

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

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We did note certain noncompliance or other matters that we reported to the Authority's management in a separate letter dated June 30, 2010.

South East Area Transit's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not audit South East Area Transit's response and, accordingly, we express no opinion on it.

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

A handwritten signature in cursive script that reads "Jones, Cochenour & Co.".

**Jones, Cochenour & Co.
June 30, 2010**



125 West Mulberry Street
Lancaster, Ohio 43130

www.JCCcpa.com

740.653.9581 tel

614.837.2921 tel

740.653.0983 fax

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

Board of Trustees
South East Area Transit
Zanesville, Ohio

Compliance

We have audited the compliance of South East Area Transit with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133* that are applicable to each of its major federal programs for the year ended December 31, 2009. South East Area Transit's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of South East Area Transit's management. Our responsibility is to express an opinion on South East Area Transit's compliance based on our audit.

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

In our opinion, South East Area Transit complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2009.

Internal Control Over Compliance

The management of South East Area Transit is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered South East Area Transit's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of South East Area Transit's internal control over compliance.

much more than an accounting firm

A *deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

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 that might be significant deficiencies of material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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

A handwritten signature in cursive script that reads "Jones, Cochenour & Co." with a period at the end.

**Jones, Cochenour & Co.
June 30, 2010**

**SOUTH EAST AREA TRANSIT
Schedule of Findings
For the Year Ended December 31, 2009**

1. SUMMARY OF AUDITORS' RESULTS

Financial Statements:	
Type of Financial Statement Opinion	Unqualified
At the financial statement level, were there any material weaknesses reported?	Yes
At the financial statement level, were there any significant deficiencies identified that are not considered material weaknesses?	No
At the financial statement level, was there any material noncompliance?	No
Federal Awards:	
Were there any material weaknesses in internal control over major programs identified?	No
Were there any significant deficiencies that are not considered to be material weaknesses in internal control over major programs?	No
Type of Major Program Compliance Opinion	Unqualified
Are there any audit findings under § .510(a) of OMB Circular A-133?	No
Major Programs:	CFDA #20.509
Dollar Threshold: Type A/B Programs	\$300,000
Low Risk Auditee?	Yes

SOUTH EAST AREA TRANSIT
Schedule of Findings
For the Year Ended December 31, 2009

2. FINDINGS RELATED TO FINANCIAL STATEMENTS

FINDING NUMBER 2009-001-8600 Significant Deficiency- Material Weakness in Internal Control

Criteria: To ensure that the financial statement balances are supported by the organization's accounting records and other documentation.

Condition and context: During our audit, we made audit adjustments to the Authority's accounting system.

Effect: As a result of the above condition, it was determined that the entity is not implementing financial controls over the preparation of the financial statements. The impact of this significant deficiency could result in the board or outside users relying on the financial statements to make decisions. The use of erroneously prepared financial statements could have a negative impact on those decisions. Nevertheless, the year-end audited financial statements for the current year included all audit adjustments.

Cause: The Fiscal Officer did not post or correct certain accounts at year end.

Recommendation: In the future, we recommend that the Fiscal Officer ensure that all adjustments are posted to the general ledger before the audit begins.

Response: The Authority agrees with the finding.

3. FINDINGS RELATED TO FEDERAL AWARDS

There are no findings for the year ended December 31, 2009.



Mary Taylor, CPA
Auditor of State

SOUTH EAST AREA TRANSIT

MUSKINGUM COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
SEPTEMBER 30, 2010**