SOUTH EAST AREA TRANSIT
MUSKINGUM COUNTY

SINGLE AUDIT

FOR THE YEAR ENDED DECEMBER 31, 2018

OHIO AUDITOR OF STATE
KEITH FABER

SOUTH EAST AREA TRANSIT
MUSKINGUM COUNTY
DECEMBER 31, 2018

TABLE OF CONTENTS

This page intentionally left blank.

OHIO AUDITOR OF STATE
KEITH FABER

53 Johnson Road
The Plains, Ohio 45780-1231
(740) 594-3300 or (800) 441-1389
SoutheastRegion@ohioauditor.gov

INDEPENDENT AUDITOR'S REPORT

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

To the Board of Trustees:

Report on the Financial Statements

We have audited the accompanying financial statements of South East Area Transit, Muskingum County, Ohio (the Authority), as of and for the year ended December 31, 2018, 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 such 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 South East Area Transit, Muskingum County, Ohio, as of December 31, 2018, and the changes in its financial position and its cash flows for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 4 to the financial statements, during 2018 the Authority adopted new accounting guidance in Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.* We did not modify our opinion regarding this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require this presentation to include M*anagement's Discussion and Analysis*, and Schedules of Net Pension and Other Post-employment Benefit Liabilities and Pension and Other Post-employment Benefit 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 Expenditures of Federal Awards (the Schedule) 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 relates directly to the underlying accounting and other records used to prepare the basic financial statements. We subjected this information to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information 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 information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 10, 2019, 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.

Keith Faber

Keith Faber
Auditor of State
Columbus, Ohio

September 10, 2019

This page intentionally left blank.

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2018
(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, 2018. 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 for 2018

The net pension liability (NPL) is the largest single liability reported by the Authority at December 31, 2018 and is reported pursuant to GASB Statement 68, "Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27." For fiscal year 2018, the Authority adopted GASB Statement 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions," which significantly revises accounting for costs and liabilities related to other postemployment benefits (OPEB). For reasons discussed below, many end 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 OPEB, the net pension liability and the net OPEB liability to the reported net position and subtracting deferred outflows related to pension and OPEB.

Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. Prior accounting for pensions (GASB 27) and postemployment benefits (GASB 45) focused on a funding approach. This approach limited pension and OPEB costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's *net pension liability* or *net OBEP liability*. GASB 68 and GASB 75 take an earnings approach to pension and OPEB accounting; however, the nature of Ohio's statewide pension/OPEB plans and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

GASB 68 and GASB 75 require the net pension liability and the net OPEB liability to equal the Authority's proportionate share of each plan's collective:

1. Present value of estimated future pension/OPEB benefits attributable to active and inactive employees' past service.
2. Minus plan assets available to pay these benefits.

GASB notes that pension and OPEB obligations, whether funded or unfunded, are part of the "employment exchange" – that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension and other postemployment benefits. GASB noted that the unfunded portion of this promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the Authority is not responsible for certain key factors affecting the balance of these liabilities. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The Ohio revised Code permits, but does not require the retirement systems to provide healthcare to eligible benefit recipients. The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits.

The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the retirement system. In Ohio, there is no legal means to enforce the unfunded liability of the pension/OPEB plan *as against the public employer.*

State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The retirement system is responsible for the administration of the pension and OPEB plans.

Most long-term liabilities have set repayment schedules or, in the case of compensated absences (i.e. sick and vacation leave), are satisfied through paid time-off or termination payments. There is no repayment schedule for the net pension liability or the net OPEB liability. As explained above, changes in benefits, contribution rates, and return on investments affect the balance of these liabilities, but are outside the control of the local government. In the event that contributions, investment returns, and other changes are insufficient to keep up with required payments, State statute does not assign/identify the responsible party for the unfunded portion. Due to the unique nature of how the net pension liability and the net OPEB liability are satisfied, these liabilities are separately identified within the long-term liability section of the statement of net position.

In accordance with GASB 68 and GASB 75, the Authority's statements prepared on an accrual basis of accounting include an annual pension expense and an annual OPEB expense for their proportionate share of each plan's *change* in net pension liability and net OPEB liability, respectively, not accounted for as deferred inflows/outflows.

As a result of implementing GASB 75, the Authority is reporting a net OPEB liability and deferred inflows/outflows of resources related to OPEB on the accrual basis of accounting. This implementation also had the effect of restating net position at December 31, 2017, from $663,845 to ($125,024).

For the year ended December 31, 2018, the Authority has a net position of ($83,529). This net position results from the difference between total assets and deferred outflows of resources related to Pensions and OPEB of $2.69 million and total liabilities and deferred inflows of resources related to Pensions and OPEB of $2.78 million.

Current assets of $861,890 primarily consist of Cash and Cash Equivalents, Accounts Receivable, and Intergovernmental Receivable.

Current liabilities of $311,034 primarily consist of Accounts Payable and Payroll related items.

Basic Financial Statements and Presentation

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

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

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

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

Notes to the Financial Statements

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

Financial Analysis of the Authority

Table 1 provides a summary of the Authority's net position for 2018:

(Table 1)
South East Area Transit
Condensed Summary of Net Position
For the Years Ended December 31, 2018 and 2017

	2018	2017
Current Assets	$861,890	$839,935
Net Pension Asset	1,956	1,475
Capital Assets (Net of Accumulated Depreciation)	1,426,467	1,291,032
Deferred Outflows of Resources-Pensions	333,216	652,432
Deferred Outflows of Resources-OPEB	69,583	15,118
Total Assets & Deferred Outflows	2,693,112	2,799,992
Current Liabilities	311,034	313,347
Net Pension Liability	1,180,369	1,687,408
Net OPEB Liability	864,397	803,987
Deferred Inflows of Resources-Pensions	291,550	64,969
Deferred Inflows of Resources-OPEB	64,394	0
Other Long-Term Liabilities	64,897	55,305
Total Liabilities & Deferred Inflows	2,776,641	2,925,016
Net Position		
Invested in Capital Assets	1,426,467	1,291,032
Unrestricted	(1,509,996)	(1,416,056)
Total Net Position	($83,529)	($125,024)

Current Assets increased $21,955 primarily due to more cash on hand.

Capital assets increased $135,435 as a result of a higher value of capital purchases including TIGER grant assets and the construction of a Fuel Canopy.

Current liabilities decreased minimally at $2,313.

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

The Authority uses these capital assets to provide public transportation services for the counties of Muskingum, Guernsey and Noble; consequently, these assets are not available for future spending.

At December 31, 2018, the unrestricted net position had a deficit balance of ($1,509,996).

Working capital is an organization's current assets less its current liabilities. Working capital is an indicator or liquidity or an organization's ability to pay current operating expenses on time. At December 31, 2018, the Authority had a positive working capital balance of $550,856.

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

(Table 2)
South East Area Transit
Condensed Summary of Revenues, Expenses and Changes in Net Position
For the Years Ended December 31, 2018 and 2017

Operating Revenues (Expenses):	**2018**	**2017**
Operating Revenue	$3,264,948	$2,900,698
Operating Expenses (Excluding depreciation)	(3,637,247)	(3,370,943)
Depreciation Expenses	(272,135)	(222,097)
Operating Loss	(644,434)	(692,342)
Non-Operating Revenues		
Capital Grant Revenue	663,867	511,320
Other Non-Operating Income	22,062	11,980
Total Non-Operating Revenues	685,929	523,300
Increase in Net Position During the Year	41,495	(169,042)
Net Position, Beginning of Year (Restated)	(125,024)	N/A
Net Position, End of Year	($83,529)	($125,024)

The information necessary to restate the 2017 beginning balances and the 2017 OPEB expense amounts for the effects of the initial implementation of GASB 75 is not available. Therefore, 2017 functional expenses still include OPEB expense of $15,118 computed under GASB 45. GASB 45 required recognizing pension expense equal to the contractually required contributions to the plan. Under GASB 75, OPEB expense represents additional amounts earned, adjusted by deferred inflows/outflows. The contractually required contribution is no longer a component of OPEB expense. Under GASB 75, the 2018 statements report an OPEB expense of $76,310.

Consequently, in order to compare 2018 total program expenses to 2017, the following adjustments are needed:

Total 2018 program expenses under GASB 75	$3,894,264
OPEB expense under GASB 75	(76,310)
2018 contractually required contribution	5,973
Adjusted 2018 program expenses	3,823,927
Total 2017 program expenses under GASB 45	3,593,040
Increase in program expenses not related to OPEB	$230,887

Financial Operating Activities

Operating revenues increased by $364,250 caused by an increase in contract services provided to Muskingum County & Guernsey County JFS.

Operating expenses (Including Wages, Fringe Benefits, and, Purchased Transportation) increased by $266,304.

Capital Assets and Debt Administration

The Authority's investment in capital assets as of December 31, 2018 is $1,426,467 (net of accumulated depreciation). This investment in capital assets includes land, buildings, buses, and equipment.

Additional information concerning the Authority's capital assets can be found in Note 6 of the notes to the basic financial statements.

As of December 31, 2018, long term liabilities consist entirely of compensated absences for accrued sick pay of $64,897.

The Authority has no long-term debt.

Contacting the Authority's Financial Management

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

This page intentionally left blank.

South East Area Transit
Muskingum County
Statement of Net Position
For the Year Ended December 31, 2018

Assets and Deferred Outflows of Resources	
Current Assets:	
Cash and Cash Equivalents	$375,363
Accounts Receivable	35,793
Intergovernmental Receivable	372,408
Materials & Supplies Inventory	41,625
Prepaid Expenses	36,701
Total Current Assets	861,890
Non-Current Assets:	
Net Pension Asset	1,956
Property, Facilities and Equipment	
Land - Non Depreciable	334,255
Operating Facilities	1,827,236
Buses & Other Vehicles	1,622,331
Furniture, Fixtures, & Equipment	835,593
Subtotal	4,619,415
Less Accumulated Depreciation	(3,192,948)
Total Property, Facility and Equipment (net of accumulated depreciation)	1,426,467
Total Non-Current Assets	1,428,423
Deferred Outflows of Resources - Pensions	333,216
Deferred Outflows of Resources - OPEB	69,583
Total Assets and Deferred Outflows of Resources	$2,693,112
Liabilities, Deferred Inflows of Resources and Net Position	
Current Liabilities	
Accounts Payable	$194,835
Accrued Payroll	27,973
Accrued Payroll Taxes & Withholdings	4,849
Accrued Vacation Time	72,052
Held Funds	157
Unredeemed Fares	11,168
Total Current Liabilities	311,034
Long-Term Liabilities	
Accrued Sick Time	64,897
Net Pension Liability	1,180,369
OPEB Liability	864,397
Total Long-Term Liabilities	2,109,663
Total Liabilities	2,420,697
Deferred Inflows of Resources-Pensions	291,550
Deferred Inflows of Resources-OPEB	64,394
Net Position	
Invested in Capital Assets	1,426,467
Unrestricted	(1,509,996)
Total Net Position	(83,529)
Total Liabilities, Deferred Inflows of Resources and Net Position	$2,693,112

See Accompanying Notes to the Basic Financial Statements

South East Area Transit
Muskingum County
Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended December 31, 2018

Operating Revenues	
General Public Fares	$94,707
Special Transit Fares	1,644,296
Intergovernmental Funding	1,419,082
Advertising Revenue	26,560
Maintenance Services	74,922
Other Operating Revenue	5,381
Total Operating Revenues	3,264,948
Operating Expenses	
Labor	1,057,075
Fringe Benefits	1,121,911
Services	76,810
Materials & Supplies	307,831
Utilities	62,304
Casualty & Liability Insurance	83,930
Taxes	198
Purchased Transportation	874,957
Miscellaneous Expenses	41,923
Interest Expense	108
Leases & Rentals	10,200
Total Operating Expenses	3,637,247
Operating Gain/Loss Excluding Depreciation	(372,299)
Depreciation	272,135
Operating Gain/Loss	(644,434)
Non-Operating Revenues (Expenses)	
Federal Capital Maintenance Grant	303,750
Federal Grant - Capital	360,117
Other Non-Operating Income	22,062
Total Non-Operating Revenue	685,929
Net Gain/Loss	41,495
Net Position, Beginning of Year (Restated - See Note 4)	(125,024)
Net Position, End of Year	($83,529)

See Accompanying Notes to the Basic Financial Statements

South East Area Transit
Muskingum County
Statement of Cash Flows
For the Years Ended December 31, 2018

Operating Activities		
Cash Received From Customers		1,739,717
Cash Received From Grants for Operating		1,450,340
Cash Received From Advertising Fees		26,560
Cash Received From Maintenance Services		74,922
Cash Received From Other Receipts		5,041
Cash Payments for Operating and Administrative Expenses		(3,512,704)
Net Cash Used		(216,124)
Non-Capital Financing Activities		
Increase (Decrease) on Line of Credit		(15,433)
Capital and Related Financing Activities		
Proceeds From Capital Grants and Assistance		654,580
Proceeds From Sale of Equipment / Other		20,495
Payments For The Purchase of Capital Assets		(398,283)
Net Cash Provided		276,792
Investing Activities		
Cash Received From Interest		1,566
Net Increase in Cash & Equivalents		46,801
Cash & Equivalents - Beginning of Year		328,562
Cash & Equivalents - End of Year	$	375,363

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

Operating Gain (Loss)	$	(644,434)
Adjustments to Reconcile Operating Gain (Loss) to Net Cash Used in Operating Activities		
Depreciation		272,135
Changes in Assets & Liabilities		
(Increase) Decrease in Accounts Receivable		31,258
(Increase) Decrease in Prepaid Expenses		(2,703)
(Increase) Decrease in Inventories		(3,708)
Increase (Decrease) in Accounts Payable		(9,625)
Increase (Decrease) in Payroll Liabilities		7,869
Increase (Decrease) in Compensated Absenses		24,095
Increase (Decrease) in Unredeemed Fares		714
Increase (Decrease) in Other Liabilities		(340)
Net Pension Liability		(507,038)
OPEB Liability		75,528
Deferred Outflows - Pensions		319,216
Deferred Outflows - OPEB		(69,583)
Net Pension Asset		(481)
Deferred Inflows - Pensions		226,581
Deferred Inflows - OPEB		64,392
Net Cash (Used) in Operating Activities	$	(216,124)

See Accompanying Notes to the Basic Financial Statements

This page intentionally left blank.

1. DESCRIPTION OF THE AUTHORITY AND REPORTING ENTITY

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

At December 31, 2018 the Authority had 39 full-time equivalent employees and 1 part-time employee(s). Approximately 65% of the Authority's employees at December 31, 2018 are subject to a collective bargaining agreement expiring on May 31, 2019.

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

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

The Authority is managed by an eleven-member Board of Trustees, who establishes policies and sets direction for the management of the Authority. Six members are appointed by the Mayor of Zanesville with the consent of City Council, two members are appointed by the Muskingum County Commissioners, and the remaining three members are appointed by the Guernsey County Commissioners, the Mayor of Cambridge, and the Mayor of South Zanesville. Board Members serve overlapping three-year terms.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Authority are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Government Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting. The most significant of the Authority's accounting policies are described below.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Accounting

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

Budgetary Accounting and Control

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

Cash and Cash Equivalents

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

Recognition of Receivables and Revenues

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

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

Inventory of Materials and Supplies

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

Capital Assets

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred Outflows/Inflows of Resources - In addition to assets, the statement of net position reports 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 (expense/expenditure) until then. For the Authority, deferred outflows of resources are reported for pension and OPEB.

In addition to liabilities, the statement of net position reports 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 until that time. For the Authority, deferred inflows of resources include pension and OPEB.

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

Operating Revenues and Expenses

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

Restricted Assets

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

Net Assets

Equity is displayed in three components as follows:

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

Restricted – This consists of net 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 restricted resources first.

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

Compensated Absences

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

The Authority records compensated absences for vacation and sick leave in accordance with GASB No. 16. The Authority accrues vacation benefits as earned by its employees. Unused vacation benefits are paid to the employee upon voluntary separation from the Authority. Vacation days are limited to a maximum of twenty-five days. Upon voluntary termination, the Authority pays the employee 60% of accrued sick pay for a maximum of 100 days. An employee cannot carry over vacation to the following year unless extenuating circumstances exist; however, the Authority pays an employee his or her accrued vacation upon termination of employment, if termination was voluntary.

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 (STAR Ohio) and obligations of the United States government or certain agencies thereof. The Authority may also enter in repurchase agreements with any eligible depository for a period not extending 30 days.

Public depositories must give security for all public funds on deposit. These institutions may either specifically collateralize individual accounts in lieu of amounts insured by the Federal Deposit Insurance Corporation (FDIC), or by the financial institutions participation in the Ohio Pooled Collateral System (OPCS), a collateral pool of eligible securities deposited with a qualified trustee and pledged to the Treasurer of State to secure the repayment of all public monies deposited in the financial 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 by either the Federal Deposit Insurance Corporation or by the Authority’s financial institutions participation in the Ohio Pooled Collateral System.

3. CASH AND INVESTMENTS (Continued)

Investments
The Authority held no investments at December 31, 2018.

4. CHANGE IN ACCOUNTING PRINCIPLE

For fiscal year 2018, the Authority implemented Governmental Accounting Standards Board (GASB) Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other than Pensions, and related guidance from (GASB) Implementation Guide No. 2017-3, Accounting and Financial Reporting for Postemployment Benefits other Than Pensions (and Certain Issues Related to OPEB Plan Reporting).

GASB 75 established standards for measuring and recognizing postemployment benefit liabilities, deferred outflows of resources, deferred inflows of resources and expense/expenditure. The implementation of this pronouncement had the following effect on net position as reported December 31, 2017:

Net Position December 31, 2017	$663,845
Adjustments:	
Net OPEB Liability	(803,987)
Deferred Outflow – Payments Subsequent to Measurement Date	15,118
Restated Net Position December 31, 2017	($125,024)

Other than employer contributions subsequent to the measurement date, the Authority made no restatement for deferred inflows/outflows of resources as the information needed to generate these restatements was not available.

5. ACCOUNTS RECEIVABLE

Receivables at December 31, 2018 consisted of accounts (billings for user charges for services) and intergovernmental grants. Management estimated allowances for bad debt based on a review of accounts receivable at year end and it was determined that most accounts were collectable and in good standing.

A summary of the principal items of intergovernmental receivables at December 31, 2018 consisted of the following amounts: Ohio Department of Transportation $230,019, Ohio Department of Taxation 4,907, Guernsey County Job and Family Services $47,493, Muskingum County Job and Family Services $70,871, Morgan County Transit $7,451, Noble County Job and Family Services $9,139, Ohio Department of Developmental Disabled $1,136, Muskingum County Center for Seniors $747 and Perry County Transit $645.

6. CAPITAL ASSETS

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

	Balance 12/31/17	Additions	Deductions	Balance 12/31/18
Nondepreciable Capital Assets				
Land	$334,255	$0	$0	$334,255
Depreciable Capital Assets				
Buildings	1,775,936	51,300	0	1,827,236
Buses & Vehicles	1,438,942	183,389	0	1,622,331
Furniture, Fixtures & Equipment	671,999	172,881	(9,287)	835,593
Total Depreciable Capital Assets	3,886,877	407,570	(9,287)	4,285,160
Less Accumulated Depreciation				
Buildings	(1,436,777)	(65,373)	0	(1,502,150)
Buses & Vehicles	(1,012,453)	(138,922)	0	(1,151,375)
Vehicles	(480,870)	(67,840)	9,287	(539,423)
Total Accumulated Depreciation	(2,930,100)	(272,135)	9,287	(3,192,948)
Total Depreciable Capital Assets, Net	$956,777	$135,435	$0	$1,092,212

7. DEFINED BENEFIT PENSION/OPEB PLANS

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.

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.

7. DEFINED BENEFIT PENSION/OPEB PLANS (Continued)

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.

Net OPEB Liability

For 2018, Governmental Accounting Standards Board (GASB) Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions" was effective. The net OPEB liability reported on the statement of net position represents a liability to employees for OPEB. OPEB is a component of exchange transactions-–between an employer and its employees—of salaries and benefits for employee services. OPEB 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 OPEB is a present obligation because it was created as a result of employment exchanges that already have occurred.

The net OPEB liability represents the Authority's proportionate share of each OPEB plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each OPEB plan's fiduciary net position. The net OPEB 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 these estimates annually.

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 OPEB are financed; however, the Authority does receive the benefit of employees' services in exchange for compensation including OPEB.

GASB 75 assumes the liability is solely the obligation of the employer, because they benefit from employee services. OPEB contributions come from these employers and health care plan enrollees which pay a portion of the health care costs in the form of a monthly premium. The Ohio Revised Code permits, but does not require the retirement systems to provide healthcare to eligible benefit recipients. Any change to benefits or funding could significantly affect the net OPEB liability. Resulting adjustments to the net OPEB liability would be effective when the changes are legally enforceable. The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits.

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

7. DEFINED BENEFIT PENSION/OPEB PLANS (Continued)

Plan Description - Ohio Public Employees Retirement System (OPERS)

SEAT employees participate in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans: the traditional pension plan, a cost-sharing, multiple-employer defined benefit pension plan; the member-directed plan, a defined contribution plan; and the combined plan, a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

OPERS maintains a cost-sharing, multiple-employer defined benefit post-employment health care trust, which funds multiple health care plans including medical coverage, prescription drug coverage and deposits to a Health Reimbursement Arrangement to qualifying benefit recipients of both the traditional pension and the combined plans. This trust is also used to fund health care for member-directed plan participants, in the form of a Retiree Medical Account (RMA). At retirement or refund, member directed plan participants may be eligible for reimbursement of qualified medical expenses from their vested RMA balance.

In order to qualify for postemployment health care coverage, age and service retirees under the traditional pension and combined plans must have twenty 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 75. See OPERS' CAFR referenced below for additional information.

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.

Disclosures for the health care plan are presented separately in the OPERS financial report. Interested parties may obtain a copy by visiting https://www.opers.org/financial/reports.shtml by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling (614) 222-5601 or 800-222-7377.

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 State and Local group under the traditional plan as per the reduced benefits adopted by SB 343 (see OPERS' CAFR referenced above for additional information):

7. DEFINED BENEFIT PENSION/OPEB PLANS (Continued)

Group A Eligible to retire prior to January 7, 2013 or five years after January 7, 2013	Group B 20 years of service credit prior to January 7, 2013 or eligible to retire ten years after January 7, 2013	Group C 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, current law provides that the adjustment will be based on the average percentage increase in the Consumer Price Index, capped at 3%. A death benefit of $500-$2,500, determined by the number of years of service credit of the retiree, is paid to the beneficiary of a deceased retiree or disability benefit recipient under the Traditional Pension Plan and Combined Plan. Death benefits are not available to beneficiaries of Member-Directed Plan participants.

Funding Policy - Each year, the OPERS Board 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 1.0 percent during calendar year 2017. As recommended by OPERS' actuary, the portion of employer contributions allocated to health care beginning January 1, 2018 decreased to 0 percent for both plans. The OPERS 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 into the RMA for participants in the Member-Directed Plan for 2017 was 4.0 percent.

The following table displays the member and employer contribution rates as a percent of covered payroll for each division for 2017:

	2017 Employee Rate	2017 Employer Rate
State Division	10.0%	14.0%
Local Division	10.0%	14.0%

7. DEFINED BENEFIT PENSION/OPEB PLANS (Continued)

The member and employer contribution rates for the State and Local divisions are currently set at the maximums authorized by the ORC of 10% and 14%, respectively. The Public Safety and Law

Enforcement employer rates are also set at the maximum authorized rate of 18.1%. The member rate for Public Safety is determined by the Board and has no maximum rate established by the ORC. The member rate for Law Enforcement is also determined by the Board, but is limited by the ORC to not more than 2% greater than the Public Safety rate.

ORC Chapter 145 assigns authority to the Board to amend the funding policy. As of December 31, 2017, the Board adopted the contribution rates recommended by the actuary. The contribution rates were included in a funding policy adopted by the Board in October 2013, and are certified periodically by the Board as required by the ORC.

As of December 31, 2017, the date of the last pension actuarial study, the funding period for all defined benefits of the System was 18 years.

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. The Authority's contractually required contribution was $134,738 for 2018.

Net Pension Liability, 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, 2017, 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 expense:

	Traditional Plan	Combined Plan
Proportionate Share of the Net Pension Liability/(Asset)	$1,180,370	($1,956)
Proportion of the Net Pension Liability	0.007524%	0.001437%
Proportionate Share of the Employer Pension Expense	$259,923	($653)

7. DEFINED BENEFIT PENSION/OPEB PLANS (Continued)

At December 31, 2018, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Traditional Plan	Combined Plan	Total
Deferred Outflows of Resources - Pensions			
Difference between expected and actual experience	$1,205	$0	$1,205
SEAT contributions subsequent to the measurement date	131,841	2,897	134,738
Changes in proportion and differences in assumptions	196,816	457	197,273
Total Deferred Outflows of Resources - Pensions	$329,862	$3,354	$333,216
Deferred Inflows of Resources - Pensions			
Differences between expected and actual experience	$23,261	$583	$23,844
Difference between projected and actual earning on pension plan investments	253,410	309	253,719
Changes in proportion and differences in assumptions	13,615	372	13,987
Total Deferred Inflows of Resources - Pensions	$290,286	$1,264	$291,550

The reported $131,841 as deferred outflows of resources related to pension resulting from SEAT contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2019.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	Traditional Plan	Combined Plan
Year Ending December 31:		
2019	$122,349	$98
2020	1,105	107
2021	(111,588)	176
2022	(104,132)	168
2023	0	60
Thereafter	0	198
Total	($92,266)	$807

7. DEFINED BENEFIT PENSION/OPEB PLANS (Continued)

Actuarial Assumptions – Pensions

Actuarial valuations of an ongoing plan involve estimates of the value 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 was determined by an actuarial valuation as of December 31, 2017, using the following actuarial assumptions and methods applied to all prior periods included in the measurement in accordance with the requirements of GASB 67.

Key Methods and Assumptions Used in Valuation of Total Pension Liability		
Actuarial Information	Traditional Pension Plan	Combined Plan
Measurement and Valuation Date	December 31, 2017	December 31, 2017
Experience Study	5-Year Period Ended December 31, 2015	5-Year Period Ended December 31, 2015
Actuarial Cost Method	Individual entry age	Individual entry age
Actuarial Assumptions		
Investment Rate of Return	7.50%	7.50%
Wage Inflation	3.25%	3.25%
Projected Salary Increases	3.25%-10.75% (includes wage inflation at 3.25%)	3.25%-8.25% (includes wage inflation at 3.25%)
Cost-of-living Adjustments	Pre-1/7/2013 Retirees: 3.00% Simple Post-1/7/2013 Retirees: 3.00% Simple through 2018, then 2.15% Simple	Pre-1/7/2013 Retirees: 3.00% Simple Post-1/7/2013 Retirees: 3.00% Simple through 2018, then 2.15% Simple

Pre-retirement mortality rates are based on the RP-2014 Employees mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Post-retirement mortality rates are based on the RP-2014 Healthy Annuitant mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively.

Post-retirement mortality rates for disabled retirees are based on the RP-2014 Disabled mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Mortality rates for a particular calendar year are determined by applying the MP-2015 mortality improvement scale to all of the above described tables.

7. DEFINED BENEFIT PENSION/OPEB PLANS (Continued)

Discount Rate - Pensions The discount rate used to measure the total pension liability was 7.5% for the Traditional Pension Plan, Combined Plan and Member-Directed Plan. 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 contractually required rates, as actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments for the Traditional Pension Plan, Combined Plan and Member-Directed Plan 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 net pension liability or asset calculated using the discount rate of 7.5%, and the expected net pension liability or asset if it were calculated using a discount rate that is 1.0% lower or 1.0% higher than the current rate.

SEAT's Net Pension Liability/(Asset) as of December 31, 2017	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Traditional Plan	$2,096	$1,180	$416
Combined Plan	($1)	($2)	($0)
		(in thousands)	

The allocation of investment assets within the Defined Benefit portfolio is approved by the Board 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 following table displays the Board-approved asset allocation policy for 2017 and the long-term expected real rates of return.

Asset Class	Target Allocation for 2017	Weighted Average Long-Term Expected Real Rate of Return (Arithmetic)
Fixed Income	23.00%	2.20%
Domestic Equities	19.00	6.37
Real Estate	10.00	5.26
Private Equity	10.00	8.97
International Equities	20.00	7.88
Other Investments	18.00	5.26
TOTAL	100.00%	5.66%

7. DEFINED BENEFIT PENSION/OPEB PLANS (Continued)

The long-term expected 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.

During 2017, OPERS managed investments in three investment portfolios: the Defined Benefit portfolio, the Health Care portfolio, and the Defined Contribution portfolio. The Defined Benefit portfolio contains the investment assets for the Traditional Pension Plan, the defined benefit component of the Combined Plan and the annuitized accounts of the Member-Directed Plan. 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 annual money-weighted rate of return expressing investment performance, net of investment expenses and adjusted for the changing amounts actually invested, for the Defined Benefit portfolio was 16.82% for 2017.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

The net OPEB liability was measured as of December 31, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The Authority's proportion of the net OPEB liability was based on the Authority's share of contributions to the respective retirement systems relative to the contributions of all participating entities. Following is information related to the proportionate share and OPEB expense:

	OPERS
Proportion of the Net OPEB Liability Current Measurement Date	0.00796%
Proportionate Share of the Net OPEB Liability	$864,697
OPEB Expense	$76,310

7. DEFINED BENEFIT PENSION/OPEB PLANS (Continued)

At December 31, 2018, the Authority reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	OPERS
Deferred Outflows of Resources - OPEB	
Difference between expected and actual experience	$673
SEAT contributions subsequent to the measurement date	5,973
Changes in proportion and differences in assumptions	62,937
Total Deferred Outflows of Resources - OPEB	$69,583
Deferred Inflows of Resources - OPEB	
Differences between expected and actual experience	$0
Difference between projected and actual earning on pension plan investments	64,394
Changes in proportion and differences in assumptions	0
Total Deferred Inflows of Resources - OPEB	$64,392

The reported $5,973 as deferred outflows of resources related to OPEB resulting from SEAT contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2019.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	OPERS
Year Ending December 31:	
2019	($14,314)
2020	(14,314)
2021	13,312
2022	16,100
2023	0
Thereafter	0
Total	$784

7. DEFINED BENEFIT PENSION/OPEB PLANS (Continued)

Actuarial Assumptions – OPEB

Actuarial valuations of an ongoing plan involve estimates of the value 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 health care costs for financial reporting purposes are based on the substantive plan and include the types of coverage provided at the time of each valuation and the historical pattern of sharing of costs between the System and plan members. The total OPEB liability was determined by an actuarial valuation as of December 31, 2016, rolled forward to the measurement date of December 31, 2017.

The actuarial valuation used the following actuarial assumptions applied to all prior periods included in the measurement in accordance with the requirements of GASB 74:

Key Methods and Assumptions Used in Valuation of Total OPEB Liability	
Actuarial Information	
Actuarial Valuation Date	December 31, 2016
Rolled-Forward Measurement Date	December 31, 2017
Experience Study	5-Year Period Ended December 31, 2015
Actuarial Assumptions	
Single Discount Rate	3.85%
Investment Rate of Return	6.50%
Municipal Bond Rate	3.31%
Wage Inflation	3.25%
Projected Salary Increases	3.25%-10.75% (includes wage inflation at 3.25%)
Health Care Cost Trend Rate	7.5% initial, 3.25% ultimate in 2028

Pre-retirement mortality rates are based on the RP-2014 Employees mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Post-retirement mortality rates are based on the RP-2014 Healthy Annuitant mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively.

Post-retirement mortality rates for disabled retirees are based on the RP-2014 Disabled mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Mortality rates for a particular calendar year are determined by applying the MP-2015 mortality improvement scale to all of the above described tables.

7. DEFINED BENEFIT PENSION/OPEB PLANS (Continued)

Discount Rate - OPEB A single discount rate of 3.85% was used to measure the OPEB liability on the measurement date of December 31, 2017. Projected benefit payments are required to be discounted to their actuarial present value using a single discount rate that reflects (1) a long-term expected rate of return on OPEB plan investments (to the extent that the health care fiduciary net position is projected to be sufficient to pay benefits), and (2) tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating as of the measurement date (to the extent that the contributions for use with the long-term expected rate are not met). This single discount rate was based on an expected rate of return on the health care investment portfolio of 6.50% and a municipal bond rate of 3.31%. The projection of cash flows used to determine this single discount rate assumed that employer contributions will be made at rates equal to the actuarially determined contribution rate. Based on these assumptions, the health care fiduciary net position and future contributions were sufficient to finance health care costs through 2034. As a result, the long-term expected rate of return on health care investments was applied to projected costs through the year 2034, and the municipal bond rate was applied to all health care costs after that date.

Sensitivity of the Authority's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate and Health Care Trend Rate The following table presents the OPEB liability calculated using the single discount rate of 3.85%, and the expected net OPEB liability if it were calculated using a discount rate that is 1.0% lower or 1.0% higher than the current rate.

As of December 31, 2017	1% Decrease (2.85%)	Current Discount Rate (3.85%)	1% Increase (4.85%)
SEAT's Net OPEB Liability	$1,148	$864	$634
		(in thousands)	

Changes in the health care cost trend rate may also have a significant impact on the net OPEB liability. The following table presents the net OPEB liability calculated using the assumed trend rates, and the expected net OPEB liability if it were calculated using a health care cost trend rate that is 1.0% lower or 1.0% higher than the current rate. Retiree health care valuations use a health care cost-trend assumption that changes over several years built into the assumption. The near-term rates reflect increases in the current cost of health care; the trend starting in 2018 is 7.50%. If this trend continues for future years, the projection indicates that years from now virtually all expenditures will be for health care. A more reasonable alternative is that in the not-too-distant future, the health plan cost trend will decrease to a level at, or near, wage inflation. On this basis, the actuaries project premium rate increases will continue to exceed wage inflation for approximately the next decade, but by less each year, until leveling off at an ultimate rate, assumed to be 3.25% in the most recent valuation.

As of December 31, 2017	1% Decrease	Current Health Care Cost Trend Rate Assumption	1% Increase
SEAT's Net OPEB Liability	$827	$864	$902
		(in thousands)	

7. DEFINED BENEFIT PENSION/OPEB PLANS (Continued)

The allocation of investment assets within the Health Care portfolio is approved by the Board as outlined in the annual investment plan. Assets are managed on a total return basis with a long-term objective of continuing to offer a sustainable health care program for current and future retirees. The System's primary goal is to achieve and maintain a fully funded status for benefits provided through the defined pension plans. Health care is a discretionary benefit.

The table below displays the Board-approved asset allocation policy for 2017 and the long-term expected real rates of return.

Asset Class	Target Allocation for 2017	Weighted Average Long-Term Expected Real Rate of Return (Arithmetic)
Fixed Income	34.00%	1.88%
Domestic Equities	21.00	6.37
REITs	6.00	5.91
International Equities	22.00	7.88
Other Investments	17.00	5.39
TOTAL	100.00%	4.98%

The long-term expected rate of return on health care 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.

During 2017, OPERS managed investments in three investment portfolios: The Defined Benefit portfolio, the Health Care portfolio and the Defined Contribution portfolio. The Health Care portfolio includes the assets for health care expenses for the Traditional Pension Plan, Combined Plan and Member-Directed Plan eligible members. Within the Health Care portfolio, contributions into the plans are assumed to be received continuously throughout the year based on the actual payroll payable at the time contributions are made, and health care-related payments are assumed to occur mid-year. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The annual money-weighted rate of return expressing investment performance, net of investment expenses and adjusted for the changing amounts actually invested, for the Health Care portfolio is 15.2% for 2017.

8. 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, 2018 consist of the following:

Federal:	
FTA Capital Assistance	$663,867
FTA Operating Assistance	$1,265,971
	$1,929,838
State:	
ODOT Operating Assistance	$55,000
ODOT Elderly Fare Assistance	$43,149
ODOT Technical Assistance	$9,382
	$107,531
Local:	
City of Zanesville	$80,000
Village of South Zanesville	$2,500
Muskingum County	$10,000
City of Cambridge	$2,500
Guernsey County	$5,580
Muskingum County Job and Family Services	$926,651
Guernsey County Job and Family Services	$580,537
Noble County Job and Family Services	$61,960
	$1,669,728

On April 25, 2012, the Board of Trustees established a capital replacement line item on its accounting system in which it places 11 percent of negotiated special transit fares. This amount was changed by ODOT in 2016 to 10%. The purpose of these monies is to provide a local match portion for the Authority for federal capital maintenance grants or federal capital replacement grants that are available through the Ohio Department of Transportation, as needed. For the year ending December 31, 2018, the Authority collected $63,154 in the capital replacement line item. This amount was reported in the financial statements within Special Transit Fares.

9. RISK MANAGEMENT

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

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

9. RISK MANAGEMENT (Continued)

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

11. CONTINGENCIES

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

SOUTH EAST AREA TRANSIT
MUSKINGUM COUNTY

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE AUTHORITY'S CONTRIBUTIONS
OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM
LAST SIX YEARS ENDED DECEMBER 31 (1)

	2018	2017	2016	2015	2014	2013
Contractually Required Pension Contribution	$134,738	$157,933	$145,989	$109,202	$104,462	$115,521
Contribution in Relation to the Contractually Required Contribution	$134,738	157,933	145,989	109,202	104,462	115,521
Contribution Deficiency (Excess)	$0	$0	$0	$0	$0	$0
SEAT Covered Payroll	$1,036,446	$1,316,108	$1,216,575	$910,017	$870,517	$888,623
Covered-Employee Payroll	13%	12.0%	12.0%	12.0%	12.0%	12.0%

	2018	2017	2016	2015	2014	2013
Contractually Required OPEB Contribution	$10,364	$26,322	$24,332	$18,200	$17,410	$17,772
Contribution in Relation to the Contractually Required Contribution	$10,364	26,322	24,332	18,200	17,410	115,521
Contribution Deficiency (Excess)	$0	$0	$0	$0	$0	$0
SEAT Covered Payroll	$1,036,446	$1,316,108	$1,216,575	$910,017	$870,517	$888,623
Covered-Employee Payroll	1%	2.0%	2.0%	2.0%	2.0%	2.0%

(1) Information prior to 2013 is not available.

SOUTH EAST AREA TRANSIT
MUSKINGUM COUNTY

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE AUTHORITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM
LAST FOUR YEARS ENDED DECEMBER 31 (1)

	2017		2016	
	Traditional Plan	Combined Plan	Traditional Plan	Combined Plan
SEAT's proportion of the Net Pension Liability/(Asset)	0.007524%	0.001437%	0.007004%	0.002231%
SEAT's Proportionate Share of the Net Pension Liability/(Asset)	$1,180,370	($1,956)	$1,687,408	$ (1,475)
SEAT's Covered-Employee Payroll	$1,316,108	$1,163,239	$1,216,575	$1,070,044
SEAT's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	89.69%	-.002%	138.7%	-0.14%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	84.66%	137.28%	77.25%	116.55%

	2015	2014
	Traditional Plan	Traditional Plan
SEAT's proportion of the Net Pension Liability/(Asset)	0.007312%	0.007100%
SEAT's Proportionate Share of the Net Pension Liability	$1,270,553	$856,339
SEAT's Covered-Employee Payroll	$910,017	$870,517
SEAT's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	139.62%	98.37%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	81.08%	86.45%

(1) Information prior to 2014 is not available.

Amounts presented as of the Authority's measurement date which is the prior year end.

SOUTH EAST AREA TRANSIT
MUSKINGUM COUNTY

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE AUTHORITY'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY
OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM
LAST FOUR YEARS ENDED DECEMBER 31 (1)

	2017	2016
SEAT's proportion of the Net OPEB Liability	0.00796%	0.00796%
SEAT's Proportionate Share of the Net OPEB Liability	$864,697	$803,987
SEAT's Covered-Employee Payroll	$1,316,108	$1,216,575
SEAT's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered-Employee Payroll	65.7%	66.1%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	54.14%	54.04%

(1) Information prior to 2017 is not available.

Amounts presented as of the Authority's measurement date which is the prior year end.

Changes in Assumptions – OPERS Pension

Amounts reported beginning in 2017 incorporate changes in assumptions used by OPERS in calculating the total pension liability in the latest actuarial valuation. These new assumptions compared with those used in 2016 and prior are presented below:

Key Methods and Assumptions Used in Valuation of Total Pension Liability		
Measurement and Valuation Date	December 31, 2017	December 31, 2016 and prior
Actuarial Cost Method	Individual entry age	Individual entry age
Actuarial Assumptions		
Investment Rate of Return	7.50%	8.00%
Wage Inflation	3.25%	3.75%
Projected Salary Increases	3.25%-10.75% (includes wage inflation at 3.25%)	4.25%-10.05% (includes wage inflation at 3.25%)
Cost-of-living Adjustments	Pre-1/7/2013 Retirees: 3.00% Simple Post-1/7/2013 Retirees: 3.00% Simple through 2018, then 2.15% Simple	Pre-1/7/2013 Retirees: 3.00% Simple Post-1/7/2013 Retirees: 3.00% Simple through 2018, then 2.8% Simple

Amounts reported beginning in 2017 use mortality rates based on the RP-2014 Healthy Annuitant mortality table. For males, Healthy Annuitant Mortality tables were used, adjusted for mortality improvement back to the observation period base of 2006 and then established the base year as 2015. For females, Healthy Annuitant Mortality tables were used, adjusted for mortality improvements back to the observation period base year of 2006 and then established the base year as 2010. The mortality rates used in evaluating disability allowances were based on the RP-2014 Disabled mortality tables, adjusted for mortality improvement back to the observation base year of 2006 and then established the base year as 2015 for males and 2010 for females. Mortality rates for a particular calendar year for both healthy and disabled retiree mortality tables are determined by applying the MP-2015 mortality improvement scale to the above described tables.

Amounts reported for 2016 and prior use mortality rates 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.

SOUTH EAST AREA TRANSIT
MUSKINGUM COUNTY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2018

FEDERAL GRANTOR/ *Pass Through Grantor* Program Title	Grant Number	Federal CFDA Number	Expenditures
U.S. DEPARTMENT OF TRANSPORTATION			
Passed Through Ohio Department of Transportation:			
Formula Grants for Rural Areas	122-RPTF-18-0100	20.509	$1,449,750
	122-INTC-18-0200	20.509	64,204
Total Formula Grants to Rural Areas			1,513,954
Federal Transit Cluster:			
Bus and Bus Facilities Formula Program	122-BABF-17-0100	20.526	45,000
	122-BABF-18-0300	20.526	146,839
Total Bus and Bus Facilities Formula Program			191,839
Total Federal Transit Cluster			191,839
Federal FTA Tiger Grant	0122-TTGR-160100	20.933	168,278
Total U.S. Department of Transportation			1,874,071
Total Expenditures of Federal Awards			**$1,874,071**

The accompanying notes are an integral part of this schedule.

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
2 CFR § 200.510(b)(6)
FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE A – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of the Authority under programs of the federal government for the year ended December 31, 2018. 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, changes in net 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 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.

OHIO AUDITOR OF STATE
KEITH FABER

53 Johnson Road
The Plains, Ohio 45780-1231
(740) 594-3300 or (800) 441-1389
SoutheastRegion@ohioauditor.gov

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

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

To the Board of Trustees:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of South East Area Transit, Muskingum County, Ohio (the Authority), as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated September 10, 2019 wherein we noted the Authority adopted Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of reasonably assuring whether the Authority's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts.

However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed 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 report is not suitable for any other purpose.

Keith Faber

Keith Faber
Auditor of State
Columbus, Ohio

September 10, 2019

53 Johnson Road
The Plains, Ohio 45780-1231
(740) 594-3300 or (800) 441-1389
SoutheastRegion@ohioauditor.gov

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

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

To the Board of Trustees:

Report on Compliance for the Major Federal Program

We have audited the South East Area Transit's, Muskingum County, Ohio (the Authority), compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could directly and materially affect the Authority's major federal program for the year ended December 31, 2018. 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 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, 2018.

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 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 over compliance tests and the results of this testing based on Uniform Guidance requirements. Accordingly, this report is not suitable for any other purpose.

Keith Faber

Keith Faber
Auditor of State
Columbus, Ohio

September 10, 2019

SOUTH EAST AREA TRANSIT
MUSKINGUM COUNTY

SCHEDULE OF FINDINGS
2 CFR § 200.515
DECEMBER 31, 2018

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	**Type of Financial Statement Opinion**	Unmodified
(d)(1)(ii)	**Were there any material weaknesses in internal control reported at the financial statement level (GAGAS)?**	No
(d)(1)(ii)	**Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?**	No
(d)(1)(iii)	**Was there any reported material noncompliance at the financial statement level (GAGAS)?**	No
(d)(1)(iv)	**Were there any material weaknesses in internal control reported for major federal programs?**	No
(d)(1)(iv)	**Were there any significant deficiencies in internal control reported for major federal programs?**	No
(d)(1)(v)	**Type of Major Programs' Compliance Opinion**	Unmodified
(d)(1)(vi)	**Are there any reportable findings under 2 CFR § 200.516(a)?**	No
(d)(1)(vii)	**Major Program (list):**	Formula Grants for Rural Areas – CFDA #20.509
(d)(1)(viii)	**Dollar Threshold: Type A\B Programs**	Type A: > $ 750,000 Type B: all others
(d)(1)(ix)	**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.

This page intentionally left blank.

OHIO AUDITOR OF STATE
KEITH FABER

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 24, 2019

88 East Broad Street, Columbus, Ohio 43215
Phone: 614-466-4514 or 800-282-0370
www.ohioauditor.gov