

**STARK AREA REGIONAL TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2003**

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES:

Organization and Operations

Stark Area Regional Transit Authority (the "Authority") was created pursuant to Section 306.30 through 306.711 of the Ohio Revised Code for the purpose of providing public transportation in the Stark County, Ohio area. As a political subdivision, it is distinct from and not an agency of the State of Ohio or any other local governmental unit. The Authority is not subject to federal or state income taxes.

The Authority is managed by a nine-member Board of Trustees and provides virtually all mass-transportation within the Stark County area. Approximately 79 percent of the Authority's employees at December 31, 2003 were subject to a collective bargaining agreement that expires on January 4, 2004. A new collective bargaining agreement was approved by the Union on February 8, 2004 and accepted by the Board of Trustees on February 25, 2004.

Under Ohio law, the Authority is authorized to levy a sales tax and use tax for transit purposes, including both capital improvement and operating expenses, at the rate of .25 percent, .5 percent, 1 percent, or 1.5 percent if approved by a majority of the electors residing within the territorial boundaries of the Authority. Such a sales and use tax is in addition to the sales and use taxes levied by the State of Ohio and Stark County (see Note 3). On May 7, 2002, the voters of Stark County renewed the .25 percent sales tax levy to fund the Authority's operations for an additional five years.

Reporting Entity

The Authority has adopted the provisions of Statement No. 14 of the Governmental Accounting Standards Board ("GASB") regarding the definition of the financial reporting entity. Accordingly, the accompanying financial statements include only the accounts and transactions of the Authority. Under the criteria specified in Statement No. 14, the Authority has no component units and is not considered to be a component unit of any other entity.

These conclusions regarding the financial reporting entity are based on the concept of financial accountability. The Authority is not financially accountable for any other organization nor are any entities accountable for the Authority. This is evidenced by the fact that the Authority is a legally and fiscally separate and distinct organization under the provisions of the Ohio Revised Code.

Basis of Accounting

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

In accordance with Statement No. 20 of the GASB, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, the Authority has elected not to apply the provisions of the Statements and Interpretations of the Financial Accounting Standards Board issued after November 30, 1989. The Authority will continue applying all applicable pronouncements issued by the GASB.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Authority considers all highly liquid investments with maturity of three months or less when purchased to be cash equivalents.

Investments

The Authority's investments (including cash equivalents) are recorded at fair value.

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1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONT.):

The Authority has invested funds in the State Treasury Asset Reserve of Ohio (“STAROhio”). STAROhio is an investment pool managed by the State Treasurer’s office, which allows governments within the state to pool their funds for investment purposes. STAROhio is not registered with the Securities and Exchange Commission (“SEC”) as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio’s share price that is the price at which the investment could be sold.

Materials and Supplies Inventory

Materials and supplies inventory are stated at average cost determined using the first-in, first-out method. Inventory generally consists of maintenance parts, supplies for rolling stock and other transportation equipment, fuel and lubricants, and supplies to maintain the buildings.

Property and Depreciation

Property, facilities and equipment are stated at historical cost. The cost of normal maintenance and repairs are charged to operations as incurred. Improvements are capitalized and depreciated over the remaining useful lives of the related properties.

Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets, as follows:

Description	Years
Buildings	40
Transportation Equipment	5-12
Other Equipment	4 - 8

Transportation equipment is depreciated on the straight-line method for the useful lives described above unless the total mileage allowed per the FTA guidelines for depreciation occurs first. In this case the FTA unit mileage depreciation method is used. Depreciation recognized on assets acquired or constructed through grants externally restricted for capital acquisitions is closed to the appropriate contributed capital account. Net income (loss) adjusted by the amount of depreciation on fixed assets acquired in this manner is closed to net assets.

Recognition of Revenue, Receivables and Deferred Revenues

Passenger fares are recorded as revenue at the time services are performed.

Sales tax revenues are recognized when the underlying sales transaction occurs.

The Federal Transit Administration (“FTA”) and the Ohio Department of Transportation (“ODOT”) provide financial assistance and make grants directly to the Authority for operations and acquisitions of property and equipment. Operating grants and special fare assistance awards made on the basis of entitlement periods are recorded as grant receivables and revenues over the entitlement period. Capital grants for the acquisition of property and equipment (reimbursement type grants) are recorded as grant receivables and are credited to revenue when the related qualified expenditures are incurred.

Compensated Absences

The Authority accrues vacation and sick pay benefits as earned by its employees.

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1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONT.):

New Accounting Standard

Effective January 1, 2001, the Authority implemented GASB Statement No. 33, *Accounting and Financial Reporting for Non-exchange Transactions*. In general, GASB Statement No. 33 establishes accounting and financial reporting standards about when to report the results of non-exchange transactions involving financial or capital resources. In a non-exchange transaction, an entity gives (or receives) value without directly receiving or giving equal value in return. The Authority's principle non-exchange transactions involve the receipt of sales and use tax monies from the State of Ohio Department of Taxation, along with federal, state, and local grants for operating assistance as well as the acquisition of property, facilities and equipment. Substantially all of the Authority's non-exchange transactions represent reimbursement-type grants and sales tax revenues. The reimbursement-type grants are recorded as revenue in the period in which the related expenditures are incurred. Sales tax revenues are recorded as revenue in the months in which the underlying sales transactions occur.

The principle changes in accounting that resulted from GASB Statement No. 33 are the requirements that the Authority prospectively report grants as revenues rather than contributed capital, and that the Authority record sales tax revenue in the month the underlying sales transactions occur, rather than when the taxes are collected by the State of Ohio. Accordingly, during the year ended December 31, 2003, \$5,830,850 in federal, state and local capital planning and operating contributions was recognized as revenue in the statement of revenue and expenses.

2. CASH AND CASH EQUIVALENTS:

The provisions of the Ohio Revised Code govern the investment and deposit of Authority monies. In accordance with these statutes only banks located in Ohio and domestic building and loan associations are eligible to hold public deposits. The statutes also permit the Authority to invest its monies in certificates of deposit, saving accounts, money market accounts (STAROhio), and obligations of the United States government and certain agencies thereof. The Authority may also enter into repurchase agreements with any eligible depository or any eligible dealer who is a member of the National Association of Securities Dealers for a period not exceeding 30 days.

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

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

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2. CASH AND CASH EQUIVALENTS (CONT.):

Deposits

The carrying amount of the Authority's deposits was \$1,750,181 at December 31, 2003 with a \$1,722,162 bank balance. Deposits of \$100,000 were covered by federal depository insurance at December 31, 2003. The \$1,622,162 remaining balance was uncollateralized, as defined by GASB. However, all of this balance except \$940 was collateralized with securities held by the pledging financial institution, but not in the Authority's name.

Investments

Governmental Accounting Standards Board Statement No. 3 ("GASB") has established credit risk categories for investments as follows:

- Category 1 Insured or registered, or securities held by the Authority or its agent in the Authority's name.
- Category 2 Uninsured and unregistered, with securities held by the counter-party's trust department or agent in the Authority's name.
- Category 3 Uninsured and unregistered, with securities held by the counter party or by its trust department or agent but not in the Authority's name.

Investments in STAROhio are unclassified investments since STAROhio represents an investment pool managed by another governmental unit and investments therein are not evidenced by securities that exist in physical or book entry form. The Authority's investments are detailed below and are categorized to give an indication of the level of credit risk assumed as of year-end.

	Risk Category			Carrying/ Fair Value
	1	2	3	
Repurchase agreements			<u>\$958,292</u>	\$958,292
STAROhio				<u>16,909</u>
Total investments				<u>\$975,201</u>

3. TAX REVENUES:

On May 7, 2002, the voters of Stark County renewed the .25 percent sales tax levy. The renewed levy will expire in June 2007. Revenue can be used for operating or capital purposes. The Authority receives cash from sales tax levies when the related sales tax collections are distributed by the State of Ohio.

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4. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2003 was as follows:

	Balance January 1, 2003	Additions	CIP Transfers/Disposals	Balance December 31, 2003
<i>Capital Assets Not Being Depreciated:</i>				
Land	\$ 238,243			\$ 238,243
<i>Capital Assets Being Depreciated:</i>				
Buildings & Improvements	6,926,369			6,926,369
Transportation Equipment	14,200,479	\$ 635,036	\$(1,294,940)	13,540,575
Other Equipment	1,261,886	234,138		1,496,024
Construction in Progress	<u>770,083</u>	<u>2,831,647</u>		<u>3,601,730</u>
Total Capital Assets Being Depreciated	<u>23,158,817</u>	<u>3,700,821</u>	<u>(1,294,940)</u>	<u>25,564,698</u>
<i>Less: Accumulated Depreciation</i>				
Buildings & Improvements	(2,584,991)	(85,199)		(2,670,190)
Transportation Equipment	(6,958,174)	(1,966,417)	1,225,512	(7,699,079)
Other Equipment	(745,221)	(164,430)		(909,651)
Total Accumulated Depreciation	<u>(10,288,386)</u>	<u>(2,216,046)</u>	<u>1,225,512</u>	<u>(11,278,920)</u>
<i>Total Capital Assets, Net</i>	<u>\$13,108,674</u>	<u>\$1,484,775</u>	<u>(\$69,428)</u>	<u>\$14,524,021</u>

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5. RETIREMENT BENEFITS:

Plan Description

All employees of the Authority are required to be members of the Ohio Public Employees Retirement System ("OPERS"). OPERS administers three separate pension plans described below:

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

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the Traditional Plan and Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits.

Authority to establish and amend benefits is provided by state statute per Chapter 145 of the Ohio Revised Code.

The Ohio Public Employees Retirement System issues a stand-alone financial report. Interested parties may obtain a copy by making a written request to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 227-6705 or 1-800-222-PERS (7377).

Funding Policy

The Ohio Revised Code provides statutory authority for employee and employer contributions. For 2003, member and employer contribution rates were consistent across all three plans (TP, MD, and CO). For 2003, employees are required to contribute 8.5 percent of their covered payroll to OPERS. The Authority, due to contractual agreement with the Union, pays the employee contribution for the union employees. Additionally, the Authority funds the employee contribution amounts for non-union employees. For local government units, the employer contribution rate was 13.55 percent of covered payroll for 2003, 2002, and 2001, respectively, including 5.0 percent that it used to fund post-retirement, health care benefits. The Authority's total contributions to OPERS for pension benefits (excluding the amount related to post-retirement benefits) for the years ended December 31, 2003, 2002, and 2001 were approximately \$1,067,867, \$1,061,121 and \$1,149,000, respectively.

Total required employer contributions for all plans (TP, MD and CO) are equal to 100% of employer charges.

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5. RETIREMENT BENEFITS (CONT.):

Other Post-Employment Benefits Provided Through OPERS

In addition to the pension benefits described previously, OPERS provides post-employment benefits to eligible participants. OPERS administers three separate pensions: The Traditional Plan (TP) – a cost sharing multiple-employer defined benefit pension plan; the Member Directed Plan (MD) – a defined contribution plan; and the Combined Plan (CO) – a cost sharing multiple employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

OPERS provides retirement, disability, survivor and post-retirement health care benefits to qualifying members of both the Traditional and Combined Plans; however, health care benefits are not statutorily guaranteed. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage.

In order to qualify for post-retirement health care coverage, age and service retirees must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is also available. The health care coverage provided by the retirement system is considered an Other Post-Employment Benefit (“OPEB”) as described in GASB Statement No. 12.

A portion of each employer’s contribution to OPERS is set aside for the funding of post-retirement health care. The Ohio Revised Code provides statutory authority for employer contributions. For local government employer units, such as the Stark Area Regional Transit Authority, the employer rate was 13.55% of covered payroll for the years ended December 31, 2002 and 2003. Of the 13.55%, 5.00% was used to fund health care for the year.

The Ohio Revised Code provides the statutory authority to require employers to fund post-retirement health care through their contributions to OPERS.

The assumptions and calculations noted in the following paragraphs below are based on the System’s latest Actuarial Review performed as of December 31, 2002. An entry-age normal actuarial cost method of valuation is used in determining the present value of OPEB’s. The difference between assumed and actual experience (actuarial gains and losses) becomes part of unfounded actuarial accrued liability.

All investments are carried at market value. For actuarial valuation purposes, a smoothed approach is used. Under this approach, assets are adjusted annually to reflect 25 percent of unrealized market appreciation or depreciation on investment assets annually. The investment return assumption rate for 2002 was 8.00 percent. An annual increase of 4.00 percent compounded annually is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases over and above the 4.00 percent base increase were assumed to range from .50 percent to 6.3 percent. Health care costs were assumed to increase 4.00 percent annually.

OPEB’s are advance-funded on an actuarially determined basis. At year-end 2003, the number of active contributing participants in the Traditional and Combined Plans totaled 364,881. The Authority’s contributions for post-employment benefits to OPERS for the years ended December 31, 2003, 2002, and 2001 were approximately \$313,158, \$310,629 and \$335,000 respectively, equal to 100 percent of the contributions for each year.

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5. RETIREMENT BENEFITS (CONT.):

Other Post-Employment Benefits Provided Through OPERS

The actuarial value of the Retirement System's net assets available for OPEB at December 31, 2002 (latest information available) was \$10.0 billion. The actuarial accrued liability and the un-funded actuarial accrued liability, based on the actuarial costs method used, were \$18.7 billion and \$8.7 billion, respectively.

In December 2001, the Board adopted the Health Care "Choices" Plan in its continuing effort to respond to the rise in the cost of health care. The Choices Plan will be offered to all persons newly hired in an OPERS covered-position after January 1, 2003, with no prior service credit accumulated toward health care coverage. Choices, as the name suggests, will incorporate a cafeteria approach, offering a more broad range of health care options. The plan uses a graded scale from ten to thirty years to calculate a monthly health care benefit. This is in contrast to the ten-year "cliff" eligibility standard for the present plan.

The benefit recipient will be free to select the option that best meets their needs. Recipients will fund health care costs in excess of their monthly health care benefit. The plan will also offer a spending account feature, enabling the benefit recipient to apply his or her allowance toward specific medical expenses, much like a Medical Spending Account.

In response to adverse investment returns experienced by OPERS from 2000 through 2002 and the continued staggering rate of health care inflation, the OPERS Board, during 2003, considered extending "Choices" type cost cutting measures to all active and benefit recipients. As of this date, the Board has not determined the exact changes that will be made to the health care plan. However, changes to the plan are expected to be approved by the summer of 2004.

6. CONTINGENCIES AND COMMITMENTS:

The Authority is a defendant in a number of lawsuits pertaining to matters that are incidental to performing its operations. Management believes that ultimate settlement of all outstanding litigation and claims will not result in a material adverse effect on the Authority's financial position. The Authority experienced two major accidents in 2003, but expects that all costs in relation to these accidents will be covered through their insurance.

Federal and State Grants

Under the terms of various grants, periodic audits are required where certain costs could be questioned as not being an eligible expenditure under the terms of the grant. At December 31, 2003 there were no significant questioned costs that had not been resolved with the applicable federal and state agencies. Questioned costs could still be identified during audits to be conducted in the future. In the opinion of the Authority's management, no material grant expenditures will be disallowed.

Commitments

The Authority had outstanding commitments to purchase 5-30 foot buses for \$1,245,000, which originated in 2002, and to complete the purchase and implementation of Integrated Business Software for \$412,839.

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7. GRANTS, REIMBURSEMENTS AND SPECIAL FARE ASSISTANCE:

Grants, reimbursements and special fare assistance included in the statements of revenues and expenses for the years ended December 31 consists of the following:

	<u>2003</u>
STATE PLANNING GRANT	\$ 36,773
FEDERAL PLANNING GRANT	37,699
STATE OPERATING GRANTS, REIMBURSEMENTS AND SPECIAL FARE ASSISTANCE:	
ODOT Elderly Fare Assistance	83,680
ODOT Fuel Tax Expense	<u>134,772</u>
TOTAL	<u>\$292,924</u>

8. 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 omissions, employment-related matters, injuries to employees and employee theft and fraud. Effective December 31, 1997, the Authority joined together with certain other transit authorities in the State to form the Ohio Transit Insurance Association, Inc., (name changed to Ohio Transit Risk Pool in 2002 – OTRP) 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 11 member transit agencies. The Authority pays an annual premium to OTRP for its general insurance coverage and quarterly pays into a loss and administration fund pursuant to OTRP's bylaws. The Agreement of Formation of the OTRP provides that OTRP will be self-sustaining through member premiums and will reinsure through commercial companies for property damage and claims in excess of \$100,000 and all liability claims in excess of \$250,000 for each insured occurrence. The Authority is responsible for the first each \$1,000 of any property and liability claim or occurrence and amounts in excess of \$10 million for liability claims.

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

9. NEW ACCOUNTING STANDARDS:

The GASB has issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, Statements No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus*: and Statement No. 38, *Certain Financial Statement Note Disclosures*. These statements revise accounting and reporting standards for general purpose external financial reporting by governmental units. These statements change the Authority's presentation of net assets and require inclusion of management's discussion and analysis. All three statements are effective for the year ending December 31, 2003.

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10. TRANSFER STATION LEASES:

The Authority has the following transfer leases outstanding as of December 31, 2003:

(A) The Authority in January 1999 entered into a ten-year lease with Verner A. Bonfeit for the use of transfer station in Alliance, Ohio. As part of this agreement monthly lease payments will be \$375 in 2003 and \$450 per month for the years 2004 and 2005 and \$475 per month for the years 2006 through 2008. In addition, the Authority agreed to contribute \$175,000 in the form of improvements at the transfer station.

(B) The Authority entered into a fifty-nine (59) year lease with Charles Street Associates, LTD in July 1998, for a transfer station in Massillon, Ohio. The Authority has two additional options for 20 years each to extend the lease with the lessor. Annual rental is \$1.00 during the primary term of the lease. The Authority agreed to contribute \$2,000,000 for leasehold improvements at the facility.

11. PRIOR PERIOD ADJUSTMENTS:

The 2003 audit report understated the ending net assets for the following items:

(A) The 2002 audited financial statements understated federal maintenance grants receivable and the revenue by \$167,750. The ending balance for 2002 was increased to reflect this grants receivable.

(B) The 2002 audited financial statements overstated the accrued workers' compensation liability by \$144,610. The reduction of this prior year liability increased the ending net assets by this amount.

(C) The 2002 audited financial statements overstated the year end employer and employee PERS payable by \$88,184. The reduction of this prior year liability increases the 2002 ending net assets by this amount.