

SOUTHEASTERN REGIONAL TRANSIT AUTHORITY
(A Component Unit of the
Massachusetts Department of Transportation)

ANNUAL FINANCIAL STATEMENTS

Year Ended June 30, 2014

SOUTHEASTERN REGIONAL TRANSIT AUTHORITY
(A Component Unit of the Massachusetts Department of Transportation)

June 30, 2014

Table of Contents

| | PAGE |
|---|-------|
| Independent Auditors' Report | 1-2 |
| Management's Discussion and Analysis - Required Supplementary Information (Unaudited) | 3-9 |
| Basic Financial Statements: | |
| Statement of Net Position | 10-11 |
| Statement of Revenues, Expenses and Changes in Net Position | 12-13 |
| Statement of Cash Flows | 14-15 |
| Notes to the Financial Statements | 16-30 |
| Required Supplementary Information Section: | |
| Schedule of Funding Progress (unaudited) | 31 |
| Schedule of Employer Contributions (unaudited) | 32 |
| Supplementary Information Section: | |
| Schedule of Revenues and Expenses - Budget and Actual | 33 |
| Notes to Statement of Revenues and Expenses - Budgetary Basis | 34 |
| Statement of Revenue and Cost of Service | 35 |
| Statement of Unreimbursed Cost of Service | 36 |

HAGUE, SAHADY & CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS
126 President Avenue
Fall River, MA 02720
TEL. (508) 675-7889
FAX (508) 675-7859

INDEPENDENT AUDITOR'S REPORT

To the Advisory Board of the Southeastern Regional Transit Authority
New Bedford, Massachusetts

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Southeastern Regional Transit Authority ("the Authority") as of and for the year ended June 30, 2014, 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 the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Southeastern Regional Transit Authority, as of June 30, 2014, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Continued

SOUTHEASTERN REGIONAL TRANSIT AUTHORITY

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinion on the financial statements that collectively comprise the Authority's basic financial statements. The budgetary comparison, the statement of revenue and cost of service, and the statement of unreimbursed cost of service are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplemental information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplemental information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The budgetary comparison, the statement of revenue and cost of service, and the statement of unreimbursed cost of service have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 10, 2014 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion 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 Authority's internal control over financial reporting and compliance.

Hague, Sabady & Co. PC

Fall River, Massachusetts
September 10, 2014

SOUTHEASTERN REGIONAL TRANSIT AUTHORITY
(A Component Unit of the Massachusetts Department of Transportation)

Management's Discussion and Analysis (Unaudited)

June 30, 2014

The Authority's discussion and analysis of Southeastern Regional Transit Authority's financial performance provides an overview of the Authority's financial activities for the years ended June 30, 2014 and June 30, 2013. This financial report is designed to provide a general overview of the Authority's finances for all those with an interest in the Authority's finances. The summary should not be taken as a replacement for the audit which consists of the financial statements and other supplementary information that presents all the Authority's revenues and expenses.

Please read this management discussion and analysis in conjunction with the Authority's basic financial statements, which begin on page 10.

FINANCIAL Highlights:

- Total operating revenue decreased slightly from \$2.5 million in fiscal year 2013 to \$2.4 million in fiscal year 2014.
- The operating expenses increased from \$16.5 million in fiscal year 2013 to \$18.0 million in fiscal year 2014.
- Operating assistance from the Commonwealth decreased during fiscal year 2014 and federal operating assistance increased during fiscal year 2014.

Using the Annual Report:

This annual report consists of four parts - *management discussion and analysis* (this section), the *basic financial statements*, *required supplementary information* and *supplementary information*.

This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. The Authority is a special purpose government engaged in only business-type activities.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements consist of the statement of net position, the statement of activities and the statement of cash flows. These statements include all assets, deferred outflows of resources, liabilities, deferred inflows of resources and the net position of Southeastern Regional Transit Authority. The statement of net position presents the assets, deferred outflows of resources, and liabilities and deferred inflows of resources, with the difference reported as net position. The statement of activities shows in broad terms how the net position changed during the fiscal year. The statement of cash flows summarizes the movement of cash and the utilization of resources during the year. The notes to the financial statements provide additional information that is essential to the understanding of the data provided in the basic financial statements.

Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position is improving or deteriorating. There are three allowable categories of net position as prescribed under GASB 34; net position invested in capital assets, net of related debt; net position that is restricted in use, and net position that is unrestricted.

SOUTHEASTERN REGIONAL TRANSIT AUTHORITY
(A Component Unit of the Massachusetts Department of Transportation)

Management's Discussion and Analysis (Unaudited) (Continued)

June 30, 2014

CONDENSED FINANCIAL INFORMATION

Net Position. The Authority's net position increased between fiscal years ended June 30, 2014 and June 30, 2013. The cost of service in excess of revenue is reimbursed by Commonwealth of Massachusetts operating assistance, with a portion of net cost of service assessed to the cities and towns served by the Authority. The remainder is funded through federal operating assistance pursuant to Section 9 of the Urban Mass Transportation Act of 1964. See Table 1.

Table 1

| | <u>2014</u> | <u>2013</u> | <u>Total Dollar Change</u> | <u>Total Percentage Change</u> |
|--|---------------------|---------------------|------------------------------------|--|
| Assets: | | | | |
| Current assets | \$10,102,732 | \$14,970,108 | \$(4,867,376) | -32.5% |
| Capital assets | <u>24,243,672</u> | <u>23,090,406</u> | <u>1,153,266</u> | <u>5.0%</u> |
| Total assets | <u>34,346,404</u> | <u>38,060,514</u> | <u>(3,714,110)</u> | <u>-9.8%</u> |
| Deferred outflows: | | | | |
| None | <u>-</u> | <u>-</u> | <u>-</u> | <u>0.0%</u> |
| Total deferred outflows of resources | <u>-</u> | <u>-</u> | <u>-</u> | <u>0.0%</u> |
| Liabilities: | | | | |
| Current liabilities | 6,298,497 | 11,247,428 | (4,948,931) | -44.0% |
| Long-term liabilities | <u>589,357</u> | <u>539,897</u> | <u>49,460</u> | <u>9.2%</u> |
| Total liabilities | <u>6,887,854</u> | <u>11,787,325</u> | <u>(4,899,471)</u> | <u>-41.6%</u> |
| Deferred inflows: | | | | |
| Unearned parking revenue | <u>-</u> | <u>495</u> | <u>(495)</u> | <u>-100.0%</u> |
| Total deferred inflows of resources | <u>-</u> | <u>495</u> | <u>(495)</u> | <u>-100.0%</u> |
| Net position: | | | | |
| Unrestricted | 139,868 | 139,871 | (3) | 0.0% |
| Restricted | 3,075,010 | 3,042,417 | 32,593 | 1.1% |
| Investment in capital assets, net of related debt | <u>24,243,672</u> | <u>23,090,406</u> | <u>1,153,266</u> | <u>5.0%</u> |
| Total net position | <u>\$27,458,550</u> | <u>\$26,272,694</u> | <u>\$ 1,185,856</u> | <u>4.5%</u> |

SOUTHEASTERN REGIONAL TRANSIT AUTHORITY
(A Component Unit of the Massachusetts Department of Transportation)

Management's Discussion and Analysis (Unaudited) (Continued)

June 30, 2014

Changes in Net Position. The Authority's total operating revenue decreased by 3.5% to \$2,456,588. The change was caused by a revised fare structure coupled with increased ridership and a significant reduction in the insurance proceeds from accidents during fiscal year 2014. Operating expenses also increased by \$1.4 million in the current year due to a \$900 thousand increase in operator costs as a result of new/expanded services provided during fiscal year 2014.

Table 2

| | <u>2014</u> | <u>2013</u> | <u>Total Dollar Change</u> | <u>Total Percentage Change</u> |
|---|----------------------|----------------------|------------------------------------|--|
| Operating revenue: | | | | |
| Service revenue | \$ 2,328,644 | \$ 2,198,299 | \$ 130,345 | 5.9% |
| Other income | 127,944 | 347,302 | (219,358) | -63.2% |
| Total operating revenue | <u>2,456,588</u> | <u>2,545,601</u> | <u>(89,013)</u> | <u>-3.5%</u> |
| Operating expenses: | | | | |
| Operator costs | 11,985,466 | 11,089,313 | 896,153 | 8.1% |
| General and administrative | 1,751,654 | 1,684,283 | 67,371 | 4.0% |
| Depreciation | 2,574,125 | 2,293,927 | 280,198 | 12.2% |
| Other costs of service | 1,646,820 | 1,455,108 | 191,712 | 13.2% |
| Total operating expenses | <u>17,958,065</u> | <u>16,522,631</u> | <u>1,435,434</u> | <u>8.7%</u> |
| Operating gain (loss) | <u>(15,501,477)</u> | <u>(13,977,030)</u> | <u>2,870,868</u> | <u>10.9%</u> |
| Nonoperating revenues/(expenses): | | | | |
| Local assessment | 2,144,992 | 2,092,654 | 52,338 | 2.5% |
| State assistance | 4,907,660 | 5,248,432 | (340,772) | -6.5% |
| Federal assistance | 5,931,801 | 4,419,777 | 1,512,024 | 34.2% |
| Other nonoperating revenue/(expense) net: | <u>27,144</u> | <u>(29,551)</u> | <u>56,695</u> | <u>-191.9%</u> |
| Total nonoperating revenues/(expenses): | <u>13,011,597</u> | <u>11,731,312</u> | <u>1,568,719</u> | <u>-157.6%</u> |
| Net loss before capital grants | (2,489,880) | (2,245,718) | 4,439,587 | 10.9% |
| Capital grants and contributions | <u>3,675,736</u> | <u>6,724,145</u> | <u>(3,048,409)</u> | <u>-45.3%</u> |
| Increase (decrease) in net position | 1,185,856 | 4,478,427 | (3,292,571) | -73.5% |
| Net position, beginning of year | <u>26,272,694</u> | <u>21,794,267</u> | <u>4,478,427</u> | <u>20.5%</u> |
| Net position, end of year | <u>\$ 27,458,550</u> | <u>\$ 26,272,694</u> | <u>\$ 1,185,856</u> | <u>4.5%</u> |

SOUTHEASTERN REGIONAL TRANSIT AUTHORITY
(A Component Unit of the Massachusetts Department of Transportation)

Management's Discussion and Analysis (Unaudited) (Continued)

June 30, 2014

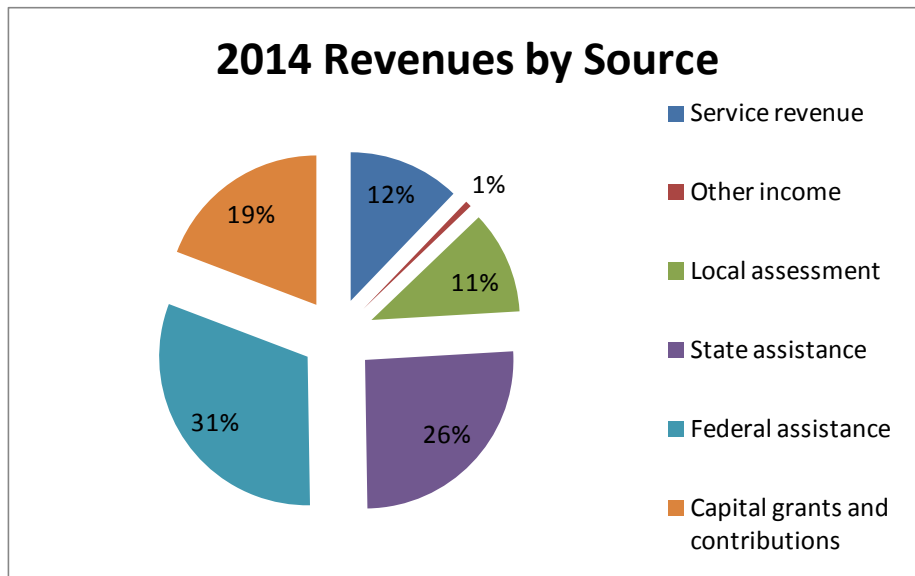
ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS

Approximately 76% for 2014 and 78% for 2013 of the Authority support comes from federal and state operating assistance and from federal and state capital grants and contributions. The capital grants are to be used for various purposes connected with the planning, modernization and expansion of transportation and facilities. These grants are deferred until such time as the related facilities are put into service. Then the grants are amortized over the estimated useful life of the assets as a reduction of unreimbursed cost of service. The remaining revenues of service, other revenue and local assessments to member communities generate approximately 12%, 1% and 1% respectively for 2014 and 10%, 2% and 10% respectively for 2013. See Table 3.

The operation of bus service is contracted to Southcoast Transit Management, Inc. and a management fee is paid. Transportation service expenses are reimbursed to Southcoast Transit Management weekly upon receipt of an invoice detailing the 2014 weekly expenses. Approximately 67% of the operating cost relates to the cost of transportation services (i.e., salaries and fringe benefits) with 14% of the operating cost representing non-cash depreciation and amortization costs for 2014 as well as 10% of the costs relating to general and administrative costs. See Table 4.

Approximately 67% of the operating cost relates to the cost of transportation services (i.e. salaries and fringe benefits) with 14% of the operating cost representing non-cash depreciation and amortization costs for 2013.

Table 3

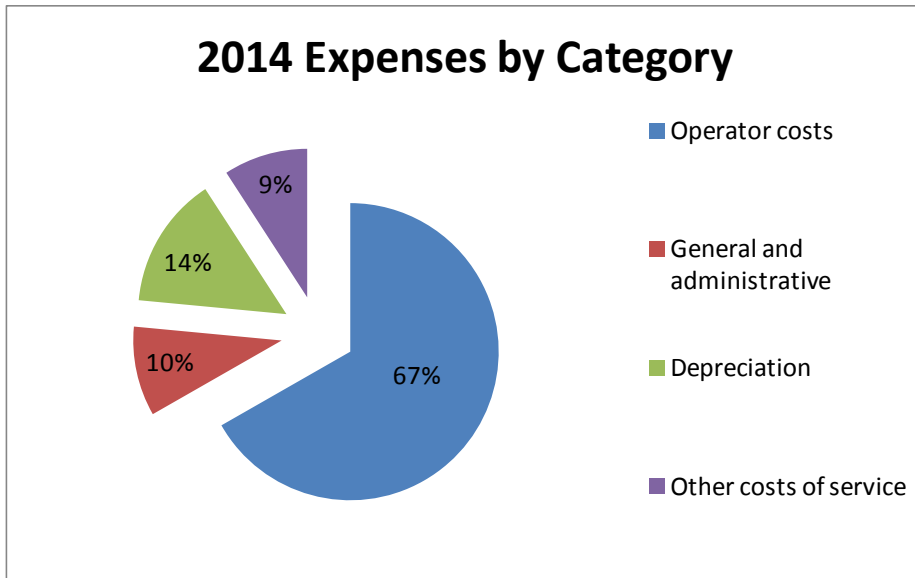


SOUTHEASTERN REGIONAL TRANSIT AUTHORITY
(A Component Unit of the Massachusetts Department of Transportation)

Management's Discussion and Analysis (Unaudited) (Continued)

June 30, 2014

Table 4



SOUTHEASTERN REGIONAL TRANSIT AUTHORITY
(A Component Unit of the Massachusetts Department of Transportation)

Management's Discussion and Analysis (Unaudited) (Continued)

June 30, 2014

DISCUSSION AND ANALYSIS OF BALANCES AND TRANSACTIONS

The Authority finished the current year with an increase in net position of \$1,185,856. The increase is a result of the difference between those assets capitalized in the current year as compared to the operating loss for the year.

The Authority's capital improvement program provides for the replacement and expansion of the present bus fleet and other transportation equipment and the construction of the bus loading facilities, of which \$68,336,364 has been approved for grant spending through June 30, 2014. (See Note 2)

DISCUSSION AND ANALYSIS OF SIGNIFICANT BUDGET VARIANCES

The Authority made one revision to its budget over the course of the year and therefore, the reported final budget represents amended amounts. The lone favorable variance in the amended budget for fiscal year ended June 30, 2014 relates to Federal Operating assistance, as the Authority obligated \$611,462 less than expected of Section 5307 funds due to overall favorable variances in both total revenues and total expenses. The favorable variances being in fixed route fare box revenues (\$112,039 favorable), auxiliary revenues (\$25,698 favorable) and fixed route expense (\$272,320 favorable).

DISCUSSION OF SIGNIFICANT CAPITAL ASSETS AND LONG-TERM DEBT ACTIVITY DURING THE YEAR

At the end of fiscal year 2014, the Authority had invested \$44.1 million in property, plant and equipment. \$15.1 million had been invested in buildings and improvements; \$1.1 million invested in non-depreciable assets (land and the New Bedford terminal project) with the remaining \$27.9 million in buses and equipment. This amount represents a 8.8% increase or \$3.6 million over fiscal year 2013 when the Authority had \$40.5 million invested in property, plant and equipment of which \$9.8 million had been invested in buildings and improvements, \$5.3 million invested in non-depreciable assets, with the remaining \$25.4 million in buses and equipment. More detailed information about the Authority's capital assets is presented in the notes to the basic financial statements.

| | <u>2014</u> | <u>2013</u> | <u>Change in Balances</u> |
|--------------------------------|----------------------|----------------------|-------------------------------|
| Land | \$ 326,611 | \$ 326,611 | \$ - |
| Construction in progress | 756,774 | 5,051,005 | (4,294,231) |
| Building and improvements, net | 8,518,064 | 3,746,997 | 4,771,067 |
| Buses and equipment, net | 13,338,471 | 12,767,010 | 571,461 |
| Service equipment, net | 384,375 | 370,345 | 14,030 |
| Furniture and fixtures, net | 392,143 | 329,884 | 62,259 |
| Planning, net | 527,234 | 498,554 | 28,680 |
| Total | <u>\$ 24,243,672</u> | <u>\$ 23,090,406</u> | <u>\$ 1,153,266</u> |

As of June 30, 2014 the Authority had \$4.7 million in revenue bonds outstanding at the end of the fiscal year. The purpose of these bonds is to provide cash flow when the revenue from the FTA, Local Assessment and State Contract Assistance is received at a later date. Under Chapter 161B of the Massachusetts General Laws, the Commonwealth is required to pay principal and interest that is due on any of the Authority bonds issued when the Authority does not have the funds available. The amount of revenue bonds outstanding at June 30, 2014 is approximately \$4.0 million less than the \$8.7 million outstanding at fiscal year ended 2013 as a result of new state legislative approving "forward funding" of regional transit authorities.

SOUTHEASTERN REGIONAL TRANSIT AUTHORITY
(A Component Unit of the Massachusetts Department of Transportation)

Management's Discussion and Analysis (Unaudited) (Continued)

June 30, 2014

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

Federal Transit funding is facing a few challenges. In the summer of 2014, a bill was passed to stabilize Transit funding until the spring of 2015. MAP-21 has been reauthorized and SRTA expects similar allocations of funding as in previous years. However, short-term reauthorization opens the door for changes in the future. Many of the new focuses under MAP-21 such as Safety and Security as well as Asset Management, bring to the forefront important areas where short term investment can lead to long term savings. We anticipate whatever new transportation financing bill is passed will include a continued focus in these areas.

The FY15 funding provided by the legislature was divided between the RTAs based on a formula which considered size and operating environment of the agency, ridership and previous state funding levels. Based on this input, SRTA saw an increase in its FY15 State Contract Assistance (SCA) of \$717,721 or 14.6% bringing its total SCA to \$5,625,381.

The legislature has shown a strong interest in growing RTA State Contract Assistance over the next few years. We believe there will be an effort to increase funding by approximately \$2,000,000 per year over the next 3 years. At the moment SRTA can expect around a 7% share of that increase or \$140,000 per year.

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

The financial report is designed to provide our citizens, customers, investors and creditors with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the money it receives. If you have any questions or need additional information, contact Kristen A. Sniezek, Chief Financial Officer, Southeastern Regional Transit Authority, 700 Pleasant Street, First Floor, New Bedford, MA 02740-6263.

SOUTHEASTERN REGIONAL TRANSIT AUTHORITY
(A Component Unit of the Massachusetts Department of Transportation)

Statement of Net Position

June 30, 2014

| | <u>OPERATING</u> | <u>STABILIZATION</u> | <u>TOTAL</u> |
|---|----------------------|----------------------|----------------------|
| Assets | | | |
| Current Assets: | | | |
| Cash and cash equivalents | \$ 2,973,851 | \$ - | \$ 2,973,851 |
| Receivables: | | | |
| State grants receivable | 229,536 | | 229,536 |
| Local assessment receivable | 2,271,405 | | 2,271,405 |
| Federal grants receivable | 963,819 | | 963,819 |
| Other receivables | 58,362 | | 58,362 |
| Due from operating account | - | 798,262 | 798,262 |
| Inventory | 835,656 | | 835,656 |
| Prepaid expenses | 118,317 | | 118,317 |
| Prepaid pension asset | 1,853,524 | | 1,853,524 |
| Total current assets | <u>9,304,470</u> | <u>798,262</u> | <u>10,102,732</u> |
| Non-Current Assets: | | | |
| Land | 326,611 | | 326,611 |
| Construction in progress | 756,774 | | 756,774 |
| Building and improvements, net | 8,518,064 | | 8,518,064 |
| Buses and equipment, net | 13,338,471 | | 13,338,471 |
| Service equipment, net | 384,375 | | 384,375 |
| Furniture and fixtures, net | 392,143 | | 392,143 |
| Planning, net | 527,234 | | 527,234 |
| Total non-current assets | <u>24,243,672</u> | <u>-</u> | <u>24,243,672</u> |
| Total assets | <u>\$ 33,548,142</u> | <u>\$ 798,262</u> | <u>\$ 34,346,404</u> |
| Deferred outflows of resources | | | |
| None | - | | - |
| Total deferred outflows of resources | <u>-</u> | <u>-</u> | <u>-</u> |
| Total assets and deferred outflows of resources | <u>\$ 33,548,142</u> | <u>\$ 798,262</u> | <u>\$ 34,346,404</u> |

The notes to the basic financial statements are an integral part of this statement

SOUTHEASTERN REGIONAL TRANSIT AUTHORITY
(A Component Unit of the Massachusetts Department of Transportation)

Statement of Net Position (Continued)

June 30, 2014

| | <u>OPERATING</u> | <u>STABILIZATION</u> | <u>TOTAL</u> |
|--|------------------|----------------------|--------------|
| Liabilities | | | |
| Current liabilities: | | | |
| Revenue anticipation notes payable | \$ 4,701,453 | \$ - | \$ 4,701,453 |
| Accounts payable and other liabilities | 402,686 | | 402,686 |
| Due to operator | 137,966 | | 137,966 |
| Accrued salaries payable | 228,835 | | 228,835 |
| Accrued interest payable | 29,295 | | 29,295 |
| Due to stabilization | 798,262 | | 798,262 |
| Total current liabilities | 6,298,497 | - | 6,298,497 |
| Non-Current Liabilities: | | | |
| Compensated absences, net of current portion | 589,357 | | 589,357 |
| Total non-current liabilities | 589,357 | - | 589,357 |
| Total liabilities | 6,887,854 | - | 6,887,854 |
| Deferred inflows of resources | | | |
| None | | | |
| Total deferred inflows of resources | - | - | - |
| Net Position | | | |
| Unrestricted | \$ 139,868 | \$ - | \$ 139,868 |
| Restricted: | | | |
| Stabilization fund (MGL Ch.161B s.26) | - | 798,262 | 798,262 |
| Fall River terminal project | 4,688 | | 4,688 |
| Extraordinary repairs reserve (MGL Ch.161B s.6(q)) | 418,536 | | 418,536 |
| Pension benefits | 1,853,524 | | 1,853,524 |
| Investment in capital assets: | | | |
| Net of accumulated depreciation | 490,420 | | 490,420 |
| Net of accumulated amortization | 23,753,252 | | 23,753,252 |
| Total net position | \$26,660,288 | \$ 798,262 | \$27,458,550 |

The notes to the basic financial statements are an integral part of this statement

SOUTHEASTERN REGIONAL TRANSIT AUTHORITY
(A Component Unit of the Massachusetts Department of Transportation)

Statement of Revenues, Expenses and Changes in Net Position

For the Year Ended June 30, 2014

| | OPERATING | STABILIZATION | TOTAL |
|---|------------------|----------------------|--------------|
| Operating revenues: | | | |
| Service revenue | \$ 2,328,644 | \$ - | \$ 2,328,644 |
| Advertising income | 44,768 | | 44,768 |
| Other income | 83,176 | | 83,176 |
| Total operating revenues | 2,456,588 | - | 2,456,588 |
| Operating expenses: | | | |
| Cost of service | | | |
| Salaries | 7,436,074 | | 7,436,074 |
| Fringe | 3,567,119 | | 3,567,119 |
| Materials and supplies | 344,730 | | 344,730 |
| Miscellaneous | 169,769 | | 169,769 |
| Utilities | 223,184 | | 223,184 |
| Office expense and services | 244,590 | | 244,590 |
| Subtotal - Cost of service | 11,985,466 | - | 11,985,466 |
| Additional costs of service: | | | |
| Depreciation | 2,574,125 | | 2,574,125 |
| Diesel fuel and gasoline | 1,364,415 | | 1,364,415 |
| Management fees paid to operator | 272,852 | | 272,852 |
| 5311 expanded service expenses | 9,553 | | 9,553 |
| Subtotal - additional costs of service: | 4,220,945 | - | 4,220,945 |
| Total operating expenses: | 16,206,411 | - | 16,206,411 |
| Administrative expenses: | | | |
| Salaries and fringe | 588,480 | | 588,480 |
| Advertising | 10,695 | | 10,695 |
| Professional fees | 263,687 | | 263,687 |
| Office expense | 47,786 | | 47,786 |
| Other administrative expense | 99,461 | | 99,461 |
| Insurance expense | 741,545 | | 741,545 |
| Total administrative expenses: | 1,751,654 | - | 1,751,654 |
| Operating income (loss): | (15,501,477) | - | (15,501,477) |

The notes to the basic financial statements are an integral part of this statement

SOUTHEASTERN REGIONAL TRANSIT AUTHORITY
(A Component Unit of the Massachusetts Department of Transportation)

Statement of Revenues, Expenses and Changes in Net Position (Continued)

For the Year Ended June 30, 2014

| | OPERATING | STABILIZATION | TOTAL |
|--|----------------------|----------------------|----------------------|
| Nonoperating revenues (expenses): | | | |
| Local assessment (MGL Ch.161B s.9) | 2,144,992 | | 2,144,992 |
| State operating assistance (MGL Ch.161B s.23) | 4,907,660 | | 4,907,660 |
| Federal - operating assistance (49 USC 5307(d)(2)) | 4,843,010 | | 4,843,010 |
| Federal - preventative maintenance (49 USC 5307(d)(1)) | 1,044,559 | | 1,044,559 |
| Federal - JARC (49 USC 5311(b)(1)(d)) | 50,720 | | 50,720 |
| Federal - Section 5311 expanded service revenue | 44,232 | | 44,232 |
| Disposition of capital assets | (560) | | (560) |
| Interest income | 8,012 | | 8,012 |
| Interest expense | (47,370) | | (47,370) |
| Amortization of premium | 16,342 | | 16,342 |
| | <u>13,011,597</u> | <u>-</u> | <u>13,011,597</u> |
| Total nonoperating revenues (expenses) | | | |
| Net loss before capital grants | <u>(2,489,880)</u> | <u>-</u> | <u>(2,489,880)</u> |
| Capital Grants: | | | |
| Federal | 3,382,356 | | 3,382,356 |
| Commonwealth of Massachusetts | 293,380 | | 293,380 |
| | <u>3,675,736</u> | <u>-</u> | <u>3,675,736</u> |
| Total capital grants | | | |
| Increase (decrease) in net position | 1,185,856 | - | 1,185,856 |
| Net position, beginning of year | <u>25,474,432</u> | <u>798,262</u> | <u>26,272,694</u> |
| Net position, end of year | <u>\$ 26,660,288</u> | <u>\$ 798,262</u> | <u>\$ 27,458,550</u> |

The notes to the basic financial statements are an integral part of this statement

SOUTHEASTERN REGIONAL TRANSIT AUTHORITY
(A Component Unit of the Massachusetts Department of Transportation)

Statement of Cash Flows

For the Year Ended June 30, 2014

Cash flows from operating activities:

| | |
|---|---------------------|
| Cash received from federal, state and local governments | \$ 298,773 |
| Cash received from passenger fares | 2,328,149 |
| Cash received from rentals, parking and other | 127,944 |
| Cash paid to operators, other vendors and employees | <u>(16,413,363)</u> |
| Net cash provided (used) by operating activities | <u>(13,658,497)</u> |

Cash flows from noncapital financing activities:

| | |
|--|-------------------|
| Operating and contract assistance | 17,853,495 |
| Net proceeds from sale of revenue anticipation notes | 4,708,718 |
| Principal payments made on anticipation notes | (8,700,000) |
| Interest payments on anticipation notes | <u>(108,452)</u> |
| Net cash used in noncapital financing activities | <u>13,753,761</u> |

Cash flows from capital and related financing activities:

| | |
|--|--------------------|
| Capital revenue from state and federal capital grants | 4,944,280 |
| Purchase of capital assets from reserve funds | (52,212) |
| Purchase of capital assets | <u>(3,444,572)</u> |
| Net cash provided (used) by capital and related financing activities | <u>1,447,496</u> |

Cash flows from investing activities:

| | |
|--|--------------|
| Interest income on invested funds | <u>8,012</u> |
| Net cash provided (used) in investing activities | <u>8,012</u> |

Net increase (decrease) in cash 1,550,772

Cash and cash equivalents at beginning of year 1,423,079

Cash and cash equivalents at end of year \$ 2,973,851

Displayed at June 30, 2014 as:

Cash and cash equivalents: \$ 2,973,851

The notes to the basic financial statements are an integral part of this statement

SOUTHEASTERN REGIONAL TRANSIT AUTHORITY
(A Component Unit of the Massachusetts Department of Transportation)

Statement of Cash Flows (Continued)

For the Year Ended June 30, 2014

Reconciliation of operating income (loss) to net cash provided (used) by operating activities:

| | |
|---|------------------------|
| Operating income (loss) | <u>\$ (15,501,477)</u> |
| Adjustments to reconcile net operating loss to net cash provided by operating activities: | |
| Depreciation and amortization | 2,574,125 |
| (Increase) decrease in accounts receivable | 298,773 |
| (Increase) decrease in inventory | (150,190) |
| (Increase) decrease in prepaid expenses | 16,164 |
| (Increase) decrease in pension asset | (64,632) |
| Increase (decrease) in accounts payable and accrued expenses | (889,802) |
| Increase (decrease) in accrued salaries payable | 30,602 |
| Increase (decrease) in accrued pay/compensated absences | 49,460 |
| Increase (decrease) in deferred revenue | (495) |
| Increase (decrease) in due to operator | <u>(21,025)</u> |
| Subtotal | <u>1,842,980</u> |
| Net cash provided (used) by operating activities | <u>\$ (13,658,497)</u> |

The notes to the basic financial statements are an integral part of this statement

SOUTHEASTERN REGIONAL TRANSIT AUTHORITY
(A Component Unit of the Massachusetts Department of Transportation)

Notes to Financial Statements

June 30, 2014

1. ***SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES***

The financial statements of the Southeastern Regional Transit Authority (“the Authority”) have been prepared in accordance with generally accepted accounting principles in the United States of America (“GAAP”). The Governmental Accounting Standards Board (“GASB”) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations).

Reporting Entity

The Southeastern Regional Transit Authority (“the Authority”) was established on April 24, 1974 and commenced operations on July 1, 1974, pursuant to Chapter 1141 of the Acts of 1973 of the Commonwealth of Massachusetts (“the Commonwealth”), Massachusetts General Law 161B to provide public transportation for the territory comprised of the cities of New Bedford and Fall River and the Towns of Acushnet, Dartmouth, Fairhaven, Freetown, Mattapoisett, Somerset, Swansea and Westport. Beginning in 1974, the Authority entered into an operating agreement with a contracted operator who would provide public transportation in the Authority’s service area at levels and on routes specified by the Authority, as required by MGL Chapter 161B, Section 25.

Such agreements are put out to bid in three year intervals, the most recent agreement beginning on November 1, 2011. The Authority has the exclusive right and option to extend the agreement for two additional one year terms. The Authority has the right to terminate the agreement in writing, 90 days prior to the end of the term or with 90 days’ notice upon termination based on good cause, for lack of funding for the transit system or for convenience. The Authority provides the full financial support necessary to reimburse the operator for losses sustained in the operating of service, plus an annual management fee for each year of the contract.

The financial statements present information on activities of the Authority for which the Advisory Board has oversight responsibility. The criteria, as established by the Governmental Accounting Standards Board, for inclusion of activities in the oversight entity’s financial statements are: selection of governing authority, designation of management, ability to significantly influence operations, accountability over fiscal matters and scope of public service. Accordingly, the accompanying statements of revenue, expenses and changes in net position include the revenues and expenses of the operator incurred in the operation of transportation services.

Component Units

In conformity with accounting principles generally accepted in the United States of America, management has evaluated any potential component units being considered for inclusion in the financial reporting entity.

GASB Statement No. 61 modified existing requirements for the assessment of potential component units in determining what should be included in the financial reporting entity and applicable financial reporting entity disclosure requirements. Based on GASB Statement No. 61 guidance, organizations that previously were required to be included as a component units by meeting the fiscal dependence criterion now must also have a "financial benefit or burden relationship" present between the primary government and that organization for it to be included in the reporting entity as a component unit. Pursuant to this GASB pronouncement, no component units were identified based on management’s evaluation for inclusion in the accompanying financial statements. Additionally, the accompanying financial statements are incorporated into the financial statements of the Commonwealth as the Authority is a component unit of the Commonwealth’s Department of Transportation.

Basis of Accounting

The operations of the Authority are accounted for as an enterprise fund on the accrual basis in order to recognize the form of economic resources. Under this basis, revenues are recognized in the period in which they are earned, expenses are recognized in the period in which they are incurred, depreciation of assets is recognized, and all assets and liabilities associated with the operations of the Authority are included in the Statement of Net Position. Operating revenues and expenses result from providing transportation services to member communities. All other revenue and expenses are reported as nonoperating revenue and expenses.

SOUTHEASTERN REGIONAL TRANSIT AUTHORITY
(A Component Unit of the Massachusetts Department of Transportation)

Notes to Financial Statements (Continued)

June 30, 2014

1. ***SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)***

Basis of Accounting (Continued)

Under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Government Entities that use Proprietary Fund Accounting*, the Authority has adopted the option to apply only those Financial Accounting Standards Board (FASB) statements and interpretations issued before November 30, 1989, that do not conflict with or contradict GASB pronouncements. Only GASB pronouncements issued after this date will be followed.

Budgeting

Under Massachusetts General Law Chapter 161B, Section 8h, the Authority adopts an annual operating budget for the planning and administrative activities. The budgeting process enables the Authority to determine the annual contributions required from the member jurisdictions and the Commonwealth of Massachusetts to fund its planning and administrative activities. The budget is prepared on the accrual basis. Depreciation/amortization of grants are not recognized as an expense as these expenses are not budgeted each year. These expenses are reclassified for the purpose of preparing financial reports in accordance with GAAP.

Unreimbursed Cost of Service

Massachusetts General Law Chapter 161B Section 10, provides that the Commonwealth shall reimburse the Authority for the Net Cost of Service, as defined by MGL Chapter 161B Section 1. The Net Cost of Service includes a charge equal to the payments made on long-term debt during the period, but does not include charges for depreciation/amortization or grants for operating assistance from the Federal Department of Transportation. The Net Cost of Service is that amount remaining of the net operating expense after the local assessment is taken. This balance is the contracted amount owed by the Commonwealth as State Contract Assistance.

The cost of service in excess of revenue presented in the accompanying Statements of Revenue, Expenses and Changes in Net Position differs from the Net Cost of Service because the Authority follows generally accepted accounting principles for financial reporting purposes. The following table reconciles the Authority's cost of service in excess of revenue to its Net Cost of Service for the year ended June 30, 2014.

| | | |
|--|----|--------------|
| Balance at beginning of year | \$ | - |
| Cost of service in excess of revenue | | (15,609,296) |
| Expenses not reimbursable and other operating assistance: | | |
| Depreciation and amortization in excess of principal payments on long-term debt | | 2,574,125 |
| Local assistance | | 2,144,992 |
| Federal operating assistance including associated capital maintenance and expanded services | | 5,982,521 |
| Rounding differences | | (2) |
| Net cost of service | | (4,907,660) |
| Net cost of service reimbursed by the Commonwealth | | 4,907,660 |
| Over reimbursement of cost of service | \$ | - |

For financial reporting purposes, the Authority follows the generally accepted accounting principle of depreciating the cost of property over its estimated useful life. The cumulative excess and principal payments on long-term debt are charged to the unreimbursed cost of service account and are recovered in years when the sum of grant amortization and principal payments made on long-term debt exceed depreciation.

SOUTHEASTERN REGIONAL TRANSIT AUTHORITY
(A Component Unit of the Massachusetts Department of Transportation)

Notes to Financial Statements (Continued)

June 30, 2014

1. ***SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)***

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand and amounts on deposit with banks, including certificates of deposit with maturities of 90 days or less.

Grants and Other Receivables

The Authority carries its accounts receivable at an amount equal to uncollected but earned revenue less write-offs. On a periodic basis, the Authority evaluates its' accounts receivable and utilizes the direct write-off method. Accounts receivable are considered delinquent if not in accordance with the contractual terms. Receivables are written off after collection efforts have failed.

Accrued Sick and Vacation

Authority employees are granted vacation and sick leave in varying amounts. At the end of employment, an employee may be reimbursed for accumulated vacation days and sick days if certain conditions are met. The Authority records accrued sick and vacation costs as an accrued expense.

Net Position

The Authority reports net position as restricted when legally segregated for a specific use or for other special purposes. Otherwise, these balances are considered unrestricted.

Legal restrictions on net position as of June 30, 2014 consisted of the Authority's stabilization fund and its extraordinary repairs reserve. Additional amounts of restricted net position consist of amounts restricted to assist in the Fall River Terminal construction project as well as the amount of net pension the Authority is carrying on its balance sheet. The "investment in capital assets" section of net position represent resources related to the capital assets of the Authority.

Capital Assets

Capital assets are recorded at historical cost, while donated fixed assets are recorded at fair market value as of the date of the gift with an aggregated cost of \$1,000 or more and a useful life of more than one year.

Depreciation is charged to operating expense, based on the straight-line method, at rates that are designed to amortize the cost of the property over its estimated useful life. The estimated useful lives on the depreciable portion of the major categories of transportation property are as follows:

| | <u>Estimated Useful Life</u> |
|---|---|
| Buildings and improvements | 10 - 40 years |
| Buses and equipment (including service equipment) | 3 - 12 years |
| Furniture and fixtures | 6 - 10 years |
| Planning | 10 years |

When property and equipment are disposed, depreciation is removed from the respective accounts, and the resulting gain or loss, if any, is recorded in operations. In fiscal year 2014, this loss amounts to \$560 as seen on the Statement of Revenues, Expenses and Changes in Net Position.

SOUTHEASTERN REGIONAL TRANSIT AUTHORITY
(A Component Unit of the Massachusetts Department of Transportation)

Notes to Financial Statements (Continued)

June 30, 2014

1. ***SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)***

Grants

The Authority receives grants from certain governmental agencies to be used for various purposes connected with the planning, modernization and expansion of transportation and facilities. These grants are deferred until such time as the related facilities are put into service. The grants are then amortized over the estimated useful lives of the assets as a reduction of the unreimbursed cost of service.

In addition, the Authority receives grants for operating assistance from the Federal Department of Transportation and the Commonwealth Department of Transportation. Those funds are credited to the Net Cost of Service, as they are a reduction of the amounts that would otherwise be paid by the 10 cities and towns constituting the Authority. Capital grants of the Authority are reported as revenue rather than contributed capital as required by GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*.

Materials, Supplies and Inventory

The Authority uses the weighted average cost method for valuation purposes. The costs of inventory items are recorded as expenditures when used.

Income Taxes

The Authority is exempt from Federal and Commonwealth of Massachusetts income taxes since it is a public body established by statute.

Advertising

Advertising costs are expensed as incurred. Advertising costs totaled \$10,695 for the year ended June 30, 2014.

Use of 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 amounts reported in the financial statements and accompanying notes and disclosures. Actual results could differ from those estimates.

Concentration of Credit Risk

Financial instruments which potentially subject the Authority to concentrations of credit risk consist principally of investments, cash equivalents and grant receivables. The Authority's cash equivalents were with various credit-worthy financial institutions, investments consisted of grant receivables due from Federal, state and local assessments. The Authority considers the credit risk associated with financial instruments to be minimal.

SOUTHEASTERN REGIONAL TRANSIT AUTHORITY
(A Component Unit of the Massachusetts Department of Transportation)

Notes to Financial Statements (Continued)

June 30, 2014

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Implementation of New Accounting Principles

For the year ending June 30, 2014, the Authority implemented the following pronouncements issued by the GASB:

- GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* (early implementation in fiscal year 2013)
- GASB Statement No. 66, *Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 62*
- GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*

GASB Statement No. 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. Management elected to implement this GASB Statement during fiscal year 2013 (early implementation) in order to improve financial reporting by clarifying the appropriate use of the financial statement elements (deferred outflows of resources and deferred inflows of resources) to ensure consistency in financial reporting. The implementation of GASB Statement No.'s 66 and 70 had no material reporting impact for the Authority.

2. **CAPITAL IMPROVEMENT PROGRAM AND RELATED GRANTS**

The Authority's capital improvement program provides for the replacement and expansion of the present bus fleet and other transportation equipment and the construction of bus loading facilities. Grant spending net depreciation/amortization is as follows:

| | Federal | State, Local and Other | Total |
|--|----------------|-----------------------------------|---------------|
| Approved grant spending through June 30, 2014 | \$ 54,948,156 | \$ 13,388,208 | \$ 68,336,364 |
| Amortization | (35,546,442) | (9,036,675) | (44,583,117) |
| Net grants balance | \$ 19,401,714 | \$ 4,351,533 | \$ 23,753,247 |

Receivables for capital grant expenditures from the federal and state governments were \$344,757 as of June 30, 2014. The expenditures were funded by transportation bonds and operating funds.

The following table shows, as of June 30, 2014, currently active capital project costs approved, expenditures against these projects, and estimated costs to complete these projects, by major funding source.

| Funding Source | Approved Project Costs | Expenditures through June 30, 2014 | Unexpended costs |
|-------------------------|-----------------------------------|---|-----------------------------|
| Federal grants | \$ 13,641,386 | \$ 12,044,250 | \$ 1,597,136 |
| State and local sources | 5,823,055 | 5,406,528 | 416,527 |
| Total | \$ 19,464,441 | \$ 17,450,778 | \$ 2,013,663 |

SOUTHEASTERN REGIONAL TRANSIT AUTHORITY
(A Component Unit of the Massachusetts Department of Transportation)

Notes to Financial Statements (Continued)

June 30, 2014

3. **CASH AND CASH EQUIVALENTS**

Cash and cash equivalents as of June 30, 2014 is classified in the accompanying financial statements as follows:

| | |
|---------------------------|---------------------|
| Cash and cash equivalents | \$ <u>2,973,851</u> |
|---------------------------|---------------------|

Deposits are in various financial institutions and are carried at cost which approximates market value. The carrying amount of deposits is displayed in the Statement of Net Position as "Cash". Petty cash is included in the presentation of cash on the Statement of Net Position in the amount of \$5,357 on June 30, 2014.

Custodial credit risk for deposits is the risk that, in the event of failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party.

At year end the Authority's carrying amount of deposits was \$2,973,851, including \$5,357 of petty cash and the bank balance was \$3,070,465. Of the bank balance, \$836,143 was covered by Federal Depository Insurance, \$1,931,675 was covered by the Depository Insurance Fund, and the remaining balance of \$302,647 was uninsured.

The Authority has not formally adopted a deposit and investment policy that limits the Authority's allowable deposits and investments and addresses the specific types of risk to which the Authority is exposed.

4. **DUE FROM COMMONWEALTH OF MASSACHUSETTS**

The Authority receives various forms of assistance from the Commonwealth for operating assistance as provided in enabling legislation under which the Commonwealth will pay the Authority a portion of its net cost of service. At June 30, 2014, the Authority was owed from the Commonwealth the June 2014 local assessment from fiscal year 2014, and State contract assistance as well as state capital grant funding and the fiscal year 2015 local assessment. The Commonwealth's department providing this support is the Executive Office of Transportation.

The following is the amount due to the Authority as of June 30, 2014:

| <u>Date Received</u> | <u>Commonwealth Appropriation Account Number</u> | <u>Commonwealth Department Name</u> | <u>Appropriation Number</u> | <u>Fiscal Year of Appropriation</u> | <u>Amount</u> |
|--|--|---|---------------------------------|---|---------------------|
| 7/16/2014 | N/A | Treasurer | June '14 | FY14 Local Assessment | \$ 178,740 |
| 7/25/2014 | RTACAP | DOT | 79131-07 | 2014 | 26,318 |
| 7/25/2014 | RTACAP | DOT | 81223-01 | 2014 | 42,750 |
| 8/8/2014 | RTACAP | DOT | 81223-02 | 2014 | 142,833 |
| 8/19/2014 | RTACAP | DOT | 79131-08 | 2014 | 16,248 |
| Open A/R | N/A | N/A | N/A | Miscellaneous | 1,387 |
| Open A/R | N/A | Treasurer | FY 2015 | FY15 Local Assessment | <u>2,092,665</u> |
| Total amount due from the Commonwealth (June 30, 2014) | | | | | <u>\$ 2,500,941</u> |

SOUTHEASTERN REGIONAL TRANSIT AUTHORITY
(A Component Unit of the Massachusetts Department of Transportation)

Notes to Financial Statements (Continued)

June 30, 2014

5. LOCAL ASSESSMENTS

The Authority's net cost of service is also funded through assessments to member municipalities, which may increase by no more than 2.5% annually plus the members' share of any new services. (MGL Chapter 59 Section 20A). As a result of a mathematical error in the calculation of the 2014 local assessment, the 2014 local assessment has been adjusted to "reimburse" the cities and towns for being over assessed in 2014.

Below is a comparison of local assessments to member communities under the provisions of MGL Chapter 161B Section 9 for the current and prior fiscal year as well as the upcoming fiscal year.

| <u>Member Communities</u> | <u>2013</u> | <u>2014</u> | <u>Percent Change</u> | <u>2014 Member Allocation</u> |
|-------------------------------|------------------|------------------|---------------------------|-----------------------------------|
| New Bedford | 820,261 | 861,787 | 5.1% | 40.2% |
| Fall River | 947,240 | 995,194 | 5.1% | 46.4% |
| Acushnet | 28,234 | 29,663 | 5.1% | 1.4% |
| Dartmouth | 86,195 | 90,559 | 5.1% | 4.2% |
| Fairhaven | 30,587 | 32,135 | 5.1% | 1.5% |
| Freetown | - | 1 | 100.0% | <0.04% |
| Mattapoisett | 9,004 | 9,459 | 5.1% | 0.4% |
| Somerset | 52,663 | 55,330 | 5.1% | 2.6% |
| Swansea | 47,778 | 50,197 | 5.1% | 2.3% |
| Westport | 19,649 | 20,644 | 5.1% | 1.0% |
| Subtotals: | <u>2,041,611</u> | <u>2,144,969</u> | <u>5.1%</u> | <u>100.0%</u> |

Upcoming fiscal year (fiscal year 2015):

| <u>Member Communities</u> | <u>2014</u> | <u>2015</u> | <u>Percent Change</u> | <u>2015 Member Allocation</u> |
|-------------------------------|------------------|------------------|---------------------------|-----------------------------------|
| New Bedford | 861,787 | 840,774 | -2.4% | 40.2% |
| Fall River | 995,194 | 970,927 | -2.4% | 46.4% |
| Acushnet | 29,663 | 28,940 | -2.4% | 1.4% |
| Dartmouth | 90,559 | 88,350 | -2.4% | 4.2% |
| Fairhaven | 32,135 | 31,352 | -2.4% | 1.5% |
| Freetown | 1 | 1 | 0.0% | <0.04% |
| Mattapoisett | 9,459 | 9,229 | -2.4% | 0.4% |
| Somerset | 55,330 | 53,980 | -2.4% | 2.6% |
| Swansea | 50,197 | 48,972 | -2.4% | 2.3% |
| Westport | 20,644 | 20,140 | -2.4% | 1.0% |
| Subtotals: | <u>2,144,969</u> | <u>2,092,665</u> | <u>-2.4%</u> | <u>100.0%</u> |

SOUTHEASTERN REGIONAL TRANSIT AUTHORITY
(A Component Unit of the Massachusetts Department of Transportation)

Notes to Financial Statements (Continued)

June 30, 2014

6. **CAPITAL ASSETS AND DEPRECIATION**

| | July 1, 2013 Beginning Balance | Increases | Decreases | June 30, 2014 Ending Balance |
|---------------------------|---|---------------------|---------------------|---|
| Not Being Depreciated: | | | | |
| Land | \$ 326,611 | \$ - | \$ - | \$ 326,611 |
| Construction in progress | 5,051,005 | 784,524 | 5,078,755 | 756,774 |
| Subtotal | <u>5,377,616</u> | <u>784,524</u> | <u>5,078,755</u> | <u>1,083,385</u> |
| Other Capital Assets: | | | | |
| Building and improvements | 9,812,537 | 5,280,193 | | 15,092,730 |
| Buses and equipment | 22,408,835 | 2,323,956 | 31,852 | 24,700,939 |
| Service equipment | 1,326,332 | 222,409 | 2,032 | 1,546,709 |
| Furniture and fixtures | 548,605 | 80,453 | 71,160 | 557,898 |
| Planning | 1,020,826 | 115,170 | | 1,135,996 |
| Subtotal | <u>35,117,135</u> | <u>8,022,181</u> | <u>105,044</u> | <u>43,034,272</u> |
| Accumulated Depreciation | | | | |
| Building and improvements | 6,065,540 | 509,126 | | 6,574,666 |
| Buses and equipment | 9,641,825 | 1,752,495 | 31,852 | 11,362,468 |
| Service equipment | 955,987 | 207,940 | 1,593 | 1,162,334 |
| Furniture and fixtures | 218,721 | 18,073 | 71,039 | 165,755 |
| Planning | 522,272 | 86,490 | | 608,762 |
| Subtotal | <u>17,404,345</u> | <u>2,574,124</u> | <u>104,484</u> | <u>19,873,985</u> |
| Net other capital assets | <u>17,712,790</u> | <u>5,448,057</u> | <u>560</u> | <u>23,160,287</u> |
| Net capital assets | <u>\$ 23,090,406</u> | <u>\$ 6,232,581</u> | <u>\$ 5,079,315</u> | <u>\$ 24,243,672</u> |

Depreciation expense was \$2,574,124 for the fiscal year ended June 30, 2014.

SOUTHEASTERN REGIONAL TRANSIT AUTHORITY
(A Component Unit of the Massachusetts Department of Transportation)

Notes to Financial Statements (Continued)

June 30, 2014

7. DEBT AND NOTES PAYABLE

The Authority is subsidized by the Commonwealth for its annual “Net Cost of Service” as defined in the legislation. These subsidies are funded subsequent to the year in which the costs are incurred. Therefore, the Authority issues revenue anticipation notes to cover cash from deficiencies until funding is received.

Under Chapter 161B of the Massachusetts General Laws, the Commonwealth is required to pay principal or interest that is due on any of the Authority’s bond or note issues if the Authority does not have the funds available.

At June 30, 2014, the Authority had a revenue anticipation note of \$4,700,000 outstanding with interest rate of 0.75% due to mature on August 29, 2014. Of the balance on the note, a premium of \$1,453 remains. The original premium on the note when issued was \$8,718.

The revenue anticipation notes acquired during 2014 were for the purpose of funding operating expenses. Interest expense for 2014 on revenue anticipation notes was \$47,370.

| Note Type: | Interest Rates | Issuance Dates | Maturity Date | Beginning Balance | Acquisitions | Premium | Dispositions | Amortized Premium | Ending Balance | Interest Paid |
|------------|----------------|----------------|---------------|---------------------|---------------------|-----------------|-----------------------|--------------------|---------------------|------------------|
| RAN | 1.25% | 8/31/12 | 8/30/13 | \$ 8,709,077 | \$ - | \$ - | \$ (8,700,000) | \$ (9,077) | \$ - | \$ 18,075 |
| RAN | 0.75% | 8/30/13 | 8/29/14 | - | 4,700,000 | 8,718 | | (7,265) | 4,701,453 | 29,295 |
| | | | | <u>\$ 8,709,077</u> | <u>\$ 4,700,000</u> | <u>\$ 8,718</u> | <u>\$ (8,700,000)</u> | <u>\$ (16,342)</u> | <u>\$ 4,701,453</u> | <u>\$ 47,370</u> |

8. FEDERAL CONTRACT ASSISTANCE

The Authority is eligible for grants of operating assistance from the Federal Department of Transportation. Pursuant to Section 5307 of the Federal Transit Administration T21, as amended, the federal government will fund up to 50% of the Authority’s Net Cost of Service, as defined. Federal operating assistance amounted to \$4,843,010 for the year ended June 30, 2014. Additionally, the Federal government funded \$1,044,559 of preventative maintenance and provided Section 5311 assistance totaling \$94,952.

The United States Department of Transportation approves capital grants to fund up to 80% of the Authority’s capital improvement projects. Capital grants of the Authority are reported as revenue rather than contributed capital as required by GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*. In addition, the Federal government may fund up to 80% of the Authority’s preventative maintenance and ADA services costs.

9. STATE CONTRACT ASSISTANCE

The Authority has a contract with the Commonwealth of Massachusetts for operating assistance (MGL Chapter 161B Section 23) providing the Authority with up to 50% of the Authority’s net cost of service be paid by the Commonwealth and shall not be assessed upon the cities and towns constituting the Authority. Funding is determined in the Commonwealth’s budget and is divided between RTAs based on a formula considering such factors as size and operating environment, as well as ridership and previous state funding levels. Total State Contract Assistance (SCA) for fiscal year 2014 totaled \$4,907,660, an increase of \$265,146 (or 5.7%) over the previous year. In fiscal year 2013, SRTA received its SCA of \$4,642,514 as well as additional Commonwealth operating subsidies of \$478,182, \$36,875 and \$37,325 for general operating and RAN interest assistance.

The Commonwealth also finances approximately 20% of the Authority’s capital management through the Commonwealth’s Executive Office of Transportation.

SOUTHEASTERN REGIONAL TRANSIT AUTHORITY
(A Component Unit of the Massachusetts Department of Transportation)

Notes to Financial Statements (Continued)

June 30, 2014

10. ***NET POSITION - RESTRICTED FOR OTHER PURPOSES***

In accordance with Massachusetts General Laws Chapter 161 Section 6(q), the Authority has established a reserve for extraordinary expenses. Prior approval from state officials is required before any expenditures can be made from this reserve. At June 30, 2014, that reserve amounted to \$418,536. The Authority added \$20,173 to this reserve in the current fiscal year from its net position. This reserve is at its maximum allowable balance under the law at fiscal year end June 30, 2014.

11. ***SRTA EMPLOYEE PENSION PLAN***

The Authority contributes to the City of New Bedford's Contributory Employees' Retirement System, which is a single-employer public employee's retirement system (PERS), as established under Chapter 32 of the General Laws of the Commonwealth of Massachusetts.

Effective January 1, 1996, the Contributory Employee's Retirement System of the City of New Bedford adopted Governmental Accounting Standards Board Statement No. 25 "GASB-25": "Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans". GASB-25 is intended to enhance the understandability and usefulness of pension information included in the financial reports of state and local government pension plans.

Effective July 1, 1998, Chapter 17 of the Acts of 1997 (COLA Legislation) was adopted. The result of the adoption of Chapter 17 is to increase the retirement allowance pension or annuity by the percentage as determined by the Commissioner of Social Security or 3%, whichever is less. The maximum pension benefit on which a COLA may be granted is \$12,000. All retirees, disabled retirees and beneficiaries that have been receiving benefit payments for at least one year as of July 1st are eligible for the adjustment.

All COLA's granted to members prior to July 1, 1998 and after 1981 are deemed to be an obligation of the State and not the liability of the Retirement System.

Employees of the Authority are covered under the Retirement System of the City of New Bedford, which is a contributory pension plan covering virtually all permanent City employees who meet certain minimum age and service criteria. Contributions made by the Authority to the plan for the year ended June 30, 2014 totaled \$114,542 which represents 100% of its share of the annual appropriation.

For further information on the retirement system, see the City of New Bedford's audited financial statements.

12. ***DEFINED BENEFIT PENSION PLANS***

The Authority has agreed, under the terms of the operating agreement, to provide retirement benefits to the employees of the Carrier and to continue paying benefits to those retired employees who were eligible to collect benefits when the Authority assumed operating rights on July 1, 1974. In order to fulfill this obligation, the Authority instituted a funded pension plan ("the Plan") on January 1, 1979. On July 1, 1988, the Authority amended the Plan by replacing it with two separate plans (collectively, "the Plans") known as the Salaried Employees' Pension Plan of Southeastern Regional Transit Authority and South Coast Transit Management ("Salaried Plan") and Pension Plan of Southeastern Regional Transit Authority and South Coast Transit Management, Inc. for Employees Covered by Collective Bargaining ("Hourly Plan").

SOUTHEASTERN REGIONAL TRANSIT AUTHORITY
(A Component Unit of the Massachusetts Department of Transportation)

Notes to Financial Statements (Continued)

June 30, 2014

12. ***DEFINED BENEFIT PENSION PLANS (CONTINUED)***

Summary of Significant Accounting Policies

Basis of Accounting:

The Authority's defined benefit pension plan financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to each plan are recognized when due and when the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

GASB No. 25 and GASB No. 27:

Effective for periods beginning after June 15, 1997, the Governmental Accounting Standards Board (GASB) requires the disclosure of pension related liabilities for public employer financial statements in accordance with Statements 25 and 27. These statements, which replace GASB Statement No. 5, must be adhered to by any public employee retirement system that follows Generally Accepted Accounting Principles (GAAP).

These disclosures are intended to establish a reporting framework that distinguishes between:

- current financial information about plan assets and financial activities,
- actuarially determined information from a long-term perspective,
- the funded status of the plan, and
- progress being made in accumulating sufficient assets to pay benefits when due.

Plan Descriptions

Employees of the contractor (South Coast Transit Management, Inc.) are eligible to participate in the plan administered by the Southeastern Regional Transit Authority on the later of the employee's date of hire and the effective date provided that the employee customarily works at least twenty hours per week and five months per year. The Authority shall make periodic contributions in amounts actuarially determined to be sufficient to provide benefits under the plans. For the year ended June 30, 2014, the actuarially determined annual required contributions were \$817,454 to the Hourly Plan and \$259,296 to the Salaried Plan. Actual contributions totaled \$1,141,382 by the Authority during fiscal year 2014.

Effective September 1, 1992, under the provisions of the plan, retirement benefits vest after five years of continuous service. Continuous service consists of all employment while in the eligible employee classification (working at least twenty hours a week and five months a year). Continuous service is measured from date of employment and counted in full years, disregarding partial years. If an employee is terminated involuntarily, each former employee shall retain any vested interest to which he had become entitled. Employees can receive monthly retirement benefits in the form of a life annuity upon completion of at least five years of continuous service and after having reached age 65. Reduced benefits are available for early retirement and disability retirement. An employee's monthly retirement benefit is determined as follows. For the collective bargaining plan a monthly benefit equal to 1.4% (as of June 1, 2011) of a participant's monthly average compensation multiplied by his years of continuous service. A participant's accrued benefits may not be less than the accrued benefit determined as of January 7, 1990. The minimum monthly benefit payable at normal retirement date is equal to \$12.00 multiplied by years of continuous service as of January 7, 1990. For the salaried plan, a monthly benefit is equal to 2.15% (prior to July 1, 2008, 1.75%) of a participant's monthly average compensation multiplied by years of continuous service (not to exceed forty), including compensation and continuous service under the hourly plan for employees who have transferred from the hourly plan. Effective October 1, 2003, the Southeastern Regional Transit Authority, shall cease to accrue any additional benefits under this plan. In addition, any benefit accruals under this plan shall be offset by benefits provided by the New Bedford Contributory Pension Fund. The average applicable compensation of an employee is the average salary earned in the five consecutive calendar years in the last ten calendar years prior to date of determination that yield the highest average or, if higher average is produced, in the participant's last five years of employment. In the event the participant has not been employed for five years, his average compensation will be based upon his entire employment history. Salary includes regular wages, overtime, bonuses and commissions.

SOUTHEASTERN REGIONAL TRANSIT AUTHORITY
(A Component Unit of the Massachusetts Department of Transportation)

Notes to Financial Statements (Continued)

June 30, 2014

12. ***DEFINED BENEFIT PENSION PLANS (CONTINUED)***

Plan Descriptions

For the purpose of determining the average applicable compensation and accrued benefit of a participant as of any date after June 30, 1989, applicable compensation for any year, whether beginning before, on or after June 30, 1989, shall not exceed \$200,000. The \$200,000 amount shall be adjusted at the same time and in the same manner as provided in Section 415(d) of the Internal Revenue Code of 1986. However, the accrued benefit of a participant as of any date after June 30, 1989 shall not be less than the participant's accrued benefit determined as of June 30, 1989 under the terms of the Plans as then in effect.

Membership of each plan consisted of the following at July 1, 2013 the date of the most recent actuarial valuation:

| | Salaried Plan | Hourly Plan | Total |
|--|--------------------------|------------------------|--------------|
| Active participants | 29 | 121 | 150 |
| Terminated participants with vested benefits | 9 | 29 | 38 |
| Retired participants and beneficiaries | 17 | 89 | 106 |
| | 55 | 239 | 294 |

Annual pension costs and net benefit obligation

A summary of annual pension costs, contribution and net pension obligation without amortization of the unfunded (prepaid) actuarial liability is as follows:

| | Fiscal Year Ended June 30, 2014 |
|--|--|
| Net Pension Asset (Liability) Beginning of Year | \$ 1,788,892 |
| Hourly Plan (Principal) | 817,454 |
| Salaried Plan (Principal) | 259,296 |
| Annual Required Contribution | 1,076,750 |
| Contribution made from overdrawn net cost of service reserve | - |
| Contributions made during fiscal year | 1,141,382 |
| Increase (decrease) in Net Pension Asset | 64,632 |
| Net Pension Asset (Liability) End of Year | \$ 1,853,524 |

SOUTHEASTERN REGIONAL TRANSIT AUTHORITY
(A Component Unit of the Massachusetts Department of Transportation)

Notes to Financial Statements (Continued)

June 30, 2014

12. **DEFINED BENEFIT PENSION PLANS (CONTINUED)**

Funding Policy

The most recent valuation of the Southeastern Regional Transit Authority Plan was prepared under the direction of the Principal Financial Group (for both the Salaried and Hourly Plans), as of July 1, 2013. The standardized measure of the unfunded actuarial accrued liability as of July 1, 2013 is as follows:

| | Salaried Plan July 1, 2013 (unaudited) | Hourly Plan July 1, 2013 (unaudited) | Total (unaudited) |
|---|---|---|------------------------------|
| Active members | \$ 4,784,783 | \$ 13,958,185 | \$ 18,742,968 |
| Inactive members | 551,990 | 1,158,606 | 1,710,596 |
| Retired members | 2,746,987 | 6,979,845 | 9,726,832 |
| | | | |
| Total actuarial accrued liability | 8,083,760 | 22,096,636 | 30,180,396 |
| | | | |
| Net assets available for benefits at market | (5,689,984) | (15,148,765) | (20,838,749) |
| | | | |
| Unfunded actuarial accrued liability | <u>\$ 2,393,776</u> | <u>\$ 6,947,871</u> | <u>\$ 9,341,647</u> |

13. **DEFERRED COMPENSATION PLAN**

Certain employees of the Authority are eligible to contribute to a deferred compensation plan pursuant to Section 457 of the Internal Revenue Code. Under this plan, the Authority withholds the amount of compensation mutually agreed upon with each participant up to a prescribed limit outlined in the plan.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights shall be held in one or more annuity contracts, issued by an insurance company qualified to do business in the state where the contract was issued, for the exclusive benefit of participants and beneficiaries under the plan. The Authority disclaims any and all rights with respect to entitlement to proceeds of any plan as set and deems them reserved solely for the benefit of participants under the terms of the plan.

14. **RISK MANAGEMENT**

In conjunction with its normal operations, the Authority is exposed to various risks of loss related to torts, theft of, damage to and destruction of property and injuries to employees. The Authority purchases commercial insurance from independent third parties to cover these risks. There have been no claims that have exceeded insurance coverage.

GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, requires that liabilities for self-insured claims be reported if it is probable that a loss has been incurred and the amounts can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. The estimated liability for all self-insured losses incurred but not reported is not material at June 30, 2014.

SOUTHEASTERN REGIONAL TRANSIT AUTHORITY
(A Component Unit of the Massachusetts Department of Transportation)

Notes to Financial Statements (Continued)

June 30, 2014

15. ***LEGAL AND OTHER***

The Authority is involved in numerous lawsuits, claims and grievances arising in the normal course of business, including claims for personal injury and personnel practices, property damage, and disputes. In the opinion of the General Counsel to the Authority, payment of claims by the Authority, for amounts not covered by insurance, in the aggregate, are not expected to have a material adverse effect on the Authority's financial position.

16. ***COMMITMENTS***

On May 30, 2012 the Southeastern Regional Transit Authority signed an agreement with Goodyear Tire & Rubber Company through May 31, 2017. This agreement is to lease the Authority the number of tires sufficient to keep all of Southeastern Regional Transit Authority's vehicles fully equipped and to provide an adequate reserve supply.

The Authority agrees to furnish to Goodyear by the 15th day of each month a record of the daily revenue and non-revenue vehicle miles. The amount of monthly payments is computed by using the applicable billing rate per tire mile in effect during the preceding month.

17. ***ECONOMIC DEPENDENCY***

The Authority received a substantial amount of its' support from federal and state governments. A significant reduction of this support, if this were to occur, may have an effect on operations.

18. ***TRANSIT SERVICE***

The operation of the Authority's fixed route service and maintenance of the Authority's transportation property are performed by First Transit under the terms of an agreement whereby First Transit operates mass transit along such routes and according to such a schedule as defined by the Authority. First Transit uses South Coast Transit Management, Inc. (SCTM), a wholly owned subsidiary, for the performance of the actual fixed route and ADA paratransit operations. In return, the Authority agrees to pay First Transit a management fee and to reimburse SCTM for all costs and expenses which are reasonable and necessary for the efficient operation of the service.

19. ***SUBSEQUENT EVENTS***

For purposes of determining the effects of subsequent events on these financial statements, management has evaluated events which have occurred subsequent to June 30, 2014, and through September 10, 2014, the date on which the financial statements were available to be issued.

On July 16, 2014 the Federal Transit Administration de-obligated \$224,071 of funds previously obligated to SRTA under grant MA-90-X665. This de-obligation was as a result of an investigation conducted by the U.S. Department of Transportation's Office of the Inspector General (OIG), relative to the management and oversight of SRTA's third party operator prior to November 1, 2011, Union Street Bus Company.

On August 3, 2014, the Massachusetts Department of Transportation signed the fiscal year's contract assistance in the amount of \$5,625,381 of which half the amount (\$2,812,690) was received by the Authority on that date.

The Authority issued a Revenue Anticipation Note (RAN) dated August 29, 2014 in the amount of \$3,625,000, with an interest rate of 1%. The due date of the RAN is August 28, 2015 and is to be used to fund operating expenses.

SOUTHEASTERN REGIONAL TRANSIT AUTHORITY
(A Component Unit of the Massachusetts Department of Transportation)

Notes to Financial Statements (Continued)

June 30, 2014

20. ***FUTURE IMPLEMENTATION OF GASB PRONOUNCEMENTS***

The GASB has issued the following statements:

- GASB Statement No. 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25*, which is required to be implemented during fiscal year 2015. The implementation of this statement will require expanded note disclosures and required supplementary information.
- GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, which is required to be implemented during fiscal year 2015. The implementation of this Statement will represent a significant change in the accounting and reporting of pension expense and the related liability. For the first time, the Authority will be required to recognize its long-term obligation for pension benefits as a liability and to more comprehensively measure the annual costs of pension benefits. The implementation of this Statement also expands pension related note disclosures and required supplementary information.
- GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*, which is required to be implemented during fiscal year 2015. Management does not believe the implementation of this Statement will materially impact the basic financial statements.
- GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date— an amendment of GASB Statement No. 68*, which is required to be applied simultaneously with the provisions of Statement No. 68.

These pronouncements will be implemented by their respective implementation dates.

22. ***810 CMR 53.03(2) DISCLOSURE***

The Administrator (CEO), date of hire November 30, 2011, compensation for fiscal year 2013 was \$92,500. The CEO was paid \$1,779 for one week of unused vacation time buyback as per the Authority's personnel policies. The CEO receives a family health insurance plan and contributes 25% of the cost of the premium.

The Chief Financial Officer (CFO), date of hire October 5, 2011, compensation for fiscal year 2014 was \$82,673. The CFO was paid \$1,576 for one week of unused vacation time buyback as per the Authority's personnel policies. The CFO receives a family health insurance plan and contributes 25% of the cost of the premium.

Advisory Board members and officers do not receive compensation.

SOUTHEASTERN REGIONAL TRANSIT AUTHORITY
(A Component Unit of the Massachusetts Department of Transportation)

Required Supplementary Information

Schedule of Funding Progress

For the Year Ended June 30, 2014

(Unaudited)

| <u>Actuarial Valuation Date</u> | <u>Reporting Year</u> | <u>Actuarial Value of Assets</u> | <u>Actuarial Liability (AAL) Frozen Entry Age</u> | <u>Unfunded (Overfunded) AAL (UAAL)</u> | <u>Funded Ratio</u> | <u>Covered Payroll</u> | <u>UAAL as a Percentage of Covered Payroll</u> |
|---------------------------------|-----------------------|----------------------------------|---|---|---------------------|------------------------|--|
| 07/01/08 | 2009 | \$ 13,613,708 | \$ 16,734,032 | \$ 3,120,324 | 81.4% | \$ 4,629,515 | 67.4% |
| 07/01/09 | 2010 | \$ 13,443,265 | \$ 18,485,803 | \$ 5,042,538 | 72.7% | \$ 4,503,337 | 111.9% |
| 07/01/10 | 2011 | \$ 14,701,165 | \$ 18,065,730 | \$ 3,364,565 | 81.4% | \$ 5,513,000 | 61.0% |
| 07/01/11 | 2012 | \$ 16,372,704 | \$ 20,290,025 | \$ 3,917,321 | 80.7% | \$ 5,120,744 | 76.5% |
| 07/01/12 | 2013 | \$ 17,097,572 | \$ 21,444,407 | \$ 4,346,835 | 79.7% | \$ 5,767,336 | 75.4% |
| 07/01/13 | 2014 | \$ 20,468,553 | \$ 30,180,396 | \$ 9,711,843 | 67.8% | \$ 6,306,687 | 153.99% |

Isolated analysis of the dollar amounts of net assets available for benefits, actuarial accrued liability, and unfunded actuarial accrued liability can be misleading. Expressing the net assets available for benefits as a percentage of the actuarial accrued liability provided one indication of the Plans' funding status on a going-concern basis. Analysis of this percentage over time indicates whether the system is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the Plan. Trends in unfunded actuarial accrued liability and annual covered payroll are both affected by inflation. Expressing the unfunded actuarial accrued liability as a percentage of annual covered payroll approximately adjusts for the effects of inflation and aids in the analysis of the progress made in accumulating sufficient assets to pay benefits when due. Generally, the smaller this percentage, the stronger the Plan.

See independent auditor's report

SOUTHEASTERN REGIONAL TRANSIT AUTHORITY
(A Component Unit of the Massachusetts Department of Transportation)

Required Supplementary Information

Schedule of Employer Contributions

For the Year Ended June 30, 2014

(Unaudited)

| Year Ended June 30 | Range of Annual Required Contributions | | Actual Contributions |
|-------------------------------|---|-----------|---------------------------------|
| 2009 | 871,558 | 1,041,260 | 920,047 |
| 2010 | 896,619 | 1,213,728 | 978,963 |
| 2011 | 956,461 | 1,385,273 | 1,041,378 |
| 2012 | 998,288 | 1,563,633 | 1,048,118 |
| 2013 | 1,008,041 | 1,647,037 | 1,112,862 |
| 2014 | 978,902 | 1,582,379 | 1,141,382 |

Method Used to Value Assets:

The Actuarial Cost Method for retirement benefits is the Frozen Entry Age Actuarial Cost Method. Under this method, the actuarial present value of projected benefits of the group included in the actuarial valuation minus the sum of the Actuarial Value of Assets and the Unfunded Frozen Actuarial Accrued Liability is allocated on a level basis over the future compensation of the group between the valuation date and assumed exit. This allocation is performed for the group as a whole, not as a sum of individual allocations. The frozen actuarial accrued liability is determined using the entry age actuarial cost method. The portion of the actuarial present value allocated to a valuation year is called the normal cost. Under this method, the actuarial gains and losses reduce or increase future normal costs.

The Actuarial Value of Assets equals the Market Value of Assets as of the previous valuation date plus any due and accrued contributions.

Selected Assumptions (Salaried Plan):

- Mortality table is the IRS 2013 Prescribed Combined Table, Male and Female, for both pre- and post-retirements.
- Investment return is 7.0% (net of investment expenses) for both pre and post-retirement.
- Salaries are assumed to compound by 4% annually.
- Retirement age is assumed to be 62 years of age.

The most recent actuarial valuation of the Salaried Plan was prepared as of July 1, 2013. For a complete listing of all details of the July 1, 2013 actuarial valuation, such as actuarial assumptions and methods, plan provisions, the development of deposit information and other information, please contact Kristen A. Sniezek, CFO at the address listed on page 9 of this report.

Selected Assumptions (Hourly Plan):

- Mortality table is the IRS 2013 Prescribed Combined Table, Male and Female, for both pre-and post-retirement
- Investment return (net of investment expenses) is 7.0% for pre-retirement and 7.0% post-retirement
- Salaries are assumed to compound by 4.5% annually
- Retirement age is the normal retirement age as defined in the Summary of Plan Provisions and age 65 for inactive participants where applicable.

The most recent actuarial valuation of the Hourly Plan was prepared as of July 1, 2013. For a complete listing of all details of the July 1, 2013 actuarial valuation, such as actuarial assumptions and methods, plan provisions, the development of deposit information and other information, please contact Kristen A. Sniezek, CFO at the address listed on page 9 of this report.

See independent auditor's report

SOUTHEASTERN REGIONAL TRANSIT AUTHORITY
(A Component Unit of the Massachusetts Department of Transportation)

Supplementary Information

Statement of Revenues and Expenses - Budget and Actual

For the Year Ended June 30, 2014

| | Budget As Adopted | Appropriations and Transfers | Total Available | Actual | Variance Favorable (Unfavorable) |
|---|----------------------------------|---|----------------------------|-------------------|---|
| Revenues: | | | | | |
| Cash Fares: | | | | | |
| Farebox revenue - fixed route | \$ 1,897,966 | \$ 123,650 | \$ 2,021,616 | \$ 2,133,655 | \$ 112,039 |
| Farebox revenue - paratransit | 131,300 | (21,300) | 110,000 | 120,748 | 10,748 |
| Auxiliary revenue | 211,500 | (27,000) | 184,500 | 210,198 | 25,698 |
| Total revenues | 2,240,766 | 75,350 | 2,316,116 | 2,464,601 | 148,485 |
| Expenses: | | | | | |
| Operating/Cost of Service: | | | | | |
| Fixed Route | 9,549,065 | (572,347) | 8,976,718 | 8,704,398 | 272,320 |
| Paratransit | 2,309,275 | (28,124) | 2,281,151 | 2,197,903 | 83,248 |
| Intermodal Centers | 881,224 | 327,981 | 1,209,205 | 1,167,970 | 41,235 |
| Fuel | 1,560,000 | (165,000) | 1,395,000 | 1,364,414 | 30,586 |
| Insurance | 736,755 | - | 736,755 | 741,545 | (4,790) |
| Management fees | 188,188 | 84,664 | 272,852 | 272,852 | - |
| SRTA administration | 1,054,119 | 36,930 | 1,091,049 | 1,050,690 | 40,359 |
| Total expenses | 16,278,626 | (315,896) | 15,962,730 | 15,499,772 | 462,958 |
| Other financing sources (uses): | | | | | |
| Net Cost of Service: | | | | | |
| Federal Grants | 6,945,755 | (351,772) | 6,593,983 | 5,982,521 | (611,462) |
| State Assistance | 4,947,135 | (39,474) | 4,907,661 | 4,907,658 | (3) |
| Local Assessments | 2,144,970 | - | 2,144,970 | 2,144,992 | 22 |
| Total other financing sources (uses): | 14,037,860 | (391,246) | 13,646,614 | 13,035,171 | (611,443) |
| Excess (deficiency) of revenues and other financing sources over expenses and other financing uses | \$ - | \$ - | \$ - | \$ - | \$ - |
| Budgetary retained earnings at the beginning of year | | | | \$ - | |
| Budgetary retained earnings at the end of year | | | | \$ - | |

See independent auditor's report

SOUTHEASTERN REGIONAL TRANSIT AUTHORITY
(A Component Unit of the Massachusetts Department of Transportation)

Supplementary Information

Notes to Statement of Revenues and Expenses - Budgetary Basis

For the Year Ended June 30, 2014

The accompanying Statement of Revenues and Expenses - Budget and Actual presents comparisons of the legally adopted budget (more fully described in Note 1) with actual data on the budgetary basis. Since accounting principles applied for purposes of developing data on a budgetary basis do not differ significantly from those used to present financial statements in conformity with GAAP, a reconciliation of resultant basis, timing, perspective and entity differences in the excess (deficiency) of revenues over expenses for the year ended June 30, 2014 are as follows:

| | |
|--|--------------------|
| Increase (decrease) in net position - GAAP basis | \$ 1,185,856 |
| Capital grants and contributions | (3,675,736) |
| Depreciation | 2,574,125 |
| (Gain)/loss on asset dispositions (GAAP only) | 561 |
| Increases to extraordinary repairs reserve | (20,168) |
| Contributions to prepaid pension | (64,632) |
| Rounding | (6) |
| Increase (decrease) in net position - Budget basis | <u><u>\$ -</u></u> |

See independent auditor's report

SOUTHEASTERN REGIONAL TRANSIT AUTHORITY
(A Component Unit of the Massachusetts Department of Transportation)

Supplementary Information

Statement of Revenue and Cost of Service

For the Year Ended June 30, 2014

| | |
|--------------------------------------|-------------------------------|
| Transportation revenue | <u>\$ 2,254,403</u> |
| Operating expenses: | |
| Fixed route | 8,704,398 |
| Paratransit | 2,197,903 |
| Intermodal centers | 1,167,970 |
| Amortization of grants | 2,574,125 |
| Fuel | 1,364,414 |
| Insurance | 741,545 |
| SRTA administration | 1,050,690 |
| Management fees | <u>272,852</u> |
| Total operating expenses | <u>18,073,897</u> |
| Net operating loss | (15,819,494) |
| Other income: | |
| Interest income | 8,012 |
| Auxiliary income | <u>202,186</u> |
| Cost of service in excess of revenue | <u><u>\$ (15,609,296)</u></u> |

See independent auditor's report

SOUTHEASTERN REGIONAL TRANSIT AUTHORITY
(A Component Unit of the Massachusetts Department of Transportation)

Supplementary Information

Statement of Unreimbursed Cost of Service

For the Year Ended June 30, 2014

| | |
|---|---------------------|
| Balance at beginning of year | <u>\$ -</u> |
| Cost of service in excess of revenue | <u>(15,609,296)</u> |
| Add: | |
| Net cost of service reimbursable by the Commonwealth of Massachusetts, a portion of which is to be assessed to the cities and towns served by the Authority | |
| Commonwealth of Massachusetts - State Contract Assistance | 4,907,660 |
| Local assessments | 2,144,992 |
| Federal operating assistance pursuant to Section 9 of the Urban Mass Transportation Act of 1964 | 5,938,289 |
| Section 5311 Expanded Service Assistance | 44,232 |
| Rounding differences | <u>(2)</u> |
| Total operating net cost of service reimbursements | 13,035,171 |
| Amortization of grants | <u>2,574,125</u> |
| Total subsidy | <u>15,609,296</u> |
| Balance at end of year | <u><u>\$ -</u></u> |

See independent auditor's report