

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

ANNUAL FINANCIAL STATEMENTS

Year Ended June 30, 2017

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

June 30, 2017

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CERTIFIED PUBLIC ACCOUNTANTS

126 President Avenue
Fall River, MA 02720
TEL. (508) 675-7889
FAX (508) 675-7859
www.hague-sahady.com

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, 2017, 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, 2017, 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 and certain pension information on pages 48 through 54 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 25, 2017 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, Sahady & Co., CPAs, P.C.

Hague, Sahady & Co., CPAs, P.C.

Fall River, Massachusetts
September 25, 2017

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

Management's Discussion and Analysis (Unaudited)

For the Year Ended June 30, 2017

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, 2017 and June 30, 2016. 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 \$2,736,933 in fiscal year 2016 to \$2,623,018 in fiscal year 2017.
- The operating expenses increased from \$18,106,411 in fiscal year 2016 to \$20,879,666 in fiscal year 2017.
- Operating assistance from the Commonwealth remained level funded during fiscal year 2017 and federal operating assistance increased \$1.1 million during fiscal year 2017 versus fiscal year 2016.

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

For the Year Ended June 30, 2017

CONDENSED FINANCIAL INFORMATION

Net Position. The Authority's net position increased between fiscal years ended June 30, 2017 and June 30, 2016 by \$59,014. Significant increases in long-term liabilities contributed to the \$59,014 change in the Authority's net position as actuarial assumptions and the actual experience of the Authority's pension plans have increased the "net pension liability" during fiscal year 2017. The cost of service in excess of revenue is reimbursed by Commonwealth of Massachusetts operating assistance (currently formula based and forward-funded), 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>2017</u>	<u>2016</u>	<u>Total Dollar Change</u>	<u>Total Percentage Change</u>
Assets:				
Current assets	\$ 10,127,276	\$ 9,823,135	\$ 304,141	3.1%
Capital assets	24,030,778	22,997,158	1,033,620	4.5%
Total assets	34,158,054	32,820,293	1,337,761	4.1%
Deferred outflows:				
GASB 68 related deferred outflows	5,189,852	1,874,677	3,315,175	0.0%
Total deferred outflows of resources	5,189,852	1,874,677	3,315,175	0.0%
Liabilities:				
Current liabilities	5,890,878	5,675,887	214,991	3.8%
Long-term liabilities	10,147,012	5,358,195	4,788,817	89.4%
Total liabilities	16,037,890	11,034,082	5,003,808	45.3%
Deferred inflows:				
GASB 68 related deferred inflows	1,219,582	1,629,468	(409,886)	100.0%
Total deferred inflows of resources	1,219,582	1,629,468	(409,886)	100.0%
Net position:				
Unrestricted	(3,333,971)	(2,269,342)	(1,064,629)	46.9%
Restricted	1,393,627	1,303,604	90,023	6.9%
Investment in capital assets, net of related debt	24,030,778	22,997,158	1,033,620	4.5%
Total net position	\$ 22,090,434	\$ 22,031,420	\$ 59,014	0.3%

SOUTHEASTERN REGIONAL TRANSIT AUTHORITY
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Management's Discussion and Analysis (Unaudited) (Continued)

For the Year Ended June 30, 2017

Changes in Net Position. The Authority's total operating revenue decreased by 4.2% to \$2,623,018. The change was caused by a revised fare structure coupled with decreased ridership and reductions in other revenues during fiscal year 2017. Operating expenses also increased by \$2,773,255 in the current year due to increases in salaries and fringe benefit costs as a result of expanded service.

Table 2

	<u>2017</u>	<u>2016</u>	<u>Total Dollar Change</u>	<u>Total Percentage Change</u>
Operating revenue:				
Service revenue	\$ 2,468,171	\$ 2,562,154	\$ (93,983)	-3.7%
Other income	154,847	174,779	(19,932)	-11.4%
Total operating revenue	<u>2,623,018</u>	<u>2,736,933</u>	<u>(113,915)</u>	<u>-4.2%</u>
Operating expenses:				
Operator costs	13,055,069	12,101,434	953,635	7.9%
General and administrative	3,936,395	2,384,465	1,551,930	65.1%
Depreciation	2,777,422	2,593,089	184,333	7.1%
Other costs of service	1,110,780	1,027,423	83,357	8.1%
Total operating expenses	<u>20,879,666</u>	<u>18,106,411</u>	<u>2,773,255</u>	<u>15.3%</u>
Operating gain (loss)	<u>(18,256,648)</u>	<u>(15,369,478)</u>	<u>(2,887,170)</u>	<u>18.8%</u>
Nonoperating revenues/(expenses):				
Local assessment	3,129,871	3,000,768	129,103	4.3%
State assistance	5,766,018	5,766,016	2	0.0%
Federal assistance	5,613,141	4,499,692	1,113,449	24.7%
Other nonoperating revenue/(expense) net:	<u>(5,409)</u>	<u>6,864</u>	<u>(12,273)</u>	<u>-178.8%</u>
Total nonoperating revenues/(expenses):	<u>14,503,621</u>	<u>13,273,340</u>	<u>1,230,281</u>	<u>9.3%</u>
Net loss before capital grants	(3,753,027)	(2,096,138)	(1,656,889)	79.0%
Capital grants and contributions	<u>3,812,041</u>	<u>3,263,139</u>	<u>548,902</u>	<u>16.8%</u>
Increase (decrease) in net position	59,014	1,167,001	(1,107,987)	-94.9%
Net position, beginning of year (restated)	<u>22,031,420</u>	<u>20,864,419</u>	<u>1,167,001</u>	<u>5.6%</u>
Net position, end of year	<u>\$ 22,090,434</u>	<u>\$ 22,031,420</u>	<u>\$ 59,014</u>	<u>0.3%</u>

SOUTHEASTERN REGIONAL TRANSIT AUTHORITY
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Management's Discussion and Analysis (Unaudited) (Continued)

For the Year Ended June 30, 2017

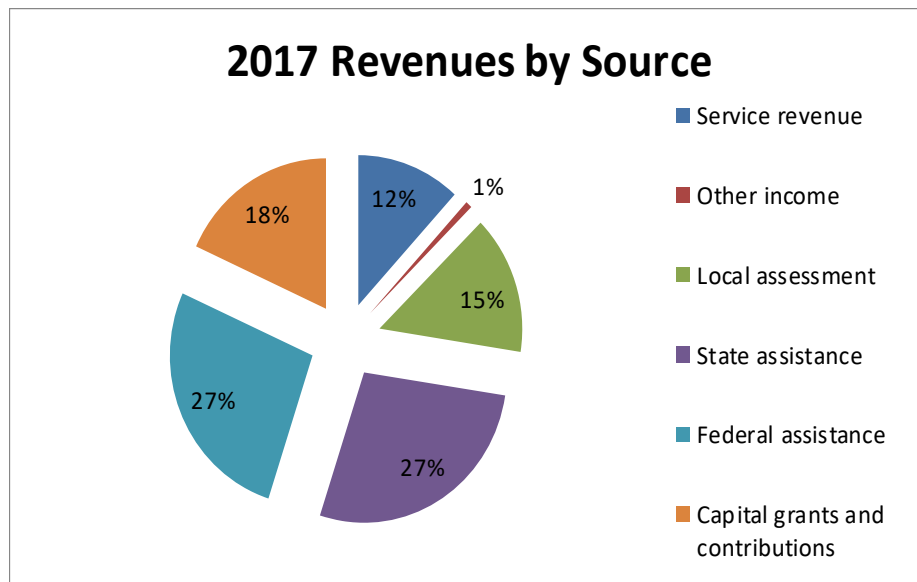
ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS

Approximately 72% for 2017 and 70% for 2016 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 15% respectively for 2017 and 13%, 1% and 16% respectively for 2016. 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 2017 weekly expenses. Approximately 63% of the operating cost relates to the cost of transportation services (i.e., salaries and fringe benefits) with 13% of the operating cost representing non-cash depreciation and amortization costs for 2017 as well as 19% 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 2016.

Table 3

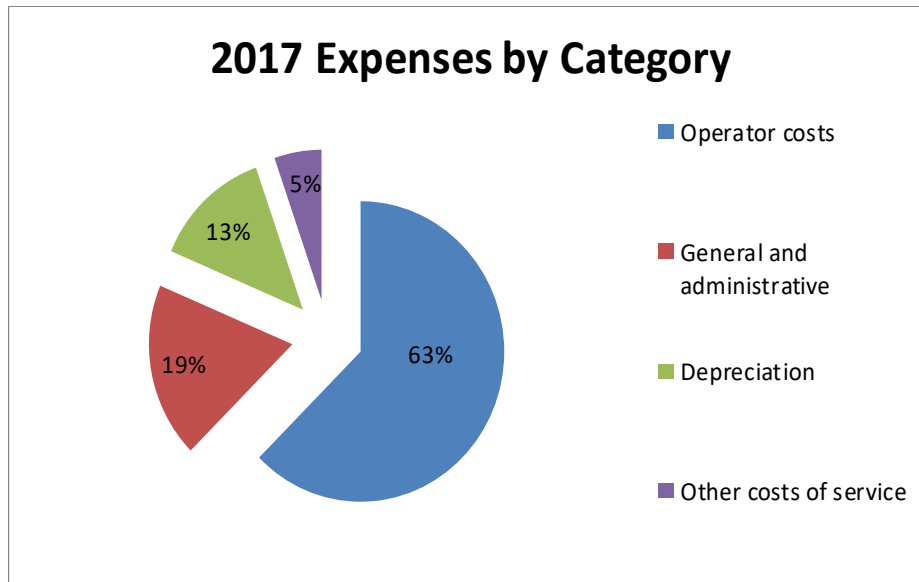


SOUTHEASTERN REGIONAL TRANSIT AUTHORITY
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Management's Discussion and Analysis (Unaudited) (Continued)

For the Year Ended June 30, 2017

Table 4



DISCUSSION AND ANALYSIS OF BALANCES AND TRANSACTIONS

The Authority finished the current year with an increase in net position of \$59,014. The increase is a result of purchases of capital assets exceeding the amount of depreciation charged for the current fiscal year, coupled with increases in pension expense, as a result of the experience of the Authority's three pension plans.

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 \$76,047,796 has been approved for grant spending through June 30, 2017. (See Note 2)

DISCUSSION AND ANALYSIS OF SIGNIFICANT BUDGET VARIANCES

The Authority did revise its budget during fiscal year 2017 as a result of state funding being released in the amount of \$140,635. The Authority also revised its budget to reflect expected use of Federal Operating revenues due to reductions in fuel costs versus the original budget in the amount of \$647,090. Unfavorable variances were present in all expense line items except for insurance and management fees, although these favorable variances were rather minimal. See the "Supplementary Information" section for more information.

SOUTHEASTERN REGIONAL TRANSIT AUTHORITY
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Management's Discussion and Analysis (Unaudited) (Continued)

For the Year Ended June 30, 2017

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

At the end of fiscal year 2017, the Authority had invested \$48,263,491 in property, plant and equipment. \$16,729,262 had been invested in buildings and improvements; \$1,322,044 is invested in non-depreciable assets (land and construction in progress) with the remaining \$30,212,185 in buses and equipment. This amount represents an 1.1% increase or \$544,199 over fiscal year 2016 when the Authority had \$47,719,292 invested in property, plant and equipment of which \$16,469,828 had been invested in buildings and improvements, \$480,374 was invested in non-depreciable assets, with the remaining \$30,769,091 in buses and equipment. More detailed information about the Authority's capital assets is presented in the notes to the basic financial statements.

	<u>2017</u>	<u>2016</u>	<u>Change in Balances</u>
Land	\$ 326,611	\$ 326,611	\$ -
Construction in progress	995,433	153,763	841,670
Building and improvements, net	8,576,992	8,846,950	(269,958)
Buses and equipment, net	12,859,568	12,604,058	255,510
Service equipment, net	298,123	309,839	(11,716)
Furniture and fixtures, net	38,617	56,935	(18,318)
Computers, net	417,945	191,829	226,116
Planning, net	517,489	507,172	10,317
Total	<u>\$ 24,030,778</u>	<u>\$ 22,997,157</u>	<u>\$ 1,033,621</u>

As of June 30, 2017 the Authority had \$4,008,124 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, 2017 is \$4,008,124 which is more than the \$4,001,967 outstanding at fiscal year ended 2016 due to expanded services being provided during fiscal years 2015, 2016 and 2017 for which local assessment receipts (i.e. the physical cash receipts) will not be collected until fiscal years 2018 and 2019.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

The December 2015 signing of the FAST Act has brought a 5 year authorization, which has increased the overall Federal funding through FFY2020. SRTA has continued to see a small increase in federal funding through the New Bedford UZA, and nearly level funding from the Providence UZA. With the increase in the available 5307 funding and the Authorities increased service and ridership, SRTA expects to see its federal funding stay level at a minimum, and has the potential to grow modestly each year. However, while this Transportation bill was authorized, it has not been funded for all 5 years. The fall 2017 Federal budgeting process will largely dictate what SRTA can expect to see in the remaining years of this authorization.

Lagging tax revenues continue to hurt the Commonwealth's ability to continue the plan that was outlined in the 2014 Transportation funding reform. Rather than seeing an annual 2.5% increase in funding since then, SRTA is currently experiencing a cut in FY18. Funding for the 15 RTAs has been cut from \$82 million to \$80.4 million. This cut forces the Authority to use Federal funding to cover the state's reduction in funding of \$112,000, and causes further delays in deploying additional services needed throughout the system.

Lastly, ridership across the 15 RTA's has experienced a downturn. SRTA has experienced a reduction in ridership of 2.4%, which is less of a drop than many of the Urban RTAs. A reduction in ridership has a negative impact on farebox revenue. Some of SRTA's peer Authorities in the state have experienced a 9% decrease in ridership. A drop that large would have a significant impact on our farebox revenue and ability to maintain service.

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

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

For the Year Ended June 30, 2017

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, Deputy Administrator and 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, 2017

	<u>TOTAL BUSINESS-TYPE ACTIVITIES</u>
Assets	
Current Assets:	
Cash and cash equivalents	\$ 1,161,257
Receivables:	
State grants receivable	247,189
Local assessment receivable	6,354,579
Federal grants receivable	1,032,419
Other receivables	35,678
Inventory	1,184,261
Prepaid expenses	111,893
Total current assets	<u>10,127,276</u>
Non-Current Assets:	
Land	326,611
Construction in progress	995,433
Building and improvements, net	8,576,992
Buses and equipment, net	12,859,568
Service equipment, net	298,123
Furniture and fixtures, net	38,617
Computers, net	417,945
Planning, net	517,489
Total non-current assets	<u>24,030,778</u>
Total assets	<u>\$ 34,158,054</u>
 Deferred outflows of resources	
GASB 68 - New Bedford Plan	112,977
GASB 68 - Hourly Plan	4,175,219
GASB 68 - Salaried Plan	901,656
Total deferred outflows of resources	<u>5,189,852</u>
Total assets and deferred outflows of resources	<u>\$ 39,347,906</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, 2017

	TOTAL BUSINESS-TYPE ACTIVITIES
Liabilities	
Current liabilities:	
Revenue anticipation notes payable	\$ 4,008,124
Accounts payable and other liabilities	870,816
Due to operator	752,740
Accrued salaries payable	192,713
Accrued interest payable	66,485
	5,890,878
Total current liabilities	
Non-Current Liabilities:	
Net OPEB obligation (NOO)	106,086
Net pension liability (NPL)	9,491,023
Compensated absences, net of current portion	549,903
	10,147,012
Total non-current liabilities	
Total liabilities	16,037,890
 Deferred inflows of resources	
GASB 68 - New Bedford Plan	68,705
GASB 68 - Hourly Plan	743,108
GASB 68 - Salaried Plan	407,769
	1,219,582
Total deferred inflows of resources	
 Net Position	
Unrestricted	\$ (3,333,971)
Restricted:	
Stabilization fund (MGL Ch.161B s.26)	798,262
Fall River terminal project	188
Extraordinary repairs reserve (MGL Ch.161B s.6(q))	595,177
Investment in capital assets:	
Net of accumulated depreciation	494,462
Net of accumulated amortization	23,536,316
	23,536,316
Total net position	\$ 22,090,434

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, 2017

	TOTAL BUSINESS-TYPE ACTIVITIES
Operating revenues:	
Service revenue	\$ 2,468,171
Advertising income	43,765
Other income	111,082
Total operating revenues	2,623,018
Operating expenses:	
Cost of service	
Salaries	9,259,690
Fringe	2,424,451
Materials and supplies	865,795
Miscellaneous	48,940
Utilities	212,808
Office expense and services	243,385
Subtotal - Cost of service	13,055,069
Additional costs of service:	
Depreciation	2,777,422
Diesel fuel and gasoline	770,346
Management fees paid to operator	340,434
Subtotal - additional costs of service:	3,888,202
Total operating expenses:	16,943,271
Administrative expenses:	
Salaries and fringe	627,266
Advertising	588
Professional fees	130,207
Office expense	54,875
Other administrative expense	94,643
Insurance expense	781,275
Pension expense	2,247,541
Total administrative expenses:	3,936,395
Operating income (loss):	(18,256,648)

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, 2017

		TOTAL BUSINESS-TYPE ACTIVITIES
Nonoperating revenues (expenses):		
Local assessment (MGL Ch.161B s.9)	\$	3,129,871
State operating assistance (MGL Ch.161B s.23)		5,766,018
Federal - operating assistance (49 USC 5307(d)(2))		4,635,212
Federal - preventative maintenance (49 USC 5307(d)(1))		977,929
Disposition of capital assets		21,392
Interest income		3,744
Interest expense		(73,133)
Amortization of premium		42,588
		14,503,621
Total nonoperating revenues (expenses)		14,503,621
Net loss before capital grants		(3,753,027)
Capital Grants:		
Federal		1,196,663
Commonwealth of Massachusetts		2,615,378
		3,812,041
Total capital grants		3,812,041
Increase (decrease) in net position		59,014
Net position, beginning of year (restated)		22,031,420
Net position, end of year	\$	22,090,434

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, 2017

Cash flows from operating activities:

Cash received from federal, state and local governments	\$ (613,992)
Cash received from passenger fares	2,468,171
Cash received from rentals, parking and other	154,847
Cash paid to operators, other vendors and employees	<u>(16,230,914)</u>
Net cash provided (used) by operating activities	<u>(14,221,888)</u>

Cash flows from noncapital financing activities:

Operating and contract assistance	14,603,637
Net proceeds from sale of revenue anticipation notes	4,000,000
Principal payments made on anticipation notes	(4,000,000)
Interest payments on anticipation notes	<u>8,855</u>
Net cash used in noncapital financing activities	<u>14,612,492</u>

Cash flows from capital and related financing activities:

Capital revenue from state and federal capital grants	3,515,907
Purchase of capital assets	<u>(3,789,651)</u>
Net cash provided (used) by capital and related financing activities	<u>(273,744)</u>

Cash flows from investing activities:

Interest income on invested funds	<u>3,744</u>
Net cash provided (used) in investing activities	<u>3,744</u>

Net increase (decrease) in cash 120,604

Cash and cash equivalents at beginning of year 1,040,653

Cash and cash equivalents at end of year \$ 1,161,257

Displayed at June 30, 2015 as:

Cash and cash equivalents: \$ 1,161,257

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

Statement of Cash Flows (Continued)

For the Year Ended June 30, 2017

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

Operating income (loss)	<u>\$ (18,256,648)</u>
Adjustments to reconcile net operating loss to net cash provided by operating activities:	
Depreciation and amortization	2,777,422
(Increase) decrease in accounts receivable	(613,992)
(Increase) decrease in inventory	(171,068)
(Increase) decrease in prepaid expenses	4,789
(Increase) decrease in deferred outflows of resources	(3,315,175)
Increase (decrease) in accounts payable and accrued expenses	414,997
Increase (decrease) in accrued salaries payable	156,142
Increase (decrease) in accrued pay/compensated absences	(57,176)
Increase (decrease) in due to operator	402,714
Increase (decrease) in net OPEB obligation (NOO)	54,804
Increase (decrease) in net pension liability (NPL)	4,791,189
Increase (decrease) in deferred inflows of resources	<u>(409,886)</u>
Subtotal	<u>4,034,760</u>
Net cash provided (used) by operating activities	<u><u>\$ (14,221,888)</u></u>

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

Notes to Financial Statements

June 30, 2017

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 June 1, 2017. 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, 2017

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, 2017.

Balance at beginning of year	\$	-
Cost of service in excess of revenue		(17,286,450)
Expenses not reimbursable and other operating assistance:		
Depreciation and amortization in excess of principal payments on long-term debt		2,777,422
Local assistance		3,129,871
Federal operating assistance including associated capital maintenance and expanded services		5,613,141
Rounding differences		(2)
Net cost of service		(5,766,018)
Net cost of service reimbursed by the Commonwealth		5,766,018
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, 2017

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, 2017 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. 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 2017, this gain/loss was immaterial to 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, 2017

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 \$588 for the year ended June 30, 2017.

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, 2017

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

Implementation of New Accounting Principles

For the year ending June 30, 2017, the Authority implemented the following pronouncements issued by the GASB:

- GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements Nos. 67 and 68*
- GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*
- GASB Statement No. 77, *Tax Abatement Disclosures*
- GASB Statement No. 78, *Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans*
- GASB Statement No. 80, *Blending Requirements for Certain Component Units – an amendment of GASB Statement No. 14*
- GASB Statement No. 82, *Pension Issues – an amendment of GASB Statements No. 67, 68 and No. 73*

The implementation of the GASB Statements as listed above had an immaterial 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 & Other	Total
Approved grant spending through June 30, 2017	\$ 57,224,392	\$ 18,823,404	\$ 76,047,796
Amortization	(41,836,441)	(10,678,843)	(52,515,284)
Net grants balance	\$ 15,387,951	\$ 8,144,561	\$ 23,532,512

Receivables for capital grant expenditures from the federal and state governments were \$470,590 as of June 30, 2017. The expenditures were funded by transportation bonds and operating funds.

The following table shows, as of June 30, 2017, 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, 2016	Unexpended costs
Federal grants	\$ 6,773,235	\$ 5,271,458	\$ 1,501,777
State and local sources	4,949,782	2,970,443	1,979,339
Total	\$ 11,723,017	\$ 8,241,901	\$ 3,481,116

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

Notes to Financial Statements (Continued)

June 30, 2017

3. ***CASH AND CASH EQUIVALENTS***

Cash and cash equivalents as of June 30, 2017 is classified in the accompanying financial statements as follows:

Cash and cash equivalents	\$1,161,257
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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 \$5,678 on June 30, 2017.

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 \$1,161,257, including \$5,678 of petty cash and the bank balance was \$1,137,430. Of the bank balance, \$653,899 was covered by Federal Depository Insurance, \$444,714 was covered by the Depository Insurance Fund, and the remaining balance of \$38,817 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.

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

Notes to Financial Statements (Continued)

June 30, 2017

4. **INVESTMENTS – DEFINED BENEFIT PENSION PLANS – HOURLY AND SALARIED PLANS**

a.) **HOURLY PLAN**

The Hourly Plan is a defined benefit pension plan that hold significant amounts of investments that are measured at fair value on a recurring basis. Because investing is a key part of the Plan's activities, the plan shows greater disaggregation in its disclosures. The Plan investments are presented in a tabular format for disclosing the levels within the fair value hierarchy as defined in GASB Statement No. 72.

The Hourly Plan categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The Plan has the following recurring fair value measurements as of June 30, 2016 (the measurement date):

	Measurement Date: June 30, 2016	Fair Value Measurements Using:		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by Fair Value Level:				
Debt Securities				
Principal Global Investors - Core Plus Bond Separate Act-R5	\$ 1,312,973	\$ 1,312,973	\$ -	\$ -
Principal Real Estate Inv - US Property Separate Acct-R5	1,055,615	1,055,615	-	-
Fixed Income Securities				
Short-Term Fixed Income				
Principal Global Investors - Money Market Separate Acct - R5	805	805	-	-
Other Fixed Income				
Templeton Asset Management - Templeton Gbl Bond R Fd	697,995	697,995	-	-
Loomis Sayles & Company - Loomis Sayles Strat Inc A Fund	1,434,210	1,434,210	-	-
Fidelity Management & Research - Fidelity ADV Hi Inc Advtg Fund	733,703	733,703	-	-
Equity Securities				
Large US Equity				
MFS Investment Management - MFS Value R3 Fund	2,268,614	2,268,614	-	-
Harris Associates - Oakmark II Fund	2,302,682	2,302,682	-	-
Delaware Management Company - Delaware Select Growth A fund	1,770,093	1,770,093	-	-
Small/Mid US Equity				
LA Capital Mgmt/Victory - MidCap Value I Sep Acct-R5	391,279	391,279	-	-
Principal Global Investors - MidCap Separate Acct-R5	394,802	394,802	-	-
Fidelity Management & Research - Fidelity Adv Sm Cap Val T Fund	253,900	253,900	-	-
Legg Mason Institutional Funds - ClearBridge Sm Cp Gr A Fund	264,739	264,739	-	-
International Equity				
OppenheimerFunds, Inc. - Open Developing Mkts R Fund	1,110,364	1,110,364	-	-
Harris Associates - Oakmark Int'l II Fund	1,217,736	1,217,736	-	-
OppenheimerFunds, Inc. - Oppenheimer Intl Growth R Fd	1,295,940	1,295,940	-	-
Adjustment: Assets transferred to salaried plan:	(159,760)	(159,760)	-	-
Total investments by fair value level	\$ 16,345,690	\$ 16,345,690	\$ -	\$ -
Total investments measured at fair value	\$ 16,345,690	\$ 16,345,690	\$ -	\$ -

Debt, equity and fixed income securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. The Hourly Plan had no investments categorized as Level 2 or Level 3 at June 30, 2016 (the measurement date).

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

Notes to Financial Statements (Continued)

June 30, 2017

4. INVESTMENTS – DEFINED BENEFIT PENSION PLANS – HOURLY AND SALARIED PLANS (CONTINUED)

b.) SALARIED PLAN

The Salaried Plan is a defined benefit pension plan that hold significant amounts of investments that are measured at fair value on a recurring basis. Because investing is a key part of the Plan’s activities, the plan shows greater disaggregation in its disclosures. The Plan investments are presented in a tabular format for disclosing the levels within the fair value hierarchy as defined in GASB Statement No. 72.

The Salaried Plan categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The Plan has the following recurring fair value measurements as of June 30, 2016 (the measurement date):

	<u>Fair Value Measurements Using:</u>			
	Measurement Date: June 30, 2016	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by Fair Value Level:				
Debt Securities				
None	\$ -	\$ -	\$ -	\$ -
Fixed Income Securities				
Other Fixed Income				
Templeton Asset Management - Templeton Gbl Bond R Fd	251,391	251,391	-	-
Loomis Sayles & Company - Loomis Sayles Strat Inc A Fund	516,631	516,631	-	-
Fidelity Management & Research - Fidelity ADV Hi Inc Advtg Fund	264,297	264,297	-	-
Principal Global Investors - Core Plus Bond Separate Act-R5	457,476	457,476	-	-
Principal Real Estate Inv - U.S. Property Separate Acct-R5	380,219	380,219	-	-
Equity Securities				
Large US Equity				
MFS Investment Management - MFS Value R3 Fund	817,218	817,218	-	-
Harris Associates - Oakmark II Fund	829,448	829,448	-	-
T Rowe Price/Brown Advisory - LargeCap Growth I Sep Acct-R5	666,467	666,467	-	-
Small/Mid US Equity				
Principal Global/Barrow Hanley - MidCap Value III Sep Acct-R5	137,597	137,597	-	-
Eaton Vance Management - Etn Vnc Atl Cp SMID-Cap A Fd	141,948	141,948	-	-
JP Morgan Investment Mgmt Inc. - JP Morgan Sm Cap Value A Fund	94,477	94,477	-	-
AB/CCI/Brown/Emerald - SmallCap Growth I Sep Acct-R5	95,707	95,707	-	-
International Equity				
Capital Research and Mgmt Co. - Amer Funds New World R3 Fund	402,761	402,761	-	-
Harris Associates - Oakmark Int'l II Fund	438,565	438,565	-	-
Oppenheimer Funds, Inc. - Oppenheimer Intl Growth R Fd	466,790	466,790	-	-
Adjustment: Assets transferred from hourly plan:	159,760	159,760	-	-
Total investments by fair value level	<u>\$ 6,120,752</u>	<u>\$ 6,120,752</u>	<u>\$ -</u>	<u>\$ -</u>
Total investments measured at fair value	<u>\$ 6,120,752</u>	<u>\$ 6,120,752</u>	<u>\$ -</u>	<u>\$ -</u>

The equity and fixed income securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. The Salaried Plan had no investments categorized as Level 2 or Level 3 at June 30, 2016 (the measurement date).

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

Notes to Financial Statements (Continued)

June 30, 2017

5. 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, 2017, the Authority was owed from the Commonwealth local assessments from fiscal year 2016 and 2017, as well as state capital grant funding. 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, 2017:

Date Received	Commonwealth Appropriation Account Number	Commonwealth Department Name	Appropriation Number / Payment Ref	Fiscal Year of Appropriation	Amount
7/5/2017	N/A	Treasurer	96404-12	FY17 Local Assessment	\$ 223,940
7/17/2017	RTACAP	DOT	#13	2017	125,566
7/17/2017	RTACAP	DOT	#12	2017	3,628
7/18/2017	RTACAP	DOT	#13	2017	8,734
8/14/2017	RTACAP	DOT	#14	2017	65,923
Open A/R	RTACAP	DOT	#8	2017	673
Open A/R	RTACAP	DOT	#12	2017	41,942
Open A/R	N/A	Treasurer	Misc Short Pays CF	N/A	723
Open A/R	N/A	Treasurer	Earned FY16	FY18 Local Assessment	3,000,768 *
Open A/R	N/A	Treasurer	Earned FY17	FY19 Local Assessment	3,129,871 **

Total amount due from the Commonwealth (June 30, 2017):

\$ 6,601,768

* - To be collected on the fiscal year 2018 "Cherry Sheet" for amounts earned during the fiscal year 2016

** - To be collected on the fiscal year 2019 "Cherry Sheet" for amounts earned during the fiscal year 2017

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

Notes to Financial Statements (Continued)

June 30, 2017

6. 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). The increase above 2.5% as noted below is as a result of a votes of the Authority's Advisory Board where the Board voted for expanded services to the participating communities (beginning with fiscal year 2015).

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.

Please note – the fiscal year indicated below is based on the “Cherry Sheet” year, not the year in which the local assessments were *earned*. For example, the amount budgeted for local assessments in the fiscal year 2017 budget will not be assessed on the Cherry Sheets until fiscal year 2019.

Member Communities	2016	2017	Percent Change*	2017 Member Allocation
New Bedford	\$ 861,787	\$ 1,009,095	17.1%	39.7%
Fall River	995,194	1,138,913	14.4%	44.9%
Acushnet	29,663	30,405	2.5%	1.2%
Dartmouth	90,559	127,895	41.2%	5.0%
Fairhaven	32,135	32,938	2.5%	1.3%
Freetown	1	1	100.0%	<0.04%
Mattapoissett	9,459	9,695	2.5%	0.4%
Somerset	55,330	77,655	40.3%	3.1%
Swansea	50,197	80,331	60.0%	3.2%
Westport	20,644	31,743	53.8%	1.3%
Subtotals:	<u>\$ 2,144,969</u>	<u>\$ 2,538,671</u>	<u>18.4%</u>	<u>100.0%</u>

Upcoming fiscal year (fiscal year 2017 “Cherry Sheet”):

Member Communities	2017	2018	Percent Change*	2018 Member Allocation	(earned during FY17) 2019
New Bedford	\$ 1,009,095	\$ 1,179,064	16.8%	39.3%	\$ 1,211,498
Fall River	1,138,913	1,315,746	15.5%	43.8%	1,398,241
Acushnet	30,405	31,164	2.5%	1.0%	31,944
Dartmouth	127,895	176,180	37.8%	5.9%	182,146
Fairhaven	32,938	33,762	2.5%	1.1%	34,606
Freetown	1	1	0.0%	<0.04%	1
Mattapoissett	9,695	9,938	2.5%	0.3%	10,186
Somerset	77,655	100,538	29.5%	3.4%	103,052
Swansea	80,331	111,219	38.5%	3.7%	113,999
Westport	31,743	43,156	36.0%	1.4%	44,198
Subtotals:	<u>\$ 2,538,671</u>	<u>\$ 3,000,768</u>	<u>18.2%</u>	<u>100.0%</u>	<u>\$ 3,129,871</u>

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

Notes to Financial Statements (Continued)

June 30, 2017

7. CAPITAL ASSETS AND DEPRECIATION

	July 01, 2016 Beginning Balance	Increases	Decreases	June 30, 2017 Ending Balance
Not Being Depreciated:				
Land	\$ 326,611	\$ -	\$ -	\$ 326,611
Construction in progress	153,763	841,670	-	995,433
Subtotal	480,374	841,670	-	1,322,044
Other Capital Assets:				
Building and improvements	16,469,827	259,435	-	16,729,262
Buses and equipment	27,102,837	2,134,256	3,267,824	25,969,269
Service equipment	1,711,402	162,276	-	1,873,678
Furniture and fixtures	167,742	-	-	167,742
Computer equipment	477,597	299,951	-	777,548
Planning	1,309,513	114,435	-	1,423,948
Subtotal	47,238,918	2,970,353	3,267,824	46,941,447
Accumulated Depreciation:				
Building and improvements	7,622,877	529,393	-	8,152,270
Buses and equipment	14,498,779	1,878,812	3,267,890	13,109,701
Service equipment	1,401,563	172,947	(1,045)	1,575,555
Furniture and fixtures	110,807	18,318	-	129,125
Computer equipment	285,768	73,835	-	359,603
Planning	802,341	104,118	-	906,459
Subtotal	24,722,135	2,777,423	3,266,845	24,232,713
Net other capital assets	22,516,783	192,930	979	22,708,734
Net capital assets	<u>\$ 22,997,157</u>	<u>\$ 1,034,600</u>	<u>\$ 979</u>	<u>\$ 24,030,778</u>

Depreciation expense was \$2,777,423 for the fiscal year ended June 30, 2017.

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

Notes to Financial Statements (Continued)

June 30, 2017

8. ***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, 2017, the Authority had a revenue anticipation note of \$4,000,000 outstanding with interest rate of 2.00% due to mature on August 25, 2017. Of the balance on the note, an unamortized premium of \$8,124 remains. The original premium on the note when issued was \$48,746.

The revenue anticipation notes acquired during 2017 were for the purposes of funding operating expenses. Interest expense for 2017 on revenue anticipation notes was \$73,133.

<u>Note Type</u>	<u>Interest Rates</u>	<u>Issuance Dates</u>	<u>Maturity Date</u>	<u>Beginning Balance</u>	<u>Acquisitions</u>	<u>Premium</u>	<u>Dispositions</u>	<u>Amortized Premium</u>	<u>Ending Balance</u>	<u>Interest Paid</u>
RAN	1.00%	8/28/15	8/26/16	\$ 4,001,967	\$ -	\$ -	\$ (4,000,000)	\$ (1,967)	\$ -	\$ 2,716
RAN	2.00%	8/26/16	8/25/17	-	4,000,000	48,746	-	(40,622)	4,008,124	70,417
				<u>\$ 4,001,967</u>	<u>\$ 4,000,000</u>	<u>\$ 48,746</u>	<u>\$ (4,000,000)</u>	<u>\$ (42,589)</u>	<u>\$ 4,008,124</u>	<u>\$ 73,133</u>

9. ***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 \$4,635,212 for the year ended June 30, 2017. Additionally, the Federal government funded \$977,929 of preventative maintenance costs.

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.

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10. ***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 2017 totaled \$5,766,018, an increase of \$0 over the previous year. In fiscal year 2016, SRTA received its SCA of \$5,766,016.

11. ***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, 2017, that reserve amounted to \$595,177. The Authority added \$90,023 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, 2017.

12. ***SRTA EMPLOYEE PENSION PLAN (CITY OF NEW BEDFORD CONTRIBUTORY RETIREMENT)***

Summary of Significant Accounting Policies

Pensions. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the City of New Bedford's Contributory Employees' Retirement System ("the System") and additions to/deductions from the System's fiduciary net position have been determined on the same basis as they are reported by the System. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

General Information about the Pension Plan

Plan description. The System is a contributory defined benefit plan, as established by MGL Chapter 32, covering all City of New Bedford Retirement System member unit employees deemed eligible by the retirement board, with the exception of the school department employees who serve in a teaching capacity.

The System qualifies as a *cost-sharing multiple employer plan* since pension obligations exist for employees of more than one employer and plan assets can be used to pay the benefits of the employees of any employer. Five employers currently participate in the System, the City of New Bedford, the New Bedford Housing Authority, the Greater New Bedford Regional Technical Vocational High School, the Greater New Bedford Regional Refuse Management District, and the Southeastern Regional Transit Authority. Each employer contributes into the plan annually as determined by the Public Employee Retirement Administration Commission ("PERAC"). Please see the section below entitled "Contributions" for more information.

The PERAC issues a publicly available report on the City of New Bedford Retirement System pursuant to MGL Chapter 32 Section 21 that can be obtained at www.mass.gov/perac. This report contains additional information with respect to the System.

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Notes to Financial Statements (Continued)

June 30, 2017

**12. SRTA EMPLOYEE PENSION PLAN (CITY OF NEW BEDFORD CONTRIBUTORY RETIREMENT)
(Continued)**

Benefits provided. The System provides retirement, disability, and death benefits. Retirement benefits vest after ten years of creditable service and are determined by multiplying average salary by a benefit rate related to the member's age and job classification at retirement, and the resulting product by his creditable service. The amount determined by the benefit formula cannot exceed 80% of the member's highest three year average salary (for employees hired prior to April 2, 2012) or 80% of the member's highest five year average (for employees hired on or after April 2, 2012). The benefit rate also varies with the member's retirement age and group classification (see below). Members may elect to receive their retirement allowances in one of three forms of payment (Options A, B and C) per MGL Chapter 32.

Members of the System are eligible for two types disability benefits (ordinary and accidental disability) for which allowances are determined based on the date the member entered the System along with the "group" the member belongs to. Death benefits are also available for members who die as a result of a work-related injury if the member was retired for accidental disability and the death was the natural and proximate result of the injury or hazard undergone on account of which such member was retired. Allowances for death benefits consist of immediate payments to a named beneficiary equal to the accumulated deductions at the time of death, plus a pension equal to 72% of current salary. Other allowances are also entitled to those surviving spouses of the police or fire departments.

Chapter 17 of the Acts of 1997 was adopted by the New Bedford Contributory Retirement System. The result of such adoption allows the Retirement Board to vote to pay a cost of living increase (COLA) for that year, with the percentage determined by the increase in the Consumer Price Index used for indexing Social Security benefits, but cannot exceed 3.0%.

Contributions. Member contributions vary depending on the most recent date of membership. Members who entered the system prior to 1975 contribute 5% of regular compensation. Members who entered between 1975 and 1983 contribute 7% of regular compensation. Members who entered between 1984 and June 30, 1996 contribute 8% of regular compensation. Members who entered after July 1, 1996 will contribute 9% of regular compensation. Also, members who joined after 1978 are required to make extra contributions equal to 2% of all compensation exceeding \$30,000 annually.

Under Chapter 32 Section 22F of the Massachusetts Laws, employers are required to make the necessary contributions to the trust such that the plan reaches a full funding status by 2040. Thereafter, annual contributions equal to the normal cost will keep the Plan's assets and liabilities in balance. Contributions to the pension plan from participating employers was \$30,810,829 for the fiscal year ended June 30, 2017 as determined by PERAC. Of the \$30,810,829 contributed, \$147,741 represents contributions from the Southeastern Regional Transit Authority ("the Authority"). PERAC establishes rates based on an actuarially determined rate recommended by an independent actuary. The actuarially determined rate is the estimated amount necessary to finance the costs of the benefits earned by the employees during the year, with an additional amount to finance any unfunded accrued liability.

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

The System's net pension liability was measured as of December 31, 2016 (i.e. the "measurement date" as defined by GASB Statement No. 68), and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2016. Update procedures were used to roll forward the total pension liability to the measurement date.

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Notes to Financial Statements (Continued)

June 30, 2017

**12. SRTA EMPLOYEE PENSION PLAN (CITY OF NEW BEDFORD CONTRIBUTORY RETIREMENT)
(Continued)**

At June 30, 2017 (i.e. the “reporting date” as defined by GASB Statement No. 68), the System reported a net pension liability of \$337,763,059 while the Authority reported a liability of \$1,619,608 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2016. The Authority’s proportion of the net pension liability was based on a projection of the Authority’s long-term share of contributions to the pension plan relative to the projected contributions of the participating employers, actuarially determined. The following chart illustrates each employers proportionate share used at the measurement date:

<u>Employer</u>	<u>Fiscal Year 2017 Actual Employer Contributions</u>	<u>Employer Allocation Percentage</u>
City of New Bedford	\$ 26,724,377	86.7370%
New Bedford Housing Authority	2,084,443	6.7653%
Greater NB Regional Voc. Tech HS	1,579,893	5.1277%
Greater NB Regional Refuse Mgmt. District	274,375	0.8905%
Southeastern Regional Transit Authority	147,741	0.4795%
	\$ 30,810,829	100.0000%

At December 31, 2016, the Authority’s proportion was 0.4795 percent, which was different from its proportion measured as of December 31, 2015, when it was 0.4954 percent. Under GASB Statement No. 68, that change in proportion is noted in deferred outflows / inflows (below).

For the year ended June 30, 2017, the Authority recognized pension expense of \$214,866. At June 30, 2017, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 26,024	\$ -
Changes of assumptions	-	54,714
Net difference between projected and actual earnings on pension plan investments	81,773	8,809
Changes in proportion and differences between employer contributions and proportionate share of contributor	5,180	5,182
	\$ 112,977	\$ 68,705

\$0 was reported as deferred outflows of resources related to pensions resulting from Authority contributions subsequent to the measurement date of December 31, 2016. There were no employer contributions after December of 2015. Had employer contributions been made subsequent to the December 31, 2016 measurement date, it would have been recognized as a deferred outflow of resources in the year ended June 30, 2017 (per GASB Statement No. 71).

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Notes to Financial Statements (Continued)

June 30, 2017

**12. SRTA EMPLOYEE PENSION PLAN (CITY OF NEW BEDFORD CONTRIBUTORY RETIREMENT)
(Continued)**

Actuarial assumptions. The total pension liability in the January 1, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement (not a list of all assumptions):

Inflation	3.00 percent
Salary increases	3.00 percent
Investment rate of return	7.75 percent

Mortality rates for both pre-retirement and post retirement for males and females, were based on the RP-2000 mortality tables. Mortality for disabled members is also represented by the RP-2000 Mortality Tables. For further details on the assumptions used, please refer to the January 1, 2016 actuarial valuation.

The actuarial assumptions used in the January 1, 2016 valuation were prepared using generally accepted actuarial principles and practices and meet the parameters set by GASB Statement No. 68. The assumptions used represent the best estimate of anticipated experience of the system.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Expected Rate of Return (Average)</u>	<u>Expected Rate of Return (Compound)</u>
Domestic Equities	30.0%	8.8%	7.2%
International Equities	10.0%	9.5%	7.5%
Emerging Markets Equities	10.0%	11.9%	9.4%
Private Equity	10.0%	13.5%	10.9%
Fixed Income	15.0%	3.8%	3.6%
Real Estate	10.0%	6.6%	5.9%
Alternatives (GTAA)	12.0%	5.8%	5.6%
Alternatives (Timber)	3.0%	7.9%	7.4%
Cash	0.0%	3.2%	3.1%
Total	100%		

Discount rate. The discount rate used to measure the total pension liability was 7.75 percent (as selected by the Retirement Board; this discount rate approximates the long-term expectation of investment returns). The discount rate was selected based on a projection of employer and employee contributions benefit payments, expenses and the long-term expected rate of return on trust assets. Under Chapter 32 of the Massachusetts Laws, employers are required to make the necessary contributions to the trust such that the plan reaches a fully funded status by 2040. In addition, Chapter 32 also gives the Retirement Board the right to go directly to the Assessors of the community and add an additional property tax to bills for amounts not paid by employer. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Authority's proportionate share of the net pension liability to changes in the discount rate. The following presents the Authority's proportionate share of the net pension liability calculated using the discount rate of 7.75 percent, as well as what the Authority's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75 percent) or 1-percentage-point higher (8.75 percent) than the current rate:

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Notes to Financial Statements (Continued)

June 30, 2017

**12. SRTA EMPLOYEE PENSION PLAN (CITY OF NEW BEDFORD CONTRIBUTORY RETIREMENT)
(Continued)**

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Authority's proportionate share of the net pension liability	\$ 1,993,265	\$ 1,619,608	\$ 1,351,653

Pension plan fiduciary net position. Detailed information about the System's fiduciary net position is available in the separately issued "PERAC Audit Report" of the New Bedford Contributory Retirement System for the period of January 1, 2011 to December 31, 2013 (most current).

Payables to the pension plan

At June 30, 2017, the Authority did not report any amounts payable to the System for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2017. The Authority paid-in 100% of its required appropriation.

13. DEFINED BENEFIT PENSION PLANS (HOURLY AND SALARIED)

a.) HOURLY PLAN

Summary of Significant Accounting Policies

Pensions. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Pension Plan of the Southeastern Regional Transit Authority and South Coast Transit Management Inc. for Employees Covered by Collective Bargaining ("the Hourly Plan") and additions to/deductions from the Hourly Plan's fiduciary net position have been determined on the same basis as they are reported by the Hourly Plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

General Information about the Pension Plan

Plan description. The Hourly Plan's defined benefit pension plan provides pensions for all employees covered by the collective bargaining agreement between the Union and the Operating Company. The Hourly Plan is a *single-employer defined benefit pension plan* administered by the Southeast Regional Transit Authority and South Coast Transit Management. The Authority has agreed under terms of the operating agreement, to provide retirement benefits to the employees of the Operator and to continue playing benefits to those retired employees who were eligible to collect benefits. The Hourly Plan's provisions were last approved on April 1, 2014. There were no nonemployer contributing entities or special funding situations, as defined by GASB 68, for this plan.

Benefits provided. The Hourly Plan provides retirement, termination, disability, and death benefits. Retirement benefits for general employees are calculated as 1.5 percent of the employee's average compensation times the employee's years of service. Employees with 5 years of continuous service are eligible to retire at age 62. Termination benefits are 100% vested after 5 years of vesting service and are the same as normal retirement benefits with income deferred until Normal Retirement Date. Termination benefits equal the accrued benefit on the date of termination multiplied by the vesting percentage. All employees are eligible for disability benefits after 10 years of service with monthly income payable until normal retirement, death, or recovery and a deferred annuity payable at the Normal Retirement Date. Death benefits equal a monthly annuity payable to spouse, deferred to participant's earliest retirement date if later than the date of death. The amount paid for death benefits equal the amount that would have been paid had the participant terminated employment on the date of death and survived to his/her earliest retirement age, retired with a qualified joint and 50% survivor annuity in effect, then died the next day.

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Notes to Financial Statements (Continued)

June 30, 2017

13. **DEFINED BENEFIT PENSION PLANS (HOURLY AND SALARIED) (Continued)**

There have been no changes in plan provisions during the measurement period (July 1, 2015 to June 30, 2016) or between the measurement date and the fiscal year end (June 30, 2017).

Employees covered by benefit terms. At June 30, 2017, the following employees were covered by the benefit terms:

Active plan members	112
Inactive plan members entitled to but not yet receiving benefits	23
Disabled plan members entitled to benefits	1
Retired plan members or beneficiaries currently receiving benefits	110
Subtotal	246

Contributions. The basis for determining contributions is an actuarially determined contribution rate that is calculated each year in the plan's actuarial valuation report. The actuarially determined contribution rate is the estimated amount necessary to finance the costs of benefits earned by plan members during the year, with additional amounts to finance any unfunded accrued liability and plan administrative expenses. The actuarially determined contribution for the measurement period ending June 30, 2016 is \$790,070 for employer contributions. The actuarially determined contribution for the upcoming measurement period ending June 30, 2017 is \$886,040. Currently, there is no written funding policy. It is assumed that the past contribution pattern will continue.

Net Pension Liability

The Hourly Plan's net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

Actuarial assumptions. The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement (not a complete list of all assumptions used):

Inflation	2.25 percent (long-term)
Salary increases	4.50 percent
Investment rate of return	7.00 percent
Discount rate	6.07 percent

Mortality rates were based on the 2016 IRS Prescribed Mortality – Optional Combined Table for Small Plans, male and female, both during and before the benefit payment period.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period July 1, 2015–June 30, 2016.

The expected long-term return on plan assets assumption was developed as a weighted average rate based on the target allocation of the plan and the Long-Term Capital Market Assumptions (CMA) 2014. The key fundamental economic inputs for these models are future inflation, economic growth, and interest rate environment. Due to the long-term nature of the pension obligations, the investment horizon for the CMA 2014 is 20-30 years.

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

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June 30, 2017

13. **DEFINED BENEFIT PENSION PLANS (HOURLY AND SALARIED) (Continued)**

<u>Asset Class</u>	<u>Expected Arithmetic Return</u>	<u>Expected Geometric Return</u>	<u>Target Allocation</u>
US Equity - Large Cap	8.80%	7.45%	37.06%
US Equity - Mid Cap	9.10%	7.45%	4.61%
US Equity - Small Cap	9.55%	7.45%	3.07%
Non-US Equity	9.20%	7.45%	22.33%
Real Estate (direct property)	6.30%	5.95%	6.53%
Cash	1.80%	1.80%	0.31%
TIPS	4.10%	3.90%	1.41%
Core Bond	4.25%	4.15%	20.36%
High Yield	6.30%	5.90%	4.30%
Total			<u>100%</u>

Discount rate. The discount rate used to determine the total pension liability was 6.07%. The discount rate used for the prior measurement date was 7.00%.

The plan's fiduciary net position and benefit payments were projected to determine if the plan's fiduciary net position was greater than or equal to the expected benefit payments for each period from 2016 to 2110. The fiduciary net position was only projected to be greater than or equal to the expected benefit payments for each period from 2016 to 2053. After that year, benefit payments are projected to exceed the plan's fiduciary net position from 2054 to 2110. Benefit payments after 2110 are projected to be \$0.00.

The long-term rate of return of 7.00% is used to calculate the actuarial present value of projected payments for each future period when the projected fiduciary net position is greater than the projected benefit payments. Otherwise, a municipal bond rate of 3.58% is used. The municipal bond rate is from Barclays Municipal GO Long Term (17+ Y) Index, which includes 20-year, tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher securities, as of the measurement date.

The discount rate of 6.07% is the single rate that incorporates the long-term rate of return and municipal bond rate assumptions as described above.

Changes in the Net Pension Liability

	<u>Increase (Decrease)</u>		
	<u>Total Pension Liability</u>	<u>Plan Fiduciary Net Position</u>	<u>Net Pension Liability</u>
	<u>(a)</u>	<u>(b)</u>	<u>(a) - (b)</u>
Balances at the beginning of the period	\$ 20,151,495	\$ 17,711,449	\$ 2,440,046
Changes for the year:			
Service cost	499,413	-	499,413
Interest	1,405,327	-	1,405,327
Differences between expected and actual experience	(110,703)	-	(110,703)
Changes in assumptions	2,125,310		2,125,310
Contributions - employer	-	783,617	(783,617)
Net investment income	-	(848,314)	848,314
Benefit payments, including refunds of employee contributions	(1,114,642)	(1,114,642)	-
Administrative expense	-	(26,662)	26,662
Assets transferred to the salaried plan	-	(159,760)	159,760
Other changes	-	-	-
Net changes	<u>2,804,705</u>	<u>(1,365,761)</u>	<u>4,170,466</u>
Balances at the end of the period	<u>\$ 22,956,200</u>	<u>\$ 16,345,688</u>	<u>\$ 6,610,512</u>

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Notes to Financial Statements (Continued)

June 30, 2017

13. **DEFINED BENEFIT PENSION PLANS (HOURLY AND SALARIED) (Continued)**

Sensitivity of the net pension liability to changes in the discount rate. The following presents the net pension liability of the Hourly Plan, calculated using the discount rate of 6.07 percent, as well as what the Hourly Plan's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.07 percent) or 1 percentage point higher (7.07 percent) than the current rate:

	1% Decrease (5.07%)	Current Discount Rate (6.07%)	1% Increase (7.07%)
Hourly Plan Net Pension Liability	\$ 9,232,641	\$ 6,610,512	\$ 4,378,505

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

For the year ended June 30, 2017, the Hourly Plan recognized pension expense of \$1,537,236. At June 30, 2017, the Plan reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 52,105	\$ 94,628
Changes of assumptions	1,752,203	-
Net difference between projected and actual earnings on pension plan investments	2,370,911	648,480
	\$ 4,175,219	\$ 743,108

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

Year ended June 30:	
2018	\$ 827,328
2019	812,956
2020	1,096,256
2021	695,571
2022	-
Thereafter	-
Subtotal - all years	\$ 3,432,111

Payable to the Pension Plan

At June 30, 2017, the Hourly Plan did not report any payables for outstanding amounts of contributions to the pension plan required for the year ended June 30, 2017.

SOUTHEASTERN REGIONAL TRANSIT AUTHORITY
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Notes to Financial Statements (Continued)

June 30, 2017

13. **DEFINED BENEFIT PENSION PLANS (HOURLY AND SALARIED) (Continued)**

b.) SALARIED PLAN

Summary of Significant Accounting Policies

Pensions. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Salaried Employees' Pension Plan of the Southeastern Regional Transit Authority and South Coast Transit Management, Inc. ("the Salaried Plan"). Additions to/deductions from the Salaried Plan's fiduciary net position have been determined on the same basis as they are reported by the Salaried Plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

General Information about the Pension Plan

Plan description. The Salaried Employees' Pension Plan is a *single-employer defined benefit pension plan* administered by the Southeast Regional Transit Authority and South Coast Transit Management. The Salaried Plan's provisions were last amended on January 28, 2016. There were no nonemployer contributing entities or special funding situations, as defined by GASB 68, for this plan.

Benefits provided. The Hourly Plan provides retirement, termination, disability, and death benefits. Retirement benefits for general employees are calculated as 2.15 percent of the employee's average compensation times the employee's years of service, with maximum service of 40 years. Employees with 10 years of service are eligible to retire at age 60. Termination benefits are 100% vested after 5 years of vesting service and are the same as normal retirement benefits with income deferred until Normal Retirement Date. Termination benefits equal the accrued benefit on the date of termination multiplied by the vesting percentage. Totally and permanently disabled employees are eligible for disability benefits at attained age 55 after 10 years of service with monthly income payable until normal retirement reduced by 2% for a participant that does not qualify for social security disability for each year that the early retirement date precedes the normal retirement date with a max reduction of 20%. Death benefits equal a monthly annuity payable to spouse, deferred to participant's earliest retirement date if later than the date of death. The amount paid for death benefits equal the amount that would have been paid had the participant terminated employment on the date of death and survived to his/her earliest retirement age, retired with a qualified joint and 50% survivor annuity in effect, then died the next day.

There have been changes in plan provisions during the measurement period (July 1, 2015 to June 30, 2016) however, no changes in plan provisions were made between the measurement date and the fiscal year end (June 30, 2017).

Employees covered by benefit terms. At June 30, 2017, the following employees were covered by the benefit terms:

Active plan members	25
Inactive plan members entitled to but not yet receiving benefits	14
Retired plan members or beneficiaries currently receiving benefits	20
Subtotal	59

Contributions. The basis for determining contributions is an actuarially determined contribution rate that is calculated each year in the plan's actuarial valuation report. The actuarially determined contribution rate is the estimated amount necessary to finance the costs of benefits earned by plan members during the year, with additional amounts to finance any unfunded accrued liability and plan administrative expenses. The actuarially determined contribution for the measurement period ending June 30, 2016 is \$243,602 for employer contributions. The actuarially determined contribution for the upcoming measurement period ending June 30, 2017 is \$363,075. Currently, there is no written funding policy. It is assumed that the past contribution pattern will continue.

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June 30, 2017

13. **DEFINED BENEFIT PENSION PLANS (HOURLY AND SALARIED) (Continued)**

Net Pension Liability

The Salaried Plan's net pension liability was measured as of June 30, 2016 (for the employers' fiscal year ended June 30, 2017), and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

Actuarial assumptions. The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.25 percent (long-term)
Salary increases	4.00 percent
Investment rate of return	7.00 percent
Discount rate	7.00 percent

Mortality rates were based on the 2016 IRS Prescribed Mortality – Static Annuitant, male and female, during the benefit payment period and before the benefit period the 2016 IRS Prescribed Mortality – Non-Static Annuitant, male and female table was used.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period July 1, 2015–June 30, 2016.

The expected long-term return on plan assets assumption was developed as a weighted average rate based on the target allocation of the plan and the Long-Term Capital Market Assumptions (CMA) 2014. The key fundamental economic inputs for these models are future inflation, economic growth, and interest rate environment. Due to the long-term nature of the pension obligations, the investment horizon for the CMA 2014 is 20-30 years.

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Expected Arithmetic Return</u>	<u>Expected Geometric Return</u>	<u>Target Allocation</u>
US Equity - Large Cap	8.80%	7.45%	37.25%
US Equity - Mid Cap	9.10%	7.45%	4.60%
US Equity - Small Cap	9.55%	7.45%	3.05%
Non-US Equity	9.20%	7.45%	22.35%
Real Estate (direct property)	6.30%	5.95%	6.49%
Cash	1.80%	1.80%	0.31%
TIPS	4.10%	3.90%	1.41%
Core Bond	4.25%	4.15%	20.25%
High Yield	6.30%	5.90%	4.28%
Total			<u>100%</u>

Discount rate. The discount rate used to determine the total pension liability was 7.00%. The discount rate used for the prior measurement date was 7.00%.

The plan's fiduciary net position and benefit payments were projected to determine if the plan's fiduciary net position was greater than or equal to the expected benefit payments for each period from 2015 to 2110. Benefit payments after 2110 are projected to be \$0.00.

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Notes to Financial Statements (Continued)

June 30, 2017

13. **DEFINED BENEFIT PENSION PLANS (HOURLY AND SALARIED) (Continued)**

The long-term rate of return of 7.00% is used to calculate the actuarial present value of projected payments for each future period when the projected fiduciary net position is greater than the projected benefit payments. Otherwise, a municipal bond rate of 3.58% is used. The municipal bond rate is from Barclays Municipal GO Long Term (17+ Y) Index, which includes 20-year, tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher securities, as of the measurement date.

The discount rate of 7.00% is the single rate that incorporates the long-term rate of return and municipal bond rate assumptions as described above.

Changes in the Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a) - (b)
Balances at the beginning of the period	\$ 6,948,772	\$ 6,341,843	\$ 606,929
Changes for the year:			
Service cost	144,110	-	144,110
Interest	484,292	-	484,292
Differences between expected and actual experience	156,886	-	156,886
Changes in assumptions	13,315	-	13,315
Contributions - employer	-	237,824	(237,824)
Net investment income	-	(209,692)	209,692
Benefit payments, including refunds of employee contributions	(365,720)	(365,720)	-
Administrative expense	-	(43,263)	43,263
Assets transferred from the hourly plan	-	159,760	(159,760)
Other changes	-	-	-
Net changes	<u>432,883</u>	<u>(221,091)</u>	<u>653,974</u>
Balances at the end of the period	<u>\$ 7,381,655</u>	<u>\$ 6,120,752</u>	<u>\$ 1,260,903</u>

Sensitivity of the net pension liability to changes in the discount rate. The following presents the net pension liability of the Salaried Plan, calculated using the discount rate of 7.00 percent, as well as what the Salaried Plan's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.00 percent) or 1 percentage point higher (8.00 percent) than the current rate:

	1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
Salaried Plan Net Pension Liability	\$ 2,090,534	\$ 1,260,903	\$ 557,280

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

For the year ended June 30, 2017, the Salaried Plan recognized pension expense of \$322,529. At June 30, 2017, the Plan reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

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Notes to Financial Statements (Continued)

June 30, 2017

13. **DEFINED BENEFIT PENSION PLANS (HOURLY AND SALARIED) (Continued)**

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 124,472	\$ 204,395
Changes of assumptions	17,115	25,990
Net difference between projected and actual earnings on pension plan investments	760,069	177,384
	\$ 901,656	\$ 407,769

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

Year ended June 30:	
2018	\$ 88,081
2019	88,079
2020	176,773
2021	140,954
2022	-
Thereafter	-
Subtotal - all years	\$ 493,887

Payable to the Pension Plan

At June 30, 2017, the Salaried Plan did not report any payables for outstanding amounts of contributions to the pension plan required for the year ended June 30, 2017.

14. **OTHER POST EMPLOYMENT BENEFITS**

Plan Description

In addition to the pension benefits described above, the Authority provides health, life and dental insurance benefits to actives, retirees, their dependents and beneficiaries in accordance with Chapter 32B of Massachusetts General Laws under various contributory plans. Specific benefit provisions and contribution rates are established by collective-bargaining agreements, state laws, and the Authority. All benefits are provided through third-party insurance carriers and health maintenance organizations that administer, assume, and pay all claims for specific plans. The Plan does not issue a standalone financial report since there are no assets legally segregated for the sole purpose of paying benefits under the Plan.

The GASB Standards for accounting and financial reporting for postemployment benefits other than pensions requires the following disclosures in the financial statements with regard to the retiree medical and life insurance benefits;

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Notes to Financial Statements (Continued)

June 30, 2017

14. **OTHER POST EMPLOYMENT BENEFITS (Continued)**

1. A Description of the Retiree Medical Insurance Program

- a.) *Plan Type:* Comprehensive Medical & Medicare Supplement coverages through Blue Cross of Massachusetts and Harvard Pilgrim
- b.) *Administrator:* Southeastern Regional Transit Authority
- c.) *Eligibility:* An employee hired before April 2, 2012 shall become eligible to retire under this plan upon attainment of age 55 as an active member and completion of 10 years of service or an employee shall be able to retire with 20 years of service regardless of age. Those hired on or after April 2, 2012 shall be eligible to retire upon attainment of age 60 with 10 years of credible service
- d.) *Cost Sharing:* Retirees shall pay 25% of premiums in retirement.

2. A Description of the Dental Insurance Program:

- a.) *Plan Type:* Comprehensive Dental Coverage through Delta Dental
- b.) *Administrator:* Southeastern Regional Transit Authority
- c.) *Eligibility:* Same as above
- d.) *Cost Sharing:* Employees will pay 0% of premiums in retirement.

3. A Description of the Life Insurance Program:

- a.) *Plan Type:* Group Term Life Insurance - \$5,000
- b.) *Administrator:* Southeastern Regional Transit Authority
- c.) *Eligibility:* Same as above
- d.) *Cost Sharing:* Retirees will pay 25% of premiums in retirement.

4. Retiree Medical, Dental and Life Insurance Contributions

<u>GROUP</u>	<u>INDIVIDUAL</u>	<u>FAMILY</u>
Medical	25%	25%
Dental	0%	0%
Life	25%	N/A

Funding Policy

The contribution requirements of Plan members and the Authority are established and may be amended by the Authority ordinances. The required contribution is paid on the projected “pay-as-you-go” financing requirements. For the 2017 fiscal year, total Authority premiums plus implicit costs for the retiree medical are \$3,609. The Authority is also projected to make a contribution to an OPEB Trust of \$0 for the 2017 fiscal year for a total contribution of \$3,609.

Number of Eligible Participants

The number of participants as of July 1, 2015 (most recent actuarial valuation) was as follows:

Active employees	6
Retirees and beneficiaries	<u>0</u>
	<u><u>6</u></u>

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Notes to Financial Statements (Continued)

June 30, 2017

14. ***OTHER POST EMPLOYMENT BENEFITS (Continued)***

Annual OPEB and Net OPEB Obligation

The Authority's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an actuarially determined amount that is calculated in accordance with the parameters set forth in GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty (30) years. The following table shows the components of the Authority's annual OPEB costs for the fiscal year, the amount actually contributed to the Plan and changes in Authority's net OPEB obligations to the Plan:

Annual required contribution	\$	56,362
Interest on net OPEB obligation		2,051
Adjustment to annual required contribution		(2,851)
Amortization of actuarial (gains)/losses		2,851
Annual OPEB cost (expense)		58,413
Contributions made to pay benefits		3,609
Contributions made to OPEB Trust		-
Total contributions		3,609
Increase (decrease) in net OPEB obligation (NOO)		54,804
Net OPEB Obligation (NOO) - beginning of year	\$	51,282
Net OPEB Obligation (NOO) - end of year	\$	106,086

The projection of benefits is based on the types of benefits provided under the substantive plan at the time of each valuation and on the pattern of sharing of benefit costs between the employer and plan members to that point. The projections of benefits for financial reporting purposes do not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future.

The actuarial calculations reflect a long-term perspective, actuarial method and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

Trend information regarding annual OPEB cost, the percentage of the annual OPEB cost contributed and the net OPEB obligation is as follows:

Fiscal Year	Annual	Percentage	Net
Ending	OPEB Costs	of AOPEBC	OPEB
	(AOPEBC)	Contributed	Obligation
6/30/2017	\$ 58,413	6.18%	\$ 106,086
6/30/2016	53,741	4.60%	51,282

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June 30, 2017

14. **OTHER POST EMPLOYMENT BENEFITS (Continued)**

Funded Status and Funding Progress

As of July 1, 2015, the most recent valuation date, the Plan was 0% funded. The actuarial liability for benefits was \$323,216, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$323,216. The covered payroll (annual payroll of active employees covered by the plan) was \$432,229 and the ratio of UAAL to the covered payroll was 74.8%.

The Authority's annual OPEB cost, the percentage of the annual OPEB cost contributed to the plan, and the net OPEB obligation for the 2017 fiscal year and the three preceding years were as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Expected Employer Payments</u>	<u>% of OPEB Cost Contributed</u>	<u>Increase in OPEB Obligation</u>	<u>Net OPEB Obligation</u>
6/30/18 (est)	\$ 63,285	\$ 5,099	8.1%	\$ 58,186	\$ 164,272
6/30/2017	58,413	3,609	6.2%	54,804	106,086
6/30/2016	53,741	2,459	4.6%	51,282	51,282
6/30/2015	-	-	0.0%	-	-

Effect of 1% Change in Healthcare Trend Rates

In the event that healthcare trend rates were 1% higher than forecast and employee contributions were to increase at the forecast rates, the actuarial accrued liability would increase to \$425,029 or by 31.5% and the corresponding Normal Cost would increase to \$60,104 or by 46.3%. If such healthcare trend rates were 1% less than forecast and employee contributions were to increase at the forecast rate, the actuarial accrued liability would decrease to \$246,937 or by 23.6% and the corresponding normal cost would decrease to \$27,936 or by 32.0%.

Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan member) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The significant methods and assumptions as of the latest actuarial valuation are as follows:

Valuation date:	July 1, 2015
Actuarial cost method:	Entry Age Normal
Actuarial value of assets:	Market value
Amortization period:	Level dollar amortization over 30 years at the last valuation
Remaining amortization period:	30 years as of July 1, 2015
Interest discount rate	4.0% per annum
Participation:	80% of future retirees are assumed to participate in the retiree medical and dental plan. 80% of future retirees are expected to elect life insurance.
Healthcare trend rates	Medical: 6.0% (FY13) to 5.0% (FY20 and beyond) Dental: 5.5% (FY13) to 5.0% (FY20 and beyond)

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Notes to Financial Statements (Continued)

June 30, 2017

14. ***OTHER POST EMPLOYMENT BENEFITS (Continued)***

Remaining Amortization Bases

The initial Actuarial Accrued Liability as of the date GASB 45 was adopted is amortized as a component of the Annual Required Contribution ("ARC"). The Unfunded Actuarial Accrued Liability at transition was amortized over a 30 year period and a flat dollar amortization of the Unfunded Actuarial Accrued Liability at transition. For years subsequent to the initial adoption of GASB 45, cumulative gains/losses are amortized on a level dollar basis over a 30 year period. Gains and losses arise from experience and contribution deficiencies and excess contribution in relation to each year's ARC under GASB 45.

Amortization of Initial Unfunded and Plan Experience under GASB 45

<u>Date Established</u>	<u>Description</u>	<u>Initial Amount</u>	<u>Initial Amortization Period</u>	<u>Remaining Balance at Valuation Date</u>	<u>Remaining Amortization Period</u>	<u>Annual Amortization Payment</u>
July 1, 2015	GASB 45 Liability	\$ 274,783	30	\$ 274,783	30	\$ 15,279
July 1, 2015	Cumulative (Gain)/Loss	-	30	-	30	-
July 1, 2015	Adjustment to ARC	-	30	-	30	-

Recognition of OPEB Trust Assets

The State of Massachusetts has recently passed legislation allowing municipal entities to establish a trust Other Than Postemployment Benefits ("OPEB") under M.G.L. Chapter 32B, Section 20 for purposes of accumulating assets to prefund the liabilities under GASB 45. The Southeastern Regional Transit Authority voted to establish an irrevocable trust at the Advisory Board meeting on May 26, 2016 for the purposes of prefunding liabilities under GASB 45 as of June 30, 2017. That trust fund currently has a balance of \$0 at June 30, 2017.

Impact of Patient Protection and Affordable Care Act ("PPACA") Excise Tax

Under the Patient Protection and Affordable Care Act ("PPACA"), an excise tax will be imposed for tax years beginning after December 31, 2017 for high cost employer sponsored health coverage. The law specifies a 40% excise tax to be paid by the provider of such coverage of the excess value beyond a basic dollar amount plus an additional "kicker" for qualified retirees or those engaged in a high risk profession. The basic dollar amount for 2018 is \$10,200 for single coverage and \$27,500 for family coverage and the "kicker" amount for 2018 is \$1,650 for single coverage and \$3,450 for family coverage.

The excise tax liability will vary significantly over time as it is highly leveraged with the basic amount increased with general CPI and medical costs increasing with medical trend (generally higher). As more regulatory guidance becomes available, the calculation of the excise tax liability will evolve.

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Notes to Financial Statements (Continued)

June 30, 2017

14. ***OTHER POST EMPLOYMENT BENEFITS (Continued)***

Impact of Section 9A1/2 of M.G.L. Chapter 32B

For employees who retire on or after January 1, 2011 whenever a retired employee or beneficiary receives a healthcare premium contribution from a governmental unit in a case where a portion of the retiree's creditable service is attributable to service in one or more other governmental units, the first governmental unit shall be reimbursed in full, in accordance with this paragraph, by the other governmental units for the portion of the premium contributions that corresponds to the percentage of the retiree's creditable service that is attributable to each governmental unit. The other governmental units shall be charged based on their own contribution rate or the contribution rate of the first employer, whichever is lower.

For purposes of the valuation, our actuaries have not attempted to value the impact of prior governmental service at other entities in the State of Massachusetts for current employees of the Southeastern Regional Transit Authority nor have we attempted to value the impact of prior Southeastern Regional Transit Authority employees currently working at other governmental entities in the State of Massachusetts.

15. ***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.

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Notes to Financial Statements (Continued)

June 30, 2017

16. ***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, 2017.

17. ***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.

18. ***COMMITMENTS***

On May 30, 2012 the Southeastern Regional Transit Authority signed an agreement with Goodyear Tire & Rubber Company through May 31, 2017. A new agreement was signed for the period of June 1, 2017 through July 31, 2022. 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.

19. ***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.

20. ***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.

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Notes to Financial Statements (Continued)

June 30, 2017

21. ***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, 2017, and through September 25, 2017, the date on which the financial statements were available to be issued.

On August 1, 2017, the Massachusetts Department of Transportation signed the 2018 fiscal year's contract assistance in the amount of \$5,625,381 of which half the amount (\$2,812,691) was received by the Authority on August 9, 2017.

The Authority issued a Revenue Anticipation Note (RAN) dated August 25, 2017 in the amount of \$4,250,000, with an interest rate of 1.50%. The due date of the RAN is August 24, 2018 and is to be used to fund operating expenses.

22. ***FUTURE IMPLEMENTATION OF GASB PRONOUNCEMENTS***

The GASB has issued the following statements:

- GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which is required to be implemented during fiscal year 2018. Management is currently evaluating the potential impact that the implementation of this Statement will have on the basic financial statements.
- GASB Statement No. 81, *Irrevocable Split-Interest Agreements*, which is required to be implemented during fiscal year 2018. Management does not believe the implementation of this Statement will materially impact the basic financial statements.
- GASB Statement No. 83, *Certain Asset Retirement Obligations*, which is required to be implemented during fiscal year 2019. Management does not believe the implementation of this Statement will materially impact the basic financial statements.
- GASB Statement No. 84, *Fiduciary Activities*, which is required to be implemented during fiscal year 2020. Management is currently evaluating the potential impact that the implementation of this Statement will have on the basic financial statements.
- GASB Statement No. 85, *Omnibus 2017*, which is required to be implemented during fiscal year 2018. Management is currently evaluating the potential impact that the implementation of this Statement will have on the basic financial statements.
- GASB Statement No. 86, *Certain Debt Extinguishment Issues*, which is required to be implemented during fiscal year 2018. Management does not believe the implementation of this Statement will materially impact the basic financial statements.
- GASB Statement No. 87, *Leases*, which is required to be implemented during fiscal year 2021. Management will evaluate the potential impact that the implementation of this Statement will have on the basic financial statements at some point in the future.

These pronouncements will be implemented by their respective implementation dates.

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Notes to Financial Statements (Continued)

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23. **810 CMR 53.03(2) DISCLOSURE**

The Administrator (CEO), date of hire November 30, 2011, compensation for fiscal year 2017 was \$105,991. The CEO receives a family health insurance plan and contributes 25% of the cost of the premium.

The Deputy Administrator & CFO, date of hire October 5, 2011, compensation for fiscal year 2017 was \$93,295. The Deputy Administrator & CFO was paid \$1,794 for one week of unused vacation time buyback as per the Authority's personnel policies. The Deputy Administrator & 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.

23. **RESTATEMENT NOTE**

During the current fiscal year, it was necessary to restate beginning fund balance:

Net position, beginning of year	\$ 19,886,442
To restate beginning net position to correct local assessment receivables earned but not yet paid on the full-accrual basis of accounting	<u>2,144,978</u>
Net position, beginning of year, restated	<u><u>\$ 22,031,420</u></u>

SOUTHEASTERN REGIONAL TRANSIT AUTHORITY
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Required Supplementary Information

Schedule of the Authority's Proportionate Share of the Net Pension Liability –
New Bedford Contributory Retirement

Last 10 Fiscal Years*

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Authority's proportion of the net pension liability (asset)	0.4795%	0.4954%	0.4300%
Authority's proportionate share of the net pension liability (asset)	\$ 1,619,608	\$ 1,652,859	\$ 1,435,210
Authority's covered employee payroll	\$ 466,665	\$ 425,766	\$ 394,711
Authority's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	347.06%	388.21%	363.61%
Plan fiduciary net position as a percentage of the total pension liability	46.29%	44.37%	46.00%

* - Per paragraph 138 of GASB Statement No. 68, the Authority is not required to retrospectively present its' 10-year RSI schedules, as this information was not available at transition and historical information was not measured in accordance with the parameters of GASB Statement No. 68.

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Required Supplementary Information

Schedule of Employer Contributions –
New Bedford Contributory Retirement

Last 10 Fiscal Years*

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Authority's contractually required contribution	\$ 147,741	\$ 147,741	\$ 121,415
Authority's contributions in relation to the contractually required contribution	<u>\$ 147,741</u>	<u>\$ 147,741</u>	<u>\$ 121,415</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Authority's covered-employee payroll	\$ 466,665	\$ 425,766	\$ 394,711
Contributions as a percentage of covered-employee payroll	31.66%	34.70%	30.76%

Notes to Schedule

Valuation Date:

The January 1, 2016 actuarial valuation were used, in accordance with the parameters of GASB Statement No. 68, to December 31, 2016, the measurement date.

Methods and assumptions used to determine contribution rates:

Contribution rates are recommended by the System's independent actuary and are approved by PERAC in order to comply with the applicable funding statute (MGL Chapter 32 Section 22F)

* - Per paragraph 138 of GASB Statement No. 68, the Authority is not required to retrospectively present its' 10-year RSI schedules, as this information was not available at transition and historical information was not measured in accordance with the parameters of GASB Statement No. 68.

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Required Supplementary Information

Schedule of Changes in the Net Pension Liability and Related Ratios – Hourly Plan

Last 10 Fiscal Years*

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Total pension liability			
Service cost	\$ 499,413	\$ 478,461	\$ 428,907
Interest	1,405,327	1,342,457	1,274,483
Differences between expected and actual experience	(110,703)	(14,150)	147,415
Changes in assumptions	2,125,310	129,136	37,856
Benefit payments, including refunds of employee contributions	<u>(1,114,642)</u>	<u>(1,040,049)</u>	<u>(852,624)</u>
Net change in total pension liability	2,804,705	895,855	1,036,037
Total pension liability - beginning	<u>\$ 20,151,495</u>	<u>19,255,640</u>	<u>18,219,603</u>
Total pension liability - ending (a)	<u><u>\$ 22,956,200</u></u>	<u><u>\$ 20,151,495</u></u>	<u><u>\$ 19,255,640</u></u>
Plan fiduciary net position			
Contributions - employer	\$ 783,617	\$ 817,454	\$ 940,181
Other contributions ⁽¹⁾	(159,760)	-	-
Net investment income	(848,314)	45,708	2,679,160
Benefit payments, including refunds of employee contributions	(1,114,642)	(1,040,049)	(852,624)
Administrative expense	<u>(26,662)</u>	<u>(16,424)</u>	<u>(10,722)</u>
Net change in plan fiduciary net position	(1,365,761)	(193,311)	2,755,995
Plan fiduciary net position - beginning	<u>17,711,449</u>	<u>17,904,760</u>	<u>15,148,765</u>
Plan fiduciary net position - ending (b)	<u><u>\$ 16,345,688</u></u>	<u><u>\$ 17,711,449</u></u>	<u><u>\$ 17,904,760</u></u>
Hourly Plan's net pension liability - ending (a) - (b)	<u><u>\$ 6,610,512</u></u>	<u><u>\$ 2,440,046</u></u>	<u><u>\$ 1,350,880</u></u>
Plan fiduciary net position as a percentage of the total pension liability	71.20%	87.89%	92.98%
Covered-employee payroll	\$ 5,989,703	\$ 5,654,202	\$ 5,545,429
Hourly Plan's net pension liability as a percentage of covered employee payroll	110.36%	43.15%	24.36%

⁽¹⁾ A transfer of assets and liabilities was made for participants who moved from a bargained to a salaried status under the normal operation of the plan.

* - Per paragraph 138 of GASB Statement No. 68, the Authority is not required to retrospectively present its' 10-year RSI schedules, as this information was not available at transition and historical information was not measured in accordance with the parameters of GASB Statement No. 68.

SOUTHEASTERN REGIONAL TRANSIT AUTHORITY
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Required Supplementary Information

Schedule of Changes in the Net Pension Liability and Related Ratios – Salaried Plan

Last 10 Fiscal Years*

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Total pension liability			
Service cost	\$ 144,110	\$ 158,780	\$ 147,089
Interest	484,292	479,405	468,215
Differences between expected and actual experience	156,886	(185,781)	(170,036)
Changes in assumptions	13,315	(42,284)	12,347
Benefit payments, including refunds of employee contributions	<u>(365,720)</u>	<u>(320,244)</u>	<u>(292,084)</u>
Net change in total pension liability	432,883	89,876	165,531
Total pension liability - beginning	<u>\$ 6,948,772</u>	<u>\$ 6,858,896</u>	<u>6,693,365</u>
Total pension liability - ending (a)	<u><u>\$ 7,381,655</u></u>	<u><u>\$ 6,948,772</u></u>	<u><u>\$ 6,858,896</u></u>
Plan fiduciary net position			
Contributions - employer	\$ 237,824	\$ 259,296	\$ 201,848
Other contributions ⁽¹⁾	159,760	-	-
Net investment income	(209,692)	38,093	836,221
Benefit payments, including refunds of employee contributions	(365,720)	(320,244)	(292,084)
Administrative expense	<u>(43,263)</u>	<u>(30,013)</u>	<u>(22,092)</u>
Net change in plan fiduciary net position	(221,091)	(52,868)	723,893
Plan fiduciary net position - beginning	<u>6,341,843</u>	<u>6,394,711</u>	<u>5,670,818</u>
Plan fiduciary net position - ending (b)	<u><u>\$ 6,120,752</u></u>	<u><u>\$ 6,341,843</u></u>	<u><u>\$ 6,394,711</u></u>
Salaried Plan's net pension liability - ending (a) - (b)	<u><u>\$ 1,260,903</u></u>	<u><u>\$ 606,929</u></u>	<u><u>\$ 464,185</u></u>
Plan fiduciary net position as a percentage of the total pension liability	82.92%	91.27%	93.23%
Covered-employee payroll	\$ 1,451,933	\$ 1,272,201	\$ 1,301,056
Salaried Plan's net pension liability as a percentage of covered employee payroll	86.84%	47.71%	35.68%

⁽¹⁾ A transfer of assets and liabilities was made for participants who moved from a bargained to a salaried status under the normal operation of the plan.

* - Per paragraph 138 of GASB Statement No. 68, the Authority is not required to retrospectively present its' 10-year RSI schedules, as this information was not available at transition and historical information was not measured in accordance with the parameters of GASB Statement No. 68.

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Required Supplementary Information

Schedule of Contributions – Hourly Plan

Last 10 Fiscal Years*

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Actuarially determined contribution	\$ 790,070	\$ 783,617	\$ 817,454
Contributions in relation to the actuarially determined contribution	<u>783,617</u>	<u>817,454</u>	<u>940,181</u>
Contribution deficiency (excess)	<u>\$ 6,453</u>	<u>\$ (33,837)</u>	<u>\$ (122,727)</u>
Covered-employee payroll	\$ 5,989,703	\$ 5,654,202	\$ 5,545,429
Contributions as a percentage of covered-employee payroll	13.08%	14.46%	16.95%

Notes to Schedule

Valuation Date:

A measurement date of June 30, 2016 has been used for the fiscal year ending June 30, 2017.

Methods and assumptions used to determine contribution rates:

Actuarial Cost Method	Entry Age Cost Method, level percent of pay
Asset Valuation Method	Market value of assets as of the measurement date
Inflation	2.25% long-term
Salary Increases	4.50% increase each year until retirement
Investment Rate of Return	7.00% (weighted average rate)
Retirement Age	Active and inactive participants are assumed to retire at normal retirement age, or current age if later, as defined in the Summary of Plan Provisions.
Mortality	2016 IRS Prescribed Mortality - Optional Combined Table for Small Plans, male and female, before and during benefit payment period

* - Per paragraph 138 of GASB Statement No. 68, the Authority is not required to retrospectively present its' 10-year RSI schedules, as this information was not available at transition and historical information was not measured in accordance with the parameters of GASB Statement No. 68.

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Required Supplementary Information

Schedule of Contributions – Salaried Plan

Last 10 Fiscal Years*

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Actuarially determined contribution	\$ 243,602	\$ 237,824	\$ 259,296
Contributions in relation to the actuarially determined contribution	<u>237,824</u>	<u>259,296</u>	<u>201,848</u>
Contribution deficiency (excess)	<u>\$ 5,778</u>	<u>\$ (21,472)</u>	<u>\$ 57,448</u>
Covered-employee payroll	\$ 1,451,933	\$ 1,272,201	\$ 1,301,056
Contributions as a percentage of covered-employee payroll	16.38%	20.38%	15.51%

Notes to Schedule

Valuation Date:

A measurement date of June 30, 2016 has been used for the fiscal year ending June 30, 2017.

Methods and assumptions used to determine contribution rates:

Actuarial Cost Method	Entry Age Cost Method, level percent of pay
Asset Valuation Method	Market value of assets as of the measurement date
Inflation	2.25% long-term
Salary Increases	4.00% increase each year until retirement
Investment Rate of Return	7.00% (weighted average rate)
Retirement Age	Active and inactive participants are assumed to retire at normal retirement age, or current age if later.
Mortality	2016 IRS Prescribed Mortality - Optional Combined Table for Small Plans, male and female, during benefit payment period
	2016 IRS Prescribed Mortality - Optional Combined Table for Small Plans, male and female, before benefit payment period

* - Per paragraph 138 of GASB Statement No. 68, the Authority is not required to retrospectively present its' 10-year RSI schedules, as this information was not available at transition and historical information was not measured in accordance with the parameters of GASB Statement No. 68.

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Required Supplementary Information

Schedule of Funding Progress – Other Post-Employment Benefits

For the Year Ended June 30, 2017

Actuarial Valuation Date	Fiscal Year	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability	Funded Ratio	Covered Payroll	UAAL as a % of Covered Payroll
07/01/17 (est)	2018	\$ -	\$ 375,116	\$ 375,116	0.00%	\$ 445,196	84.26%
7/1/2015	2017	\$ -	\$ 323,216	\$ 323,216	0.00%	\$ 432,229	74.78%
7/1/2015	2016	\$ -	\$ 274,783	\$ 274,783	0.00%	\$ 410,640	66.92%
7/1/2014	2015	\$ -	\$ -	\$ -	N/A	N/A	N/A
7/1/2013	2014	\$ -	\$ -	\$ -	N/A	N/A	N/A
7/1/2012	2013	\$ -	\$ -	\$ -	N/A	N/A	N/A

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contribution of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented in the required supplementary information following the financial statements, present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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Statement of Revenues and Expenses - Budget and Actual

For the Year Ended June 30, 2017

	Budget As Adopted	Appropriations and Transfers	Total Available	Actual	Variance Favorable (Unfavorable)
Revenues:					
Cash Fares:					
Farebox revenue - fixed route	\$ 2,320,373	\$ (96,306)	\$ 2,224,067	\$ 2,258,330	\$ 34,263
Farebox revenue - paratransit	134,500	21,500	156,000	154,728	(1,272)
Auxiliary revenue	<u>205,000</u>	<u>15,061</u>	<u>220,061</u>	<u>234,590</u>	<u>14,529</u>
Total revenues	<u>2,659,873</u>	<u>(59,745)</u>	<u>2,600,128</u>	<u>2,647,648</u>	<u>47,520</u>
Expenses:					
Operating/Cost of Service:					
Fixed Route	11,508,201	(406,304)	11,101,897	11,220,515	(118,618)
Paratransit	2,517,499	(182,723)	2,334,776	2,342,804	(8,028)
Intermodal Centers	743,750	(240,401)	503,349	525,423	(22,074)
Fuel	1,375,000	(647,090)	727,910	770,346	(42,436)
Insurance	800,000	(15,000)	785,000	781,275	3,725
Management fees	325,000	15,903	340,903	340,425	478
SRTA administration	<u>1,151,411</u>	<u>(65,870)</u>	<u>1,085,541</u>	<u>1,085,865</u>	<u>(324)</u>
Total expenses	<u>18,420,861</u>	<u>(1,541,485)</u>	<u>16,879,376</u>	<u>17,066,653</u>	<u>(187,277)</u>
Other financing sources (uses):					
Transfer to Reserve Fund	-	-	-	(90,023)	(90,023)
Net Cost of Service:					
Federal Grants	7,050,736	(1,667,375)	5,383,361	5,613,141	229,780
State Assistance	5,625,381	140,635	5,766,016	5,766,016	-
Local Assessments	<u>3,084,871</u>	<u>45,000</u>	<u>3,129,871</u>	<u>3,129,871</u>	<u>-</u>
Total other financing sources (uses):	<u>15,760,988</u>	<u>(1,481,740)</u>	<u>14,279,248</u>	<u>14,419,005</u>	<u>139,757</u>
Excess (deficiency) of revenues and other financing sources over expenses and other financing uses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>
Budgetary retained earnings at the beginning of year				<u>\$ -</u>	
Budgetary retained earnings at the end of year				<u>\$ -</u>	

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Notes to the Statement of Revenues and Expenses - Budgetary Basis

For the Year Ended June 30, 2017

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, 2017 are as follows:

Increase (decrease) in net position - GAAP basis	\$ 59,014
Capital grants and contributions	(3,812,041)
Depreciation	2,777,422
(Gain)/loss on asset dispositions (GAAP only)	978
Pension expense (GAAP only)	1,066,128
Transfer to extraordinary repairs reserve	(90,023)
Rounding and other adjustments	(1,478)
Increase (decrease) in net position - Budget basis	<u><u>\$ -</u></u>

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Statement of Revenue and Cost of Service

For the Year Ended June 30, 2017

Transportation revenue	<u>\$ 2,413,058</u>
Operating expenses:	
Fixed route	11,220,515
Paratransit	2,342,804
Intermodal centers	525,423
Amortization of grants	2,777,422
Fuel	770,346
Insurance	781,275
SRTA administration	1,085,865
Management fees	<u>340,425</u>
Total operating expenses	<u>19,844,075</u>
Net operating loss	(17,431,017)
Other income (expenses):	
Transfer to extraordinary reserve	(90,023)
Interest income	3,744
Auxiliary income	<u>230,846</u>
Cost of service in excess of revenue	<u><u>\$ (17,286,450)</u></u>

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Statement of Unreimbursed Cost of Service

For the Year Ended June 30, 2017

Balance at beginning of year	\$ -
Cost of service in excess of revenue	<u>(17,286,450)</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	5,766,018
Local assessments	3,129,871
Federal operating assistance pursuant to Section 9 of the Urban Mass Transportation Act of 1964	5,613,141
Rounding differences	<u>(2)</u>
Total operating net cost of service reimbursements	14,509,028
Amortization of grants	<u>2,777,422</u>
Total subsidy	<u>17,286,450</u>
Balance at end of year	<u><u>\$ -</u></u>

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