

**MERRIMACK VALLEY REGIONAL  
TRANSIT AUTHORITY**

(A Component Unit of the Massachusetts Department of Transportation)

**FINANCIAL STATEMENTS AND SUPPLEMENTARY  
INFORMATION**

**YEAR ENDED JUNE 30, 2014**

**(WITH INDEPENDENT AUDITORS' REPORT THEREON)**

**MERRIMACK VALLEY REGIONAL TRANSIT AUTHORITY**

(A Component Unit of the Massachusetts Department of Transportation)

Year Ended June 30, 2014

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INDEPENDENT AUDITOR'S REPORT

To the Advisory Board of the  
Merrimack Valley Regional Transit Authority

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Merrimack Valley Regional Transit Authority (the Authority), a component unit of the Massachusetts Department of Transportation, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit 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 governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Authority as of June 30, 2014 and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Other Matters

### Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 7 and 21 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 inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, 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 an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The supplementary information included on pages 22 through 23 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the 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 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 information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

### Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 25, 2014, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

*Roland P. Lambalot, PC*

Methuen, Massachusetts  
September 25, 2014

# **MERRIMACK VALLEY REGIONAL TRANSIT AUTHORITY**

(A Component Unit of the Massachusetts Department of Transportation)

## Required Supplementary Information

### Management's Discussion and Analysis

The following is offered to the readers of the Merrimack Valley Regional Transit Authority's financial statements. It is a narrative overview and analysis of the financial performance of the Merrimack Valley Regional Transit Authority (the Authority) during the fiscal year ended June 30, 2014. Please read this discussion and analysis in conjunction with the Authority's financial statements which begin on page 8.

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. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Joseph J. Costanzo, Administrator, Merrimack Valley Regional Transit Authority, 85 Railroad Avenue, Haverhill, Massachusetts 01835.

### **Overview of the Financial Statements**

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. As such, its financial statements consist of only those financial statements required for proprietary funds and the related notes.

Revenue is recorded when earned and expenses are recorded when incurred. The financial statements include a statement of net position, a statement of revenues, expenses and changes in net position, and a statement of cash flows. These are followed by the notes to the financial statements. In addition to the financial statements, this report also contains supplemental schedules pertaining to the net cost of service of the Authority.

The statement of net position presents information on the assets and liabilities, with the difference between the two reported as net position. Over time, increases and decreases in net position may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

The statement of revenues, expenses and changes in net position reports the operating revenues and expenses and nonoperating revenues and expenses of the Authority for the fiscal year with the difference – the increase or decrease in net position – being combined with any capital grants to determine the net change in position for the fiscal year. That change combined with the previous year's end net position total reconciles to the net position total at the end of this fiscal year.

The statement of cash flows reports cash and investment activities for the fiscal year resulting from operating activities, capital and related activities, noncapital and related financing activities and investing activities. The net result of these activities added to the beginning of the year cash and investment balance reconciles to the cash and investment balance of the current fiscal 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 and can be found on pages 11 through 20 of the report.

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Required Supplementary Information  
Management's Discussion and Analysis

**Condensed Financial Information**

Condensed financial information as of and for the years ended June 30, 2014 and 2013 are as follows:

	<u>2014</u>	<u>2013</u>
Current and other assets	\$ 9,994,217	\$ 14,059,258
Capital assets, net	64,358,489	65,719,250
Total assets	<u>74,352,706</u>	<u>79,778,508</u>
Current liabilities	8,680,748	12,644,379
Long term liabilities	1,196,441	1,297,851
Total liabilities	<u>9,877,189</u>	<u>13,942,230</u>
Net position:		
Invested in capital assets, net of related debt	64,358,489	65,719,250
Restricted	117,028	117,028
Unrestricted	-	-
Total net position	<u>\$ 64,475,517</u>	<u>\$ 65,836,278</u>
Operating revenue		
Revenue from transportation	\$ 1,640,283	\$ 1,696,565
Other	1,343,608	722,232
Total operating revenues	<u>2,983,891</u>	<u>2,418,797</u>
Operating expenses:		
Transportation services	12,700,759	11,810,277
Other operating expenses	1,535,505	1,887,827
Total operating expenses, excluding depreciation	<u>14,236,264</u>	<u>13,698,104</u>
Depreciation and amortization	3,437,304	3,373,536
Total operating expenses, including depreciation	<u>17,673,568</u>	<u>17,071,640</u>
Operating loss	<u>(14,689,677)</u>	<u>(14,652,843)</u>
Net nonoperating revenue	<u>11,252,373</u>	<u>11,279,307</u>
Loss before capital grants	(3,437,304)	(3,373,536)
Capital grants and contributions	2,076,543	1,218,370
Change in net position	<u>(1,360,761)</u>	<u>(2,155,166)</u>
Beginning of year net position	<u>65,836,278</u>	<u>67,991,444</u>
End of year net position	<u>\$ 64,475,517</u>	<u>\$ 65,836,278</u>

**MERRIMACK VALLEY REGIONAL TRANSIT AUTHORITY**

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Required Supplementary Information

Management's Discussion and Analysis

**Financial Highlights**

The assets of the Authority exceed its liabilities at the close of the most recent fiscal year by \$64,475,517. The Authorities total net position decreased by \$1,360,761 mainly due to the depreciation of capital grant assets. The Authority's expenses, except for depreciation and amortization, are fully funded annually through a combination of federal, state, and local assistance.

The Authority's net position consists of its investment in capital assets (e.g., land, buildings, vehicles, and other equipment). The Authority uses these capital assets to provide fixed route and paratransit services to individuals within its service area; consequently, these net assets are not available for future spending. Although the Authority's investment in capital assets is reported as net of related debt, it should be noted that the resources needed to repay any related debt outstanding must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Key factors in the changes in revenues and expenses are as follows:

- Passenger fares increased \$16,128, or 1.0%, due to a increase in ridership during the year.
- Total operating expenses, excluding depreciation, increased by \$538,160, or 3.9%, due to increased services and operating expenses.
- Revenues from assessments from member municipalities increased by 2.5% as allowed by law plus the cost of new services.
- Federal operating assistance and state contract assistance increased. Federal and state capital assistance increased.

**Capital Assets and Debt**

The Authority's capital assets as of June 30, 2014 amounted to \$64,358,489 (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, transportation equipment, office, and other equipment.

Capital asset additions during the fiscal include the following:

Transit equipment	\$ 1,623,450
Building and improvements	242,075
Service equipment	44,954
Electric equipment	142,871
Office equipment	23,193
	<u>\$ 2,076,543</u>

The Authority acquires its capital assets under federal capital grants and state matching funds.

At year-end, the Authority had \$8,000,000 of revenue anticipation notes outstanding, a decrease of \$4,000,000 from the prior year.

# **MERRIMACK VALLEY REGIONAL TRANSIT AUTHORITY**

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## Required Supplementary Information

### Management's Discussion and Analysis

#### **Economic Factors and Next Year's Budgets**

Funding the Authority's net cost of service consists of non-capital expenses less all non-capital revenues, except member municipality assessments and contract assistance from the Commonwealth of Massachusetts. The net cost of service is funded through assessments to member municipalities, which may increase by no more than 2.5% annually plus the members' share of any new services. Local assessments can make up to 50% of the Authority's net cost of service, but must subsidize at least 25% of the net cost of service. The remaining net cost of service, after local assessments, is funded by the Commonwealth. The Commonwealth will fund a minimum of 50% and a maximum of 75% of the Authority's net cost service. This portion of the net cost of service is funded a year in arrears by the Commonwealth (the Authority's fiscal 2013 assistance was included in the State's fiscal 2014 budget). Effective with fiscal 2014 the State has changed its funding policy to provide assistance currently as opposed to reimbursing as in prior years.

The Authority, working with the City of Newburyport, continued preliminary design for an Intermodal Transit Parking Facility. During FY 2014, work was completed on a revised Section 106 historical submittal for the Federal Transit Administration. This submittal was provided by FTA to Massachusetts Historical Commission for approval. This approval was received at the close of the fiscal year.

During the fiscal year, the Authority completed these capital projects:

- Completed the replacement of 4 supervisory vehicles.
- Completed a Bus Engine Refurbishment program on seventeen (17) Model Year 2004 Transit Buses.
- Completed the delivery of three (3) new Commuter Buses.
- Completed a State of Good Repair project at the Authority's Office/Maintenance Facility.
- Participated in a joint bus/van procurement with several other RTAs.

During the Fiscal Year, the Authority implemented the following new services:

- Improved weekday frequency on Route 01 between Lawrence, Methuen, and Haverhill and Route 41, Lawrence and Lowell to 30 minutes to accommodate customer need for added service. Ridership increased by 6.5% on Route 01 and 7.8% on Route 41 over FY 2013.
- Started a partnership shuttle bus service with Northern Essex Community College to connect the Lawrence and Haverhill campuses. NECC pays the \$1.00 fare for each student that rides. A total of 13,754 students used this service during the fiscal year.
- Provided bus service on Veteran's Day, 11/11/2013.

In Fiscal Year 2015, the Authority will transition to Forward Funding of State Contract Assistance.

In the Fiscal Year 2015, the Authority will implement the following new services:

- Provide bus service on three additional holidays, i.e., President's Day, Martin Luther King Day, and Patriots Day.
- Provide new shuttle bus route in the City of Lawrence.
- Continue the NECC partnership shuttle bus service.
- Provide on additional outbound trip at 4:45pm to the Boston Commuter service to accommodate additional customer demand.



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## Required Supplementary Information

### Management's Discussion and Analysis

- For the first time since 1959, Sunday bus service will be provided on a Saturday schedule on most routes.

In Fiscal Year 2015, the Authority will undertake these Capital Projects:

- Purchase and install a new bus/van communication system.
- Complete the joint bus/van procurement with several RTAs and place orders for replacement buses and vans.
- Receive approval of a FTA grant to undertake several State of Good Repair projects at the MVRTA Office/Maintenance Facility and the McGovern Transportation Center.

Fixed Route ridership increased from 1,758,689 passengers in FY 2010 to 1,770,618 in FY 2011, increased to 1,912,293 in FY 2012, increased to 1,954,667 in FY 2013, and increased to 2,024,281 in FY 2014.

Ridership on the Boston Commuter Bus increased from 44,052 in FY 2010 to 48,749 in FY 2011, increased to 52,175 in FY 2012, increased to 63,470 in FY 2013 and decreased to 63,207 in FY 2014.

Ridership for Special Services Transportation decreased from 64,713 in FY 2010 to 64,262 in FY 2011, increased to 66,895 in FY 2012, decreased to 66,245 in FY 2013, and increased to 66,271 in FY 2014.

*See accompanying independent auditor's report*

**MERRIMACK VALLEY REGIONAL TRANSIT AUTHORITY**

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## Statement of Net Position

June 30, 2014

**Assets**

## Current assets:

Unrestricted cash and cash equivalents (note 2)	\$ 4,363,310
Receivables:	
Federal operating assistance	159,890
Federal capital assistance	246,592
Local assessments	3,309,942
Due from carrier	114,513
Other	210,684
Deferred costs	101,125
Total current assets	<u>8,506,056</u>

## Non-current assets:

Restricted cash and cash equivalents (notes 2 and 12)	117,028
Bond reserve account	150,000
Deferred costs	1,221,133
Capital assets, net (note 4)	<u>64,358,489</u>
Total non-current assets	<u>65,846,650</u>
Total Assets	<u>\$ 74,352,706</u>

**Liabilities**

## Current liabilities:

Accounts payable and accrued expenses	\$ 579,623
Revenue anticipation notes payable (note 5)	8,000,000
Revenue bond - current portion (note 6)	101,125
Total current liabilities	<u>8,680,748</u>

## Long-term liabilities:

Revenue bond (note 6)	<u>1,196,441</u>
Total liabilities	<u>9,877,189</u>

**Net Position**

Net investment in capital assets	64,358,489
Restricted (note 12)	117,028
Unrestricted	-
Commitments and Contingencies (note 10)	-
Total net position	<u>\$ 64,475,517</u>

*See accompanying notes to the financial statements*

**MERRIMACK VALLEY REGIONAL TRANSIT AUTHORITY**

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## Statement of Revenues, Expenses, and Changes in Net Position

Year Ended June 30, 2014

Operating Revenues:	
Passenger fares	\$ 1,640,283
Terminal revenues	856,334
Other Income	<u>487,274</u>
Total operating revenues	<u>2,983,891</u>
Operating Expenses:	
Transit service (note 13)	12,700,759
Terminal expenses	1,105,348
Administrative and general	336,163
Professional services	93,994
Depreciation	<u>3,437,304</u>
Total operating expenses	<u>17,673,568</u>
Operating loss	<u>(14,689,677)</u>
Non-operating revenues (expense)	
Federal operating assistance	2,822,390
Commonwealth of Massachusetts contract assistance	5,943,284
Local Assessments	2,591,333
Interest income	2,731
Interest expense	<u>(107,365)</u>
Total non-operating revenues	<u>11,252,373</u>
Loss before capital grants	<u>(3,437,304)</u>
Capital Grants:	
Federal	1,827,358
Commonwealth of Massachusetts	<u>249,185</u>
Total capital grants	<u>2,076,543</u>
Change in net position	(1,360,761)
Net position, beginning of year	<u>65,836,278</u>
Net position, end of year	<u><u>\$ 64,475,517</u></u>

*See accompanying notes to the financial statements*

**MERRIMACK VALLEY REGIONAL TRANSIT AUTHORITY**  
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Statement of Cash Flows

Year ended June 30, 2014

Cash flows from operating activities:	
Passenger fares	\$ 1,640,283
Terminal revenues	856,334
Other cash receipts	121,506
Payments to operators	(12,683,680)
Payments to other vendors	(1,418,110)
Payments to employees for services	(221,770)
Net cash used in operating activities	<u>(11,705,437)</u>
Cash flows from non-capital financing activities:	
Proceeds from sale of revenue anticipation notes	8,000,000
Principal paid on revenue anticipation notes	(12,000,000)
Principal paid on revenue bond	(96,498)
Interest paid on revenue anticipation notes	(109,171)
Operating and contract assistance	17,384,510
Net cash provided by non-capital financing activities	<u>13,178,841</u>
Cash flows from capital and related financing activities:	
Capital grants	2,284,846
Purchase of capital assets	(2,076,543)
Net cash used by capital and related financing activities	<u>208,303</u>
Cash flows from investing activities:	
Interest income	2,731
Net cash provided by investing activities	<u>2,731</u>
Change in cash and cash equivalents	1,684,438
Cash and cash equivalents, beginning of year	<u>2,945,900</u>
Cash and cash equivalents, end of year	<u><u>\$ 4,630,338</u></u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (14,689,677)
Adjustments:	
Depreciation	3,437,304
Recovery of bad debts	(365,768)
Changes in assets and liabilities	
Local assessment and other receivables	(7,669)
Deferred costs	12,580
Accounts payable and deferrals	(92,207)
Net cash used in operating activities	<u><u>\$ (11,705,437)</u></u>

*See accompanying notes to the financial statements*

**MERRIMACK VALLEY REGIONAL TRANSIT AUTHORITY**  
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Notes to Financial Statements

June 30, 2014

**Note 1. Nature of the Organization and Summary of Significant Accounting Policies**

The financial statements of the Merrimack Valley Regional Transit Authority (the Authority) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Government Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Authority applies Financial Accounting Standards Board pronouncements and Accounting Principles Board opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails, and all of the GASB pronouncements issued subsequently. The more significant of the Authority's accounting policies are described below:

**A. Reporting Entity**

The Authority, a political subdivision of the Commonwealth of Massachusetts (the Commonwealth), was established in accordance with Chapter 161B of the Massachusetts General Laws to provide a public transit system for the territory comprised of the cities of Lawrence, Haverhill, Methuen, Newburyport and Amesbury, and the towns of Andover, Rowley, Boxford, Merrimac, North Andover, Groveland, Newbury, West Newbury, Georgetown and Salisbury. In accordance with requirements of Statement No. 14, *The Financial Reporting Entity, of the Governmental Accounting Standards Board* (GASB), the financial statements must present the Authority (the primary government) and its component units. Pursuant to this criterion, no component units were identified 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 Massachusetts Department of Transportation.

**B. Basis of Accounting**

The operations of the Authority are accounted for as an enterprise fund on an accrual basis in order to recognize the flow 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 operation of the Authority are included in the Statements of Net Position. The principal revenues of the Authority are fare box revenues received from patrons and terminal revenues from parking facilities. The Authority also recognizes as operating revenue the rental fees received from vendors from operating leases of Authority property. Operating expenses for the Authority include the costs of operating mass transit and demand responsive services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

**C. Budget**

The Authority must establish an operating budget each year so that the amount will equal the sum of (a) the aggregate of all annual appropriations for expenditures and transfers, less (b) the aggregate of all revenue and transfers projected to be received by the Authority, including available surplus funds. The budget for all operations of the Authority is prepared by the Administrator and is acted upon by the Advisory Board. The budget is prepared on the accrual basis. Depreciation is not recognized as an expense, but capital outlays are recognized as expenses for budgetary control purposes. These expenses are reclassified for the purpose of preparing financial reports in accordance with GAAP.

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Notes to Financial Statements

June 30, 2014

**D. Cash and Cash Equivalents**

Cash includes amounts in demand deposits. Cash equivalents include all highly liquid deposits with an original maturity of three months or less when purchased. These deposits are fully collateralized or covered by federal deposit insurance except as stated in Note 2. The carrying amount of the cash equivalents is fair value. For purposes of the statement of cash flows, the Authority considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

**E. Compensated Absences**

Employees of the Authority are entitled to paid vacations, paid sick days and personal days off, depending on job classification, length of service and other factors. The Authority's policy is to recognize the costs of compensated absences when actually accrued, subject to accumulation limitations in accordance with personnel policies.

**F. Capital Assets**

Capital assets are stated at cost. Cost includes not only purchase price or construction cost, but also ancillary charges necessary to place the asset in condition for use. Capital assets are defined as assets with initial, individual costs exceeding \$5,000.

**G. Depreciation**

The Authority provides for depreciation using the straight-line method. Depreciation is intended to distribute the cost of depreciable properties over the following estimated average useful lives:

Buildings	20-40 years
Vehicles	5-12 years
Passenger Shelters	5 years
Furniture, fixtures and equipment	5-7 years

A full month's depreciation is taken in the month an asset is placed in service. 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.

**H. Estimates**

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

**I. Concentration of Credit Risk**

Financial instruments which potentially subject the Authority to concentrations of credit risk consist principally of investments, cash equivalents and grants receivable. The Authority's cash equivalents were with various credit-worthy financial institutions; investments consisted of a collateralized repurchase agreement and grants receivable were due from Federal, State and local assessments. The Authority considers the credit risk associated with financial instruments to be minimal.

**MERRIMACK VALLEY REGIONAL TRANSIT AUTHORITY**  
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Notes to Financial Statements

June 30, 2014

**J. New Accounting Pronouncements**

In fiscal 2014 the Authority adopted the provisions of GASB Statement No. 66, *Technical Corrections – 2012*; No. 67, *Reporting for Pension Plans*; No. 68, *Accounting and Financial Reporting for Pensions*; No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, and No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. The implementation of these standards did not have a material effect on the Authority's financial statements. The GASB has issued Statement No. 69, *Governmental Combinations and Disposal of Government Operations* which requires adoption subsequent to June 30, 2014 and is applicable to the Authority. The Authority has not yet adopted these statements; the implication on the fiscal practices and financial reports of the Authority are being evaluated.

**Note 2. Cash and Cash Investments**

State and local statutes place certain limitations on the nature of deposits and investments available to the Authority. Deposits (including demand deposits, term deposits and certificates of deposit) in any one financial institution may not exceed certain levels without collateralization by the financial institutions involved. Investments can also be made in securities issued by or unconditionally guaranteed by the U.S. Government or Agencies that have a maturity of less than one year from the date of purchase, repurchase agreements guaranteed by such securities with maturity dates of no more than 90 days from the date of purchase and units in the Massachusetts Municipal Depository Trust ("MMDT"). Certain cash and investments are segregated from operating cash due to certain internal or external restrictions. These funds consist of those required by bond reserve requirements and state allowed reserves.

Custodial credit risk for deposits is the risk that in the event of a bank failure, the Authority's deposits may not be recovered. The Authority does not have a deposit policy for custodial risk. As of June 30, 2014 \$4,522,690 of the government's bank balance of \$4,772,690 was exposed to custodial credit risk as uninsured and uncollateralized.

**Note 3. Grants**

Under various sections of MAP-21, the United States Department of Transportation approves capital grants to fund up to 80% of the Authority's capital improvement projects. The remaining portion of approximately 20% will be financed through the Massachusetts Department of Transportation. 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 complementary ADA services costs, as defined.

The Authority has a contract with the Commonwealth for operating assistance as provided for in the enabling legislation under which the Commonwealth will pay the Authority a portion of its net cost of service. The amount of this contract assistance for fiscal year 2014 was \$5,871,851. The state operating contract assistance receivable, in the accompanying Statement of Net Assets in prior years, was inclusive of \$827,223 related to funds due from the Commonwealth for prior years; this amount was received as part of the forward funding process.

**MERRIMACK VALLEY REGIONAL TRANSIT AUTHORITY**  
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Notes to Financial Statements

June 30, 2014

**Note 4. Capital Assets**

The following is a summary of changes in Capital Assets at June 30, 2014:

	Beginning balance	Additions	Disposals	Ending balance
Capital assets not being depreciated:				
Land	\$ 4,198,534	-	-	4,198,534
Construction in progress	8,917,021	129,022	8,252,843	793,200
	<u>13,115,555</u>	<u>129,022</u>	<u>8,252,843</u>	<u>4,991,734</u>
Total capital assets not being depreciated				
Other capital assets:				
Buildings and improvements	53,345,925	8,365,895	-	61,711,820
Buses - revenue vehicles	19,420,977	1,623,450	-	21,044,427
Service equipment	1,199,365	44,954	-	1,244,319
Electronic equipment	2,771,668	142,871	-	2,914,539
Passenger shelters	53,725	-	-	53,725
Furniture & fixtures	280,746	23,194	-	303,940
	<u>77,072,406</u>	<u>10,200,364</u>	<u>-</u>	<u>87,272,770</u>
Total other capital assets at historical cost				
Less accumulated depreciation for:				
Buildings and improvements	11,625,455	1,514,744	-	13,140,199
Buses - revenue vehicles	10,107,361	1,479,999	-	11,587,360
Service equipment	990,821	70,258	-	1,061,079
Electronic equipment	1,421,383	364,636	-	1,786,019
Passenger shelters	53,725	-	-	53,725
Furniture & fixtures	269,966	7,667	-	277,633
	<u>24,468,711</u>	<u>3,437,304</u>	<u>-</u>	<u>27,906,015</u>
Total accumulated depreciation				
Other capital assets, net	<u>52,603,695</u>	<u>6,763,060</u>	<u>-</u>	<u>59,366,755</u>
Total capital assets, net	<u>\$ 65,719,250</u>	<u>6,892,082</u>	<u>8,252,843</u>	<u>64,358,489</u>



**MERRIMACK VALLEY REGIONAL TRANSIT AUTHORITY**  
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Notes to Financial Statements

June 30, 2014

**Note 5. Revenue Anticipation Notes**

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 flow deficiencies until funding is received.

During the year ended June 30, 2014, the following changes occurred in the Authority’s revenue anticipation notes (RANS):

Beginning balance	\$ 12,000,000
New notes issued	8,000,000
Notes retired	<u>(12,000,000)</u>
Ending balance	<u>\$ 8,000,000</u>

The \$8,000,000 of RANS were issued on June 20, 2014, carry interest rates between 0.40% and 1.00% and are due June 19, 2015. The Authority uses the proceeds of these notes to fund its mass transit operations.

**Note 6. Revenue Bond**

Financing of \$2,000,000 for the McGovern Transportation Center was obtained through the Massachusetts Development and Finance Agency. This funding is in the form of a revenue bond that was effective July 1, 2004 and was interest only at a rate of 4.99% through September 1, 2005. The bond converted to an amortization schedule with the first monthly payment of \$13,667 due on October 1, 2005. The initial interest rate was subject to change on July 1, 2009. The new rate is 4.048% with a monthly payment of \$12,573. The bond is secured by all net revenues generated by the parking garage. The bond also contains a debt service reserve fund requirement of \$150,000. The scheduled maturity of the bond is as follows:

2015	\$ 101,125
2016	105,296
2017	109,638
2018	114,159
2019	118,867
2020-2024	672,037
2025	76,444

**Note 7. Retirement Plans**

**A. Plan Description**

Effective July 1, 2008 the Authority established a contributory retirement system for its employees pursuant to Section 28 (4) of Chapter 32 of the General Laws. The Authority has become a member of the Lawrence Retirement System. Contributions to the system commenced in fiscal 2010.

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The Retirement System provides retirement, disability, and death benefits to plan members and beneficiaries. Chapter 32 of Massachusetts General Laws (MGL) assigns authority to establish and amend benefit provisions of the plan. The Retirement System issues a publicly available financial report, which can be obtained through the Commonwealth of Massachusetts, Public Employee Retirement Administration Commission, One Ashburton Place, Boston, Massachusetts 02108.

**B. Funding Policy**

Plan members are required to contribute to the Retirement System at rates ranging from 5% to 11% of annual covered compensation. The Authority is required to pay into the Retirement System its share of the systemwide actuarially determined contribution plus administration costs, which are apportioned among the employers, based on active covered payroll. The Commonwealth reimburses the Retirement System for a portion of benefit payments attributed to cost-of-living increases granted prior to July 1, 1998. Chapter 32 of the MGL governs the contributions of plan members and the Authority. The Authority's contribution to the Retirement System for the year ended June 30, 2014 was \$61,345, which equaled its required contribution for the year.

The Authority also administers a deferred compensation plan through which employees can participate in a voluntary, payroll-deducted retirement program created in accordance with Internal Revenue Code Section 457. The deferred compensation is not available to employees until termination, retirement, death approved or unforeseeable emergency. All amounts of compensation deferred, property purchased with those amounts, and all income attributable to those amounts are held in trust for the exclusive benefit of participants and their beneficiaries.

**Note 8. Risk Management**

In conjunction with its normal operations, the Authority is exposed to various risks related to the damage or destruction of its assets from both natural and man-made occurrences, tort/liability claims, errors and omissions claims and professional liability claims. As a result of these exposures, the Authority has developed a comprehensive risk management program. There have been no significant reductions in coverage from the prior year and settlements have not exceeded insurance coverage for the current year or in any other year.

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 amount can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. The estimated liability for all self-insured losses incurred but not reported is not material at June 30, 2014.

Health insurance benefits for employees are provided through a health maintenance organization. The Authority's contributes 75% of the premium cost for employees. In 2014, expenditures for the Authority's share of health insurance contributions were \$43,688. The Authority purchases insurance for worker's compensation for its employees.

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Notes to Financial Statements

June 30, 2014

**Note 9. Disaggregation of Payable Balances**

The accounts payable and accrued expense balance is disaggregated as follows:

Accounts payable general vendors	\$ 394,347
Accrued expenses	81,303
Accrued payroll expenses	82,143
Accrued interest	21,830
	<u>\$ 579,623</u>

**Note 10. Commitments and Contingent Liabilities**

**A. Capital Investment Program**

The Authority's capital investment continuing program for mass transportation development has projects in service and in various stages of approval, planning, and implementation. The following table shows, as of June 30, 2014, capital projects costs approved, expenditures against these projects, and estimated costs to complete these projects, as well as the major funding sources.

<u>Funding Source</u>	<u>Approved project costs</u>	<u>Expenditures through June 30, 2014</u>	<u>Unexpended costs</u>
Federal grants	\$ 12,263,677	9,350,415	2,913,262
State and local sources	2,310,741	1,521,203	789,538
Total	<u>\$ 14,574,418</u>	<u>10,871,618</u>	<u>3,702,800</u>

The terms of the federal grant contracts require the Authority to, in part, utilize the equipment and facilities for the purposes specified in the grant agreement, maintain these items in operation for a specified time period, which normally approximates the useful life of the equipment, and to comply with the Equal Employment Opportunity and Affirmative Action programs required by MAP-21. Failure to comply with these terms may jeopardize future funding and require the Authority to refund a portion of these grants to the Federal Transit Administration (FTA). In management's opinion, no events have occurred that would result in the termination of the grants or require the refund of a significant amount of funds received under these grants.

**B. Legal and Other**

The Authority is a defendant in various litigations. Although the outcomes of these matters are not presently determinable, in the opinion of the Authority's management, the resolution of these matters will not have a material adverse effect on the financial condition of the Authority, except as noted.

# **MERRIMACK VALLEY REGIONAL TRANSIT AUTHORITY**

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## Notes to Financial Statements

June 30, 2014

The United States Environmental Protection Agency has named Ryder Truck Rental, Inc. (“Ryder”) as a Potentially Responsible Party with respect to the contribution of waste oil and the cleanup of releases of waste oil at and from the Beede Waste Oil Superfund Site in Plaistow, New Hampshire (the “Beede Site”). First Transit, Inc. (“First Transit”), a subsidiary of Ryder which provides transit management services to the Authority under an agreement with the Authority, claims that the Authority is required contractually to indemnify First Transit for attorneys’ fees and certain clean-up costs that First Transit and its related legal entities allegedly have or will incur concerning the Beede Site pursuant to terms of the agreement in connection with the management or operations of the Authority’s transit system. The Authority denies that indemnification is owed to First Transit. The Parties have discussed potential settlement concerning First Transit’s claims and have entered into a tolling agreement to allow for continued negotiations. We will vigorously defend the Authority’s position in this matter. We are unaware of the Authority having been named as a Potentially Responsible Party. The Authority has not been compelled to take remediation action, nor has it been named in a lawsuit, with respect to these releases or the requested indemnification. While no formal claim has been brought and there has not been any recent activity or action, we continue to monitor this matter.

In regards to the retirement plan identified in Note 7, the Authority’s employees are participants in litigation initiated by the Lawrence Retirement Board. The case involves a claim by employees of the Authority that they are entitled to certain creditable service, at no charge, for retirement purposes. The state Public Employee Retirement Administration Commission (“PERAC”) indicated that these employees were entitled to such a credit at no charge to them individually, and the Lawrence Retirement Board disagreed. The state Contributory Retirement Appeals Board (“CRAB”) and the Superior Court have both agreed with PERAC’s determination, and the Retirement Board has appealed this issue to the Appeals Court. While the individual employees’ ability to obtain credit for past service at no cost to the individual employees has thus far been upheld, it has been suggested during the legal proceedings that some amount, as of yet uncalculated and assessed, is owed by the Authority to compensate the Retirement Board for its “unfunded liability” as a result of the employees receiving creditable service at no charge. It does not appear that the Appeals Court will have occasion to directly address this issue, but if the CRAB determination is upheld on appeal, it is possible that the Authority will be assessed some additional (as yet undetermined) amount, at some point in the future, once the affected individuals retire.

The Authority participates in a number of federally assisted grant programs. These programs are subject to financial and compliance audits by the grantors or their representatives. In the opinion of the Authority’s management, liabilities resulting from such disallowed expenditures, if any, will not be material to the accompanying financial statements.

The Authority has entered into a five year agreement for management services effective July 1, 2012. Annual fees start at \$689,187.

**MERRIMACK VALLEY REGIONAL TRANSIT AUTHORITY**  
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Notes to Financial Statements

June 30, 2014

**C. Fuel Hedges**

The Authority had two hedges outstanding at June 30, 2014 that started on June 4, 2014 and will continue through June 30, 2015. The aggregate notional amount for dyed ultra low sulfur diesel was 470,000 gallons with a price of \$3.065 per gallon. The other hedge was for 87 octane unleaded gasoline with an aggregate notional amount of 83,000 gallons at a cost of \$2.965 per gallon.

**Note 11. Net Investments in Capital Assets**

This balance is represented by the amount invested in capital assets net of related debt. It is comprised of the following:

Cost of Capital Assets Acquired	\$ 92,264,504
Less: Accumulated Depreciation	27,906,015
Less: Outstanding Debt Related to Capital Assets	<u>-</u>
	<u><u>\$ 64,358,489</u></u>

**Note 12. 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. At June 30, 2014 that reserve amounted to \$117,028. The Authority has also set aside \$150,000 in a separate account to meet bond service requirements.

**Note 13. 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 has two operating subsidiaries, Merrimack Valley Area Transportation Company (MVATC) which operates the fixed route service and Special Transportation Services (STS) which operates the elderly and handicapped services. In return, the Authority agrees to pay First Transit a management fee and to reimburse MVATC and STS for all costs and expenses which are reasonable and necessary for the efficient operation of the services.

**Note 14. The Lawrence Gateway Quadrant Area Re-Use Plan**

The Quadrant Area is a 13-acre section within the Lawrence Gateway. The project includes the remediation and redevelopment of a contaminated City-owned site into a passive park adjacent to the Spicket River, and the redevelopment of another old contaminated industrial site into landscaped surface parking to support the reuse of the neighborhood mills and Lawrence General Hospital. The parking is necessary to support the redevelopment of some 1.2 million square feet of mill space in the Quadrant Area and future overflow demand for transit needs.

# **MERRIMACK VALLEY REGIONAL TRANSIT AUTHORITY**

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## Notes to Financial Statements

June 30, 2014

To implement the Quadrant Area project, the City of Lawrence, the Authority and GenCorp, the primary private property owner in the Quadrant Area, have entered into a Memorandum of Agreement, with the Authority as fiduciary agent and development project manager. The Authority will augment Lawrence's management and development experience, and will ensure a coordinated, cohesive approach to the project.

The funding for the project consists of various grants and loans from federal agencies (HUD, EPA, FTA) and the state Mass Development Finance Agency program. The activities subject to the Agreement include the demolition of structures, construction of a surface parking facility, roadway improvements, abandonment and filling of raceway systems, and the development of open, passive park space. The Authority will not take title to the property and has no liability on any debt associated with the project. The Authority is accumulating all financial activities on a separate set of books until the project is completed. The off balance sheet amounts consists of \$167,701 in cash and \$13,598,194 in project costs funded by HUD loans and federal and state grants.

The parking area is complete and operational. The Authority is waiting for GenCorp to complete and receive approval from the US EPA on its final plan for long term compliance monitoring. Once this is approved the MVRTA will take title to the parking area land. The present Oxford Park project is being undertaken to meet the compensatory flood requirements of the Mass DEP and to assist the City of Lawrence in completing its City Greenway system. No FTA or MassDOT funds are being used on this park project. The estimated time for park completion was October of 2013. As of June 30, 2014 there was no set date for EPA approval of GenCorp plans.

### **Note 15. Executive Compensation**

Administration and Finance regulations, 801 CMR 53.00, on Executive Compensation require that the Authority disclose in the annual financial statements the "salaries and other compensation of its executive director, officers, board members and other highly compensated employees". Compensation is defined in the regulation, 801 CMR 53.04 (1) to include "base salary, bonuses, severance, retirement or deferred compensation packages and policies relative to the accrual and payment of sick and vacation time, including payouts for unused sick and vacation time". The administrator is the only individual for whom disclosure is required. Based on the above definition of compensation the administrator received \$107,337 during the fiscal year.

### **Note 16. Subsequent Events**

The Authority has evaluated events subsequent to June 30, 2014 through September 25, 2014, the date on which the financial statements were available for issuance, and determined that there are no material items that would require recognition or disclosure in the Authority's financial statements.

**MERRIMACK VALLEY REGIONAL TRANSIT AUTHORITY**

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## Budgetary Comparison Schedule

For the Year Ended June 30, 2014

<u>Expense Description</u>	<u>Final Budget</u>	<u>Actual Expenses</u>	<u>Variance (Over)/Under</u>
Administration			
Personnel	\$ 336,050	319,977	16,073
Professional Services	90,300	93,994	(3,694)
Office and Travel	15,275	16,187	(912)
Debt Service - Interest	118,795	107,365	11,430
Transportation			
Fixed Route	10,818,315	10,710,681	107,634
Special Services	1,976,700	1,959,382	17,318
Terminal expenses	1,167,765	1,105,348	62,417
Transit Center, Security	30,000	30,695	(695)
Other			
Local Share - Capital	<u>3,000</u>	<u>-</u>	<u>3,000</u>
Total Expenses	<u>\$ 14,556,200</u>	<u>14,343,629</u>	<u>212,571</u>

*See accompanying independent auditors' report*

**MERRIMACK VALLEY REGIONAL TRANSIT AUTHORITY**

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Schedule of Net Cost of Service

For the Year Ended June 30, 2014

OPERATING COSTS

MVRTA administrative costs	\$ 430,158
Purchased services	
Fixed route	10,741,376
Demand responsive	1,959,382
Terminal expense	1,105,348
Debt service - interest	107,365
Total operating costs	<u>14,343,629</u>

FEDERAL OPERATING ASSISTANCE

FTA operating and administrative	2,822,390
Other federal	-
Total federal assistance	<u>2,822,390</u>

REVENUES

Operating	
Farebox revenue	1,640,283
Other Revenue	
Terminal revenues	856,334
Advertising	60,899
Interest income	2,731
Miscellaneous	426,375
Total other revenue	<u>1,346,339</u>

NET OPERATING DEFICIT

8,534,617

ADJUSTMENTS

Extraordinary expenses	-
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NET COST OF SERVICE

8,534,617

NET COST OF SERVICE FUNDING

Local assessments	2,591,333
State contract assistance to be funded	5,943,284
Less: state operating assistance received	5,943,284
Balance requested from the State	-

UNREIMBURSED DEFICIT

-

*See accompanying independent auditors' report*



**MERRIMACK VALLEY REGIONAL TRANSIT AUTHORITY**

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## Schedule of Allocation of Net Operating Deficits

June 30, 2014

	Fixed Route Bus Service	Demand Responsive	Terminal Expenses	Transit Deficits	General Admin.	Interest Expense	Net Cost of Service
Total cost	\$10,710,682	1,959,382	1,105,348	13,775,412	460,852	107,365	14,343,629
Credits	<u>1,844,815</u>	<u>170,874</u>	<u>856,334</u>	<u>2,872,023</u>	<u>111,868</u>	<u>2,731</u>	<u>2,986,622</u>
Net Cost	<u><u>8,865,867</u></u>	<u><u>1,788,508</u></u>	<u><u>249,014</u></u>	<u><u>10,903,389</u></u>	<u><u>348,984</u></u>	<u><u>104,634</u></u>	<u><u>11,357,007</u></u>
Allocation:							
Federal	1,867,348	807,121	52,398	2,726,867	73,557	21,966	2,822,390
State	4,873,493	683,478	136,696	5,693,667	191,968	57,649	5,943,284
Amesbury	70,763	215,853	1,144	287,760	9,698	2,907	300,365
Andover	151,727	4,307	4,278	160,312	5,383	1,614	167,309
Boxford	-	516	-	516	17	5	538
Georgetown	-	5,288	-	5,288	175	53	5,516
Groveland	-	2,708	-	2,708	83	25	2,816
Haverhill	427,343	19,095	12,050	458,488	15,415	4,621	478,524
Lawrence	670,871	9,346	18,917	699,134	23,502	7,045	729,681
Merrimac	40,588	2,029	2,912	45,529	1,527	458	47,514
Methuen	520,631	27,048	14,680	562,359	18,895	5,664	586,918
Newbury	-	653	-	653	26	7	686
Newburyport	103,276	1,909	1,995	107,180	3,605	1,081	111,866
No. Andover	100,301	5,589	2,828	108,718	3,656	1,096	113,470
Salisbury	39,526	3,413	1,116	44,055	1,477	443	45,975
West Newbury	<u>-</u>	<u>155</u>	<u>-</u>	<u>155</u>	<u>-</u>	<u>-</u>	<u>155</u>
Total							
Allocation:	<u><u>\$ 8,865,867</u></u>	<u><u>1,788,508</u></u>	<u><u>249,014</u></u>	<u><u>10,903,389</u></u>	<u><u>348,984</u></u>	<u><u>104,634</u></u>	<u><u>11,357,007</u></u>

## Notes:

- (a) Transit deficits for fixed route transportation are apportioned to the communities based on the mileage of those routes that pass through the community. The demand responsive is allocate by contract.
- (b) The general expense of the Authority are allocated based on the percentage of which each funding participant's transit deficit bears to the total combined transit deficit of all participants exclusive of special projects.

See accompanying independent auditors' report