

**MERRIMACK VALLEY REGIONAL
TRANSIT AUTHORITY**

(A Component Unit of the Massachusetts Department of Transportation)

**FINANCIAL STATEMENTS AND SUPPLEMENTARY
INFORMATION**

YEAR ENDED JUNE 30, 2015

(WITH INDEPENDENT AUDITORS' REPORT THEREON)

MERRIMACK VALLEY REGIONAL TRANSIT AUTHORITY

(A Component Unit of the Massachusetts Department of Transportation)

Year Ended June 30, 2015

Table of Contents

	Page
Management’s Discussion and Analysis – Required Supplementary Information	1-5
Independent Auditor’s Report	6-7
Basic Financial Statements:	
Statement of Net Position	8
Statement of Revenues, Expenses, and Changes in Net Position	9
Statement of Cash Flows	10
Notes to Financial Statements	11-27
Required Supplementary Information:	
Schedule of Authority’s Proportionate Share of the Net Pension Liability	28
Schedule of Pension Liability	29
Supplementary Information:	
Schedule of Allocation of Net Operating Deficits	30
Schedule of Local Assessments	31

MERRIMACK VALLEY REGIONAL TRANSIT AUTHORITY

(A Component Unit of the Massachusetts Department of Transportation)

Required Supplementary Information

Management's Discussion and Analysis - Unaudited

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, 2015. 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 27 of the report.

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

Required Supplementary Information

Management's Discussion and Analysis - Unaudited

Condensed Financial Information

Condensed financial information as of and for the years ended June 30, 2015 and 2014 are as follows:

	<u>2015</u>	<u>2014</u>
Current assets	\$ 6,240,501	\$ 9,596,844
Restricted and noncurrent assets	3,563,589	397,373
Capital assets, net	<u>62,994,792</u>	<u>64,358,489</u>
Total assets	<u>72,798,882</u>	<u>74,352,706</u>
Current liabilities	661,321	369,793
Restricted and noncurrent liabilities	7,949,298	8,310,955
Long term liabilities	<u>1,809,822</u>	<u>1,196,441</u>
Total liabilities	<u>10,420,441</u>	<u>9,877,189</u>
Net position:		
Invested in capital assets, net of related debt	62,994,792	64,358,489
Restricted	117,028	117,028
Unrestricted	<u>(733,379)</u>	<u>-</u>
Total net position	<u>\$ 62,378,441</u>	<u>\$ 64,475,517</u>
Operating revenue		
Revenue from transportation	\$ 1,792,786	\$ 1,640,283
Other	<u>1,045,367</u>	<u>1,343,608</u>
Total operating revenues	<u>2,838,153</u>	<u>2,983,891</u>
Operating expenses:		
Transportation services	14,352,295	12,700,759
Other operating expenses	<u>1,674,937</u>	<u>1,535,505</u>
Total operating expenses, excluding depreciation	<u>16,027,232</u>	<u>14,236,264</u>
Depreciation and amortization	<u>3,842,700</u>	<u>3,437,304</u>
Total operating expenses, including depreciation	<u>19,869,932</u>	<u>17,673,568</u>
Operating loss	<u>(17,031,779)</u>	<u>(14,689,677)</u>
Net nonoperating revenue	<u>13,181,968</u>	<u>11,252,373</u>
Loss before capital grants	(3,849,811)	(3,437,304)
Capital grants and contributions	<u>2,479,003</u>	<u>2,076,543</u>
Change in net position	(1,370,808)	(1,360,761)
Net position:		
Beginning of year		
As previously reported	64,475,517	65,836,278
Prior period adjustment	<u>(726,268)</u>	<u>-</u>
As restated	<u>63,749,249</u>	<u>65,836,278</u>
End of year net position	<u>\$ 62,378,441</u>	<u>\$ 64,475,517</u>

MERRIMACK VALLEY REGIONAL TRANSIT AUTHORITY

(A Component Unit of the Massachusetts Department of Transportation)

Required Supplementary Information

Management’s Discussion and Analysis - Unaudited

Financial Highlights

The assets of the Authority exceed its liabilities at the close of the most recent fiscal year by \$62,378,441. The Authorities total net position decreased by \$1,370,808 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 \$152,503, or 9.3%, due to new services implemented during the year.
- Total operating expenses, excluding depreciation, increased by \$1,790,968, or 12.6%, 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, 2015 amounted to \$62,994,792 (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	\$ 2,267,103
Building and improvements	187,298
Electric equipment	24,602
	<u>\$ 2,479,003</u>

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

At year-end, the Authority had \$6,700,000 of revenue anticipation notes outstanding, a decrease of \$1,300,000 from the prior year.

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

Required Supplementary Information

Management's Discussion and Analysis - Unaudited

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. In Fiscal 2015, the State has continued its funding policy to provide State Contract 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. After extensive discussions with the Region I FTA Staff and with the City of Newburyport, the effort by MVRTA will be to pursue the design of a transit element as part of an overall Intermodal Parking Facility. This transit element would consist of parking for MVRTA buses and vans, a site office, and one hundred (100) parking spaces for private sector-provided bus service to Boston. The location of this transit element would be on the West side of Titcomb Street. Parking would also be included for City and NED use. At the close of the fiscal year, an owner's Project Manager (Kleinfelder) had been selected. In addition, a Designer was also selected (Desman, Inc.). Efforts to achieve final design and project bidding would be undertaken in FY 2016.

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

- Three (3) new commuter buses were delivered and placed into service during the fiscal year.
- Completed State of Good Repair projects at the MVRTA Office/Maintenance facility and the McGovern Transportation Center.
- Completed the replacement of the Model Year 2004 Bus/Van communications system.
- Place an order for ten new transit buses.
- Received delivery of eleven new vans.
- Placed an order for a new Bus/Van Wash System.

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

- For the first time since 1959, Sunday local bus service was provided on a Saturday schedule (7:00 am – 7:00 pm) starting September 7th.
- Provided bus service on a Saturday schedule on the following additional Holidays: Martin Luther King Day, President's Day, and Patriot's Day.
- For the Boston Commuter Service, an extra outbound from Boston trip at 4:45 pm was added as well as service on Veteran's Day, Martin Luther King Day, President's Day, and Patriot's Day.
- Commuter Service to Boston from North Andover was started on April 6th leaving Osgood Landing and the Mill complex, Water Street. A 6:30 am inbound to Boston tip and a 5:30 pm return trip are being provided.

In the Fiscal Year 2016, the Authority will implement the following new services:

- Sunday service to be adjusted to 8:00 am – 6:00 pm on all routes.
- Sunday service on Route 85 Downtown Lawrence Shuttle would be removed.
- Saturday service on Route 85 would be reduced to hourly service and interlined with Route 37.

MERRIMACK VALLEY REGIONAL TRANSIT AUTHORITY

(A Component Unit of the Massachusetts Department of Transportation)

Required Supplementary Information

Management's Discussion and Analysis – Unaudited

- Effective September 8, 2014, on weekdays only, all Haverhill-based routes (13, 14, 15, 16, and 18) would operate on 60 minute clock face headways

In Fiscal Year 2016, the Authority will undertake these Capital Projects:

- Purchase 5 new vans to replace Model Year 2011 vans.
- Purchase 7 new buses to replace Model Year 2004 buses.
- Complete design of the Newburyport Intermodal Parking Facility.
- Initiate construction of the Newburyport Intermodal Parking Facility.

Fixed Route ridership increased from 1,770,618 in FY 2011, increased to 1,912,293 in FY 2012, increased to 1,954,667 in FY 2013, increased to 2,024,281 in FY 2014, and increased to 2,175,917 in FY 2015.

Ridership on the Boston Commuter Bus increased from 48,749 in FY 2011, increased to 52,175 in FY 2012, increased to 63,470 in FY 2013, decreased to 63,207 in FY 2014, and decreased to 62,634 in FY 2015.

Ridership for Special Services Transportation increased from 64,262 in FY 2011 to 66,895 in FY 2012, decreased to 66,245 in FY 2013, increased to 66,271 in FY 2014, and decreased to 62,142 in FY 2015.

Ridership on all services was adversely affected during the January/February 2015 winter snowstorms.

ROLAND P. LAMBALOT, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

184 PLEASANT VALLEY ST.

METHUEN, MA 01844

TELEPHONE (978) 691-0050

FAX (978) 691-0066

INDEPENDENT AUDITOR'S REPORT

To the Advisory Board of the
Merrimack Valley Regional Transit Authority

We have audited the accompanying financial statements of the Merrimack Valley Regional Transit Authority (the Authority), a component unit of the Massachusetts Department of Transportation, which comprise the statement of net financial position as of and for the year ended June 30, 2015, and the related statement of changes in net position, and cash flows for the year then ended, and the related notes to the financial statements.

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 net position of the Merrimack Valley Regional Transit Authority as of June 30, 2015 and the respective changes in its net position and its 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 on pages 1 through 5 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 page 30 and 31 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Schedules are the responsibility of management and were 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 Schedule 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 November 12, 2015, 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
November 12, 2015

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

Statement of Net Position

June 30, 2015

Assets

Current assets:

Cash and cash equivalents	\$ 1,914,769
Federal operating assistance	836,121
Local assessments receivable	3,240,519
Other receivables	103,937
Contractor advances	6,148
Deferred costs	139,007
Total current assets	<u>6,240,501</u>

Restricted and noncurrent assets:

Cash and cash equivalents	396,067
Local assessments receivable	681,219
Deferred costs	1,076,077
Capital assistance receivables	1,410,226
Capital assets, net	62,994,792
Total restricted and noncurrent assets	<u>66,558,381</u>

Total Assets

\$ 72,798,882

Liabilities

Current liabilities:

Accounts payable and accrued expenses	\$ 402,380
Accrued payroll	84,973
Accrued interest payable	60,020
Revenue bond - current portion	113,948
Total current liabilities	<u>661,321</u>

Restricted and noncurrent liabilities:

Accounts payable	1,249,298
Net pension liability	734,844
Revenue anticipation notes	6,700,000
Revenue bond	1,074,978
Total restricted and noncurrent liabilities	<u>9,759,120</u>

Total Liabilities

\$ 10,420,441

Net Position

Invested in capital assets, net of related debt	\$ 62,994,792
Restricted	117,028
Unrestricted	(733,379)
Total net position	<u><u>\$ 62,378,441</u></u>

See accompanying notes to the financial statements

MERRIMACK VALLEY REGIONAL TRANSIT AUTHORITY

(A Component Unit of the Massachusetts Department of Transportation)

Statement of Revenues, Expenses, and Changes in Net Position

Year Ended June 30, 2015

Operating Revenues:	
Passenger fares	\$ 1,792,786
Terminal revenues	950,959
Other Income	94,408
	<hr/>
Total operating revenues	2,838,153
Operating Expenses:	
Transit service	12,106,368
Maintenance	2,245,927
Terminal expenses	1,210,936
General Administration	464,001
	<hr/>
	16,027,232
Depreciation	3,842,700
	<hr/>
Total operating expenses	19,869,932
	<hr/>
Operating loss	(17,031,779)
Nonoperating revenues (expense)	
Operating assistance grants	
Federal operating assistance	3,548,873
Commonwealth of Massachusetts contract assistance	6,669,432
Local Assessments	3,037,334
Interest income	2,212
Interest expense	(75,883)
	<hr/>
Total non-operating revenues	13,181,968
	<hr/>
Loss before capital grants	(3,849,811)
Capital Grants and Contributions	2,479,003
	<hr/>
Change in net position	(1,370,808)
Net position	
Beginning of the year, as reported	64,475,517
Prior period adjustment - implementation of GASB 68	(726,268)
	<hr/>
Beginning of the year, as restated	63,749,249
	<hr/>
End of year	\$ 62,378,441
	<hr/> <hr/>

See accompanying notes to the financial statements

MERRIMACK VALLEY REGIONAL TRANSIT AUTHORITY

(A Component Unit of the Massachusetts Department of Transportation)

Statement of Cash Flows

Year ended June 30, 2015

Cash flows from operating activities:	
Passenger fares	\$ 1,792,786
Terminal revenues	950,959
Other cash receipts	94,408
Payments to operators	(14,277,622)
Payments to other vendors	(1,235,554)
Payments to employees for services	(228,123)
Net cash used in operating activities	<u>(12,903,146)</u>
Cash flows from non-capital financing activities:	
Proceeds from sale of revenue anticipation notes	6,700,000
Principal paid on revenue anticipation notes	(8,000,000)
Principal paid on revenue bond	(108,640)
Interest paid on debt	(75,528)
Operating and contract assistance	11,957,612
Net cash provided by non-capital financing activities	<u>10,473,444</u>
Cash flows from capital and related financing activities:	
Capital grants	2,586,991
Purchase of capital assets	(2,479,003)
Net cash used by capital and related financing activities	<u>107,988</u>
Cash flows from investing activities:	
Interest income	2,212
Net cash provided by investing activities	<u>2,212</u>
Change in cash and cash equivalents	(2,319,502)
Cash and cash equivalents, beginning of year	<u>4,630,338</u>
Cash and cash equivalents, end of year	<u>\$ 2,310,836</u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (17,031,779)
Adjustments:	
Depreciation	3,842,700
Changes in assets and liabilities	
Local assessment and other receivables	238,783
Deferred costs	(108,640)
Accounts payable and deferrals	155,790
Net cash used in operating activities	<u>\$ (12,903,146)</u>

See accompanying notes to the financial statements

MERRIMACK VALLEY REGIONAL TRANSIT AUTHORITY

(A Component Unit of the Massachusetts Department of Transportation)

Notes to Financial Statements

June 30, 2015

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.

MERRIMACK VALLEY REGIONAL TRANSIT AUTHORITY

(A Component Unit of the Massachusetts Department of Transportation)

Notes to Financial Statements

June 30, 2015

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

(A Component Unit of the Massachusetts Department of Transportation)

Notes to Financial Statements

June 30, 2015

J. Available Unrestricted Resources

The Authority's policy is to utilize available unrestricted resources prior to restricted resources.

K. Statement of Net Position

The statement of net position presents all of the Authority's assets and liabilities, with the difference reported as net position. Net position is reported in three categories:

Net investment in capital assets consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt that are attributed of the acquisition, construction or improvement of those assets.

Restricted net position results when constraints placed on net position use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through enabling legislation.

Unrestricted net position consists of net position which does not meet the definition of the two preceding categories.

L. Restricted Assets and Restricted Liabilities

Restricted assets are restricted for the acquisition of capital assets and the reserve for extraordinary expense. Restricted liabilities are amounts payable from the restricted assets.

M. Reclassifications

Certain prior year amounts have been reclassified to conform to current year presentation.

N. New Accounting Pronouncements

In June, 2012, the GASB issued GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27*. This statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures related to pensions. For defined benefit pensions, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about pensions also are addressed.

The Authority implemented this statement in fiscal year 2015. The adoption of this standard had the following effects on the Authority's financial statements:

- a) The recording of the net pension liability (unfunded pension plan obligation)
- b) An actuarially determined pension expense and deferred outflows of resources
- c) Significant new note disclosures, and new required supplementary information data

MERRIMACK VALLEY REGIONAL TRANSIT AUTHORITY

(A Component Unit of the Massachusetts Department of Transportation)

Notes to Financial Statements

June 30, 2015

In November, 2013, the GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68*. This statement amends paragraph 137 of Statement No. 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. The Authority implemented this statement during fiscal year 2015. The adoption of this standard did not have a material impact on the Authority’s financial statements.

In January, 2013, the GASB issued GASB No. 69, *Government Combinations and Disposals of Government Operations*. This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. The Authority implemented this statement during fiscal year 2015. The adoption of this standard did not have a material impact on the Authority’s financial statements.

The GASB has issued the following statements, which require adoption subsequent to June 30, 2015 and are applicable to the Authority. The Authority has not yet adopted these statements, and the implication on the Authority’s fiscal practices and financial reports is being evaluated.

<u>Statement No.</u>		<u>Adoption Required in Fiscal Year</u>
72	<i>Fair Value Measurement and Application</i>	2016
73	<i>Accounting and Financial Reporting for Pensions and Financial Reporting for Pension Plans That Are Not Administered through Trusts that Meet Specified Criteria</i>	2016
74	<i>Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans</i>	2017
75	<i>Accounting and Financial Reporting for Postemployment Benefits Other Than Pension Plans</i>	2018
76	<i>The Hierachy of Generally Accepted Accounting Principles for State and Local Governments</i>	2016
77	<i>Tax Abatement Disclosures</i>	2017

O. Pensions

For purposes of measuring the Authority’s 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 Lawrence Retirement System (LRS) and additions to/deductions from the LRS’s fiduciary position have been determined on the same basis as they are reported by LRS. 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.

MERRIMACK VALLEY REGIONAL TRANSIT AUTHORITY

(A Component Unit of the Massachusetts Department of Transportation)

Notes to Financial Statements

June 30, 2015

P. Deferred Outflows/Inflows of Resources

The Authority accounts for certain transactions that result in the consumption or acquisition of one period that are applicable to future periods as deferred outflows and inflows, respectively, to distinguish them from assets and liabilities. For fiscal 2015, the Authority has reported deferred outflows that are related to its pension plan.

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, 2015 \$2,317,796 of the government’s bank balance of \$2,067,976 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 2015 was \$6,669,432.

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

Notes to Financial Statements

June 30, 2015

Note 4. Capital Assets

The following is a summary of changes in Capital Assets at June 30, 2015:

	Beginning balance	Additions	Disposals	Ending balance
Capital assets not being depreciated:				
Land	\$ 4,198,534	-	-	4,198,534
Construction in progress	793,200	79,001	-	872,201
Total capital assets not being depreciated	<u>4,991,734</u>	<u>79,001</u>	<u>-</u>	<u>5,070,735</u>
Other capital assets:				
Buildings and improvements	61,711,820	108,297	-	61,820,117
Buses - revenue vehicles	21,044,427	2,267,103	54,617	23,256,913
Service equipment	1,244,319	-	-	1,244,319
Electronic equipment	2,914,539	24,602	-	2,939,141
Passenger shelters	53,725	-	-	53,725
Furniture & fixtures	303,940	-	-	303,940
Total other capital assets at historical cost	<u>87,272,770</u>	<u>2,400,002</u>	<u>54,617</u>	<u>89,618,155</u>
Less accumulated depreciation for:				
Buildings and improvements	13,140,199	1,752,390	-	14,892,589
Buses - revenue vehicles	11,587,360	1,632,490	54,617	13,165,233
Service equipment	1,061,079	62,208	-	1,123,287
Electronic equipment	1,786,019	387,092	-	2,173,111
Passenger shelters	53,725	-	-	53,725
Furniture & fixtures	277,633	8,520	-	286,153
Total accumulated depreciation	<u>27,906,015</u>	<u>3,842,700</u>	<u>54,617</u>	<u>31,694,098</u>
Other capital assets, net	<u>59,366,755</u>	<u>(1,442,698)</u>	<u>-</u>	<u>57,924,057</u>
Total capital assets, net	<u>\$ 64,358,489</u>	<u>(1,363,697)</u>	<u>-</u>	<u>62,994,792</u>

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

Notes to Financial Statements

June 30, 2015

Note 5. Revenue Anticipation Notes

During the year ended June 30, 2015, the following changes occurred in the Authority's revenue anticipation notes (RANS):

Beginning balance	\$ 8,000,000
New notes issued	6,700,000
Notes retired	<u>(8,000,000)</u>
Ending balance	<u>\$ 6,700,000</u>

The \$6,700,000 of RAN was issued on June 19, 2015, carries an interest rate of 1.50% and is due June 30, 2016. The Authority uses the proceeds of these notes to fund its mass transit operations. The RAN is considered short term debt that is expected to be refinanced and is included in the accompanying Statement of Net Position as a noncurrent liability.

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 3.341% with a monthly payment of \$12,661. 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:

2016	\$ 113,948
2017	117,814
2018	121,811
2019	125,944
2020	130,216
2021-2024	579,193

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

Notes to Financial Statements

June 30, 2015

Note 7. Retirement Plans

General Information about the Pension Plan

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. The plan is a cost-sharing, multiple-employer, defined benefit pension plan.

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. Benefits Provided

The plan covers all eligible employees and provides retirement, disability, cost of living adjustments and death benefits to all plan members and beneficiaries. The plan provides for retirement allowance benefits up to a maximum of 80% of a member's highest three-year average annual rate of regular compensation for those hired prior to April 2, 2012. For persons who became members on or after April 2, 2012, average salary is the average annual rate or regular compensation received during the five consecutive years that produce the highest average, or, if greater, during the last five years (whether or not consecutive) preceding retirement. Benefit payments are based upon a member's age, length of creditable service, level of compensation, and group classification.

C. 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, 2015 was \$58,440, which equaled its required contribution for the year.

MERRIMACK VALLEY REGIONAL TRANSIT AUTHORITY

(A Component Unit of the Massachusetts Department of Transportation)

Notes to Financial Statements

June 30, 2015

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

At June 30, 2015, the Authority reported a liability of \$734,844 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2014. Update procedures were used to roll forward the total pension liability to December 31, 2014. The Authority's proportion of the net pension liability was based on a projection of the long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At December 31, 2014, the Authority's proportion of net pension liability was 0.336 percent.

Since LRS performs an actuarial valuation bi-annually, there are no reported amounts for changes in benefit terms differences between expected and actual experience and changes in assumptions as of December 31, 2014.

In the LCRS financial statements for the year ended December 31, 2014, in addition to assets, the statement of fiduciary net position will sometimes report a separate section for deferred outflow of resources. This separate financial statement element, *deferred outflow of resources*, represents a consumption of fiduciary net position that applies to a future period (s) and so will not be recognized as an outflow of resources (deduction) until then.

In addition to liabilities, the statement of fiduciary net position will sometimes report a separate section for deferred inflow of resources. This separate financial element, *deferred inflow of resources*, represents an acquisition of net position that applies to future period (s) and so will not be recognized as an inflow of resources (addition) until that time. The LCRS did not have any items that qualify for reporting in this category.

For the year ended June 30, 2015, the Authority recognized pension expense of \$65,551. At June 30, 2015 the Authority reported deferred outflows related to pensions from the following sources:

	Deferred Outflows of Resources
Difference between projected and actual earnings on pension plan investments	\$ <u>1,465</u>

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

Year ended June 30:	2016	\$ 366
	2017	366
	2018	366
	2019	367

MERRIMACK VALLEY REGIONAL TRANSIT AUTHORITY

(A Component Unit of the Massachusetts Department of Transportation)

Notes to Financial Statements

June 30, 2015

A. Actuarial Assumptions

The total pension liability in the January 1, 2014 actuarial valuation and the related update to December 31, 2014 (the measurement date), were determined using the following actuarial assumptions, applied to all periods included in the measurement.

Actuarial cost method	Individual entry age normal cost method
Amortization method	Payments increase at 3.42 percent
Asset valuation method	Market value adjusted by payables and receivables
Remaining amortization period	23 years
Inflation	3.0 percent
Salary increases	3.75 percent per year
Investment rate of return	7.75 percent per year of net investment expenses
Cost of living adjustments	Assumed that the cost-of-living increases will continue to be funded by the state at 3 percent
Mortality rates:	
Pre-retirement	The RP-2000 Mortality Table for Healthy Employees and Annuitants (sex distinct) projected with scale BB and generational mortality
Post-retirement	Mortality rates from the RP-2000 Annuity Mortality Table, set forward for two years

The actuarial assumptions used in the January 1, 2014 valuation were based on the results of an actuarial experience study for the period of January 1, 2012 to January 1, 2014.

MERRIMACK VALLEY REGIONAL TRANSIT AUTHORITY

(A Component Unit of the Massachusetts Department of Transportation)

Notes to Financial Statements

June 30, 2015

The long term expected real rate of return reflects the expected rate of return on plan assets minus the expected rate of inflation. Note that the discount rate includes the effect of inflation. The long-term real rate of return removes the effect of inflation on the return amounts. It is a long-term assumption and is meant to reflect a best estimate of future experience. The allocation percentages were provided by the Pension Reserves Investment Management Board (PRIM). PRIM supplied nominal rates of return which were adjusted to real rates of return using a 3.00% inflation assumption. 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>Allocation</u>	<u>Rate of Return</u>
Core Bonds	13.00%	0.97%
Value-Added Bonds	10.00%	3.80%
Large Cap Equities	14.50%	4.61%
Mid/Small Cap Equities	3.50%	4.85%
International Equities	16.00%	5.10%
Emerging Market Equities	6.00%	6.31%
Private equity	10.00%	6.55%
Real Estate	10.00%	3.40%
Timber/Natural Resources	4.00%	3.64%
Hedge Funds	9.00%	3.64%
Cash/Portfolio Completion	4.00%	0.00%
Total	<u>100.00%</u>	

B. Discount Rate

The discount rate used to measure the total pension liability was 7.75 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from employers will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current 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.

MERRIMACK VALLEY REGIONAL TRANSIT AUTHORITY

(A Component Unit of the Massachusetts Department of Transportation)

Notes to Financial Statements

June 30, 2015

C. 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:

	1% Decrease	Discount Rate	1% Increase
	6.75%	7.75%	8.75%
Authority's proportionate share of the net pension liability	\$ 896,072	\$ 734,844	\$ 604,294

D. Pension plan fiduciary net position

Detailed information about the pension plan’s fiduciary net position is available in the separately issued LRS financial report.

Other Pension Plans

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, 2015.

MERRIMACK VALLEY REGIONAL TRANSIT AUTHORITY

(A Component Unit of the Massachusetts Department of Transportation)

Notes to Financial Statements

June 30, 2015

Health insurance benefits for employees are provided through a health maintenance organization. The Authority's contributes 75% of the premium cost for employees. In 2015, expenditures for the Authority's share of health insurance contributions were \$44,551. The Authority purchases insurance for worker's compensation for its employees.

Note 9. 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, 2015, 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	\$ 15,211,582	10,815,673	4,395,909
State and local sources	3,045,736	1,880,850	1,164,886
Total	<u>\$ 18,257,318</u>	<u>12,696,523</u>	<u>5,560,795</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

(A Component Unit of the Massachusetts Department of Transportation)

Notes to Financial Statements

June 30, 2015

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

(A Component Unit of the Massachusetts Department of Transportation)

Notes to Financial Statements

June 30, 2015

C. Fuel Hedges

The Authority had two hedges outstanding that started on July 6, 2015 and will continue through July 5, 2016. The aggregate notional amount for dyed ultra low sulfur diesel was 485,000 gallons with a price of \$2.15 per gallon. The other hedge was for 87 octane unleaded gasoline with an aggregate notional amount of 90,000 gallons at a cost of \$2.15 per gallon.

Note 10. 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	\$ 94,688,890
Less: Accumulated Depreciation	31,694,098
Less: Outstanding Debt Related to Capital Assets	<u>-</u>
	<u><u>\$ 62,994,792</u></u>

Note 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. At June 30, 2015 that reserve amounted to \$117,028. The Authority has also set aside \$150,000 in a separate account to meet bond service requirements.

Note 12. 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 13. 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

(A Component Unit of the Massachusetts Department of Transportation)

Notes to Financial Statements

June 30, 2015

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 \$59,009 in cash and \$13,706,803 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, 2015 there was no set date for EPA approval of GenCorp plans.

Note 14. Related Party

The Authority is deemed to be a related part of the Commonwealth of Massachusetts and the Massachusetts Department of Transportation due to its status as a component unit. Related party transactions consisted of Operating Assistance of \$6,669,432; State Capital Assistance of \$602,758; and Local Assessments of \$3,037,334 to be paid to the Authority by the Commonwealth. Related party receivables consist of \$3,921,738 in operating assistance to be billed to the Communities constituting the Authority; and \$123,341 of State Capital Assistance.

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 \$111,541 during the fiscal year.

MERRIMACK VALLEY REGIONAL TRANSIT AUTHORITY

(A Component Unit of the Massachusetts Department of Transportation)

Notes to Financial Statements

June 30, 2015

Note 16. Unrestricted Net Position

The balance in the Unrestricted Net Position on the Statement of Net Position primarily reflects the effect of the presentation of the net pension liability required by GASB 68 that is listed as a noncurrent liability. This requirement was effective with the fiscal year ended June 30, 2015.

Note 17. Subsequent Events

The Authority has evaluated events subsequent to June 30, 2015 through November 12, 2015, 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

(A Component Unit of the Massachusetts Department of Transportation)

Required Supplementary Information

Schedule of the Authority's Proportionate Share of the Net Pension Liability

For the Year Ended June 30, 2015

	<u>2015</u>
Authority's proportion of the net pension liability	0.336%
Authority's proportionate share of the net pension liability	\$ 734,844
Authority's covered-employee payroll	\$ 231,972
Authority's proportionate share of the net pension liability as a percentage of its covered-employee payroll	316.78%
Plan fiduciary net position as a percentage of the total pension liability	45.22%

Notes to Required Supplementary Information

Measurement Date

The amounts presented in this schedule were determined as of December 31, 2014.

Schedule Presentation

This schedule is intended to present information for 10 years. Until a 10-year trend is compiled, information is presented for those years for which information is available.

Changes Information

Since the Lawrence Retirement System performs an actuarial valuation bi-annually, there are no reported amounts for the changes in benefit terms, differences between expected and actual experience and changes in assumptions as of December 31, 2014.

MERRIMACK VALLEY REGIONAL TRANSIT AUTHORITY

(A Component Unit of the Massachusetts Department of Transportation)

Required Supplementary Information

Schedule of Pension Contributions

For the Year Ended June 30, 2015

	<u>2015</u>
Actuarially required contribution	\$ 58,440
Contributions in relation to the actuarially required contribution	<u>58,440</u>
Contribution deficiency (excess)	<u>\$ -</u>
Covered-employee payroll	\$ 231,972
Contributions as a percentage of its covered-employee payroll	25.19%

Notes to Required Supplementary Information

Schedule Presentation

This schedule is intended to present information for 10 years. Until a 10 year trend is compiled, information is presented for those years for which information is available.

Contributions

The Authority is required to pay an annual appropriation as established by the Massachusetts Contributory Retirement System. The total appropriation includes the amounts to pay the pension portion of each member's retirement allowance, an amount to amortize the actuarially determined unfunded liability to zero in accordance with adopted early retirement incentive programs.

MERRIMACK VALLEY REGIONAL TRANSIT AUTHORITY

(A Component Unit of the Massachusetts Department of Transportation)

Schedule of Net Cost of Service

For the Year Ended June 30, 2015

OPERATING COSTS

MVRTA administrative costs	\$ 471,032
Purchased services	
Fixed route	12,397,977
Demand responsive	1,947,287
Terminal expense	1,210,936
Debt service - interest	75,883
Total operating costs	<u>16,103,115</u>

FEDERAL OPERATING ASSISTANCE

FTA operating and administrative	3,548,873
Other federal	-
Total federal assistance	<u>3,548,873</u>

REVENUES

Operating	
Farebox revenue	1,792,786
Other Revenue	
Terminal revenues	950,959
Advertising	70,793
Interest income	2,212
Miscellaneous	30,726
Total other revenue	<u>1,054,690</u>

NET OPERATING DEFICIT 9,706,766**ADJUSTMENTS**

Extraordinary expenses	-
------------------------	---

NET COST OF SERVICE 9,706,766**NET COST OF SERVICE FUNDING**

Local assessments	3,037,334
State contract assistance to be funded	6,669,432
Less: state operating assistance received	6,669,432
Balance requested from the State	-

UNREIMBURSED DEFICIT -*See accompanying independent auditors' report*

MERRIMACK VALLEY REGIONAL TRANSIT AUTHORITY

(A Component Unit of the Massachusetts Department of Transportation)

Schedule of Allocation of Net Operating Deficits

June 30, 2015

The following table shows the local share that has been assessed upon each member municipality by the Commonwealth for fiscal year 2014 as well as the audited amount for fiscal 2015.

	Fiscal 2014 Assessment	Fiscal 2015 Audited
Amesbury	\$ 300,365	189,545
Andover	167,309	192,075
Boxford	538	2,911
Georgetown	5,516	27,846
Groveland	2,816	8,946
Haverhill	478,524	592,166
Lawrence	729,681	913,191
Merrimac	47,514	56,695
Methuen	586,918	707,209
Newbury	686	8,351
Newburyport	111,866	134,723
North Andover	113,470	146,054
Salisbury	45,975	57,057
West Newbury	155	565
	<hr/>	<hr/>
Totals	<u>\$ 2,591,333</u>	<u>3,037,334</u>