

LOWELL 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)

LOWELL 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
Lowell 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 Lowell Regional Transit Authority (the Authority), a component unit of the Massachusetts Department of Transportation, as of and for the year ended June 30, 2014, 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 for thereof for 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 22 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 23 through 24 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. The 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 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

LOWELL REGIONAL TRANSIT AUTHORITY
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Required Supplementary Information
Management's Discussion and Analysis

The following is offered to the readers of the Lowell Regional Transit Authority's financial statements. It is a narrative overview and analysis of the financial performance of the Lowell 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 James H. Scanlan, Administrator, Lowell Regional Transit Authority, 145 Thorndike Street, Lowell, Massachusetts 01850.

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 21 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	\$ 9,517,743	\$ 8,112,656
Capital assets, net	28,412,503	27,599,026
Total assets	<u>37,930,246</u>	<u>35,711,682</u>
Current liabilities	9,517,743	8,112,656
Long term liabilities	-	-
Total liabilities	<u>9,517,743</u>	<u>8,112,656</u>
Net position:		
Invested in capital assets, net of related debt	28,412,503	27,599,026
Restricted	-	-
Unrestricted	-	-
Total net position	<u>\$ 28,412,503</u>	<u>\$ 27,599,026</u>
Operating revenue		
Revenue from transportation	\$ 1,323,831	\$ 1,270,545
Other	1,399,441	1,398,090
Total operating revenues	<u>2,723,272</u>	<u>2,668,635</u>
Operating expenses:		
Transportation services	8,693,642	7,983,856
Other operating expenses	1,920,135	1,764,169
Total operating expenses, excluding depreciation	<u>10,613,777</u>	<u>9,748,025</u>
Depreciation and amortization	2,652,981	2,752,089
Total operating expenses, including depreciation	<u>13,266,758</u>	<u>12,500,114</u>
Operating loss	<u>(10,543,486)</u>	<u>(9,831,479)</u>
Net nonoperating revenue	<u>7,890,505</u>	<u>7,079,390</u>
Loss before capital grants	(2,652,981)	(2,752,089)
Capital grants and contributions	3,466,458	158,641
Change in net position	813,477	(2,593,448)
Beginning of year net position	<u>27,599,026</u>	<u>30,192,474</u>
End of year net position	<u>\$ 28,412,503</u>	<u>\$ 27,599,026</u>

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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 \$2,841,503. The Authorities total net position increased by \$813,477 mainly due to the acquisition of fixed 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 \$53,286, or 4.19%, due to an increase in ridership during the year.
- Total operating expenses, excluding depreciation, increased by \$865,752, or 8.88%.
- Revenues from assessments from member municipalities increased due to new service implemented during the year.
- Federal operating assistance and capital assistance increased. State assistance increased.

Capital Assets and Debt

The Authority's capital assets as of June 30, 2014 amounted to \$28,412,503 (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:

Building improvements	\$ 3,410,249
Transit equipment	\$ 30,684
Service vehicles	25,525
	<u>\$ 3,466,458</u>

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

At year-end, the Authority had \$8,310,000 of notes outstanding, an increase of \$590,000 from the prior year.

LOWELL 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 LRTA on April 1, 2014 began construction of a new Gallagher I Parking Garage. This seven (7) million dollar project is replacing all of the concrete, lighting, signage and fire alarm systems within the Gallagher I Garage. Essentially this project has demolished all of the existing infrastructure of the Gallagher I except for the steel structure. Presently, this project is approximately 65 percent complete with completion scheduled for late February 2015. This project is being funded with a combination of State and Federal funding.

The LRTA received six (6) new vehicles through the Commonwealth of Massachusetts' Mobility Assistance Program (MAP). These vehicles are being deployed in the LRTA's Road Runner fleet along with the Council on Aging fleets of Carlisle, Westford and Billerica.

In April of this year, the LRTA expanded its nightly bus service by extending its service on the majority of its routes until 9:00 PM and 10:00 PM. Also, we added a new Saturday route Number 15 from Chelmsford/Westford via highway Routes 129/110. This new service along with the service increases made in 2013 is allowing the LRTA to provide **1.5 million** passenger travel trips per year.

Some of the service goals for the coming year are to identify funding for Sunday service along with further improvements to Saturday service.

In the upcoming year, the LRTA will be looking to undertake the following Capital efforts:

- * Provide six (6) new 30' fixed route transit buses.
- * Provide four (4) new 25' fixed route transit buses.
- * Procure and install a new Automatic Vehicle Location (AVL) and Global Positioning System (GPS) System on all of the LRTA's Fixed Route buses. This system will also include a new Customer Information System (CIS) in order for passengers to know the location via internet, cell phone, video monitors, etc. the present location of all buses.
- * The LRTA will procure and install cameras in all of its paratransit buses. This video cameras system is now operating in the LRTA Fixed Route Fleet.

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Management's Discussion and Analysis

* Undertake a mid-life overhaul of approximately ten (10) Fixed Route buses. This effort will greatly assist in the LRTA's ongoing effort to provide a state-of-the-art Bus Fleet.

Finally, the LRTA will be undertaking a comprehensive service analysis of its bus service. This effort is required by Massachusetts Law and will allow the LRTA to identify which routes performing and where new routes or service should be considered going forward.

See accompanying independent auditor's report

LOWELL REGIONAL TRANSIT AUTHORITY
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Statement of Net Position

June 30, 2014

Assets

Current assets:

Unrestricted cash and temporary cash investments (note 2)	\$ 2,495,485
Receivables:	
Federal operating assistance	1,344,510
Federal capital assistance	1,633,562
State capital assistance	524,247
Local assessments	3,349,958
Other	169,158
Prepaid expenses	823
Total current assets	<u>9,517,743</u>

Non-current assets:

Capital assets, net (note 4)	
Land	1,454,571
Buildings and improvements	43,959,549
Equipment, furniture, fixtures, and vehicles	17,741,334
Less accumulated depreciation	<u>(34,742,951)</u>
Total non-current assets	<u>28,412,503</u>
Total Assets	<u><u>\$ 37,930,246</u></u>

Liabilities

Current liabilities:

Accounts payable	\$ 996,214
Accrued sick and vacation	76,697
Other post employment benefits (note 7)	87,962
Accrued interest payable	46,870
Revenue anticipation notes payable (note 5)	<u>8,310,000</u>
Total current liabilities	<u>9,517,743</u>

Net Position

Invested in capital assets, net of related debt	28,412,503
Unrestricted	-
Commitments and Contingencies (note 10)	<u>-</u>
Total net position	<u><u>\$ 28,412,503</u></u>

See accompanying notes to the financial statements

LOWELL 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	\$ 1,323,831
Terminal revenues	1,157,258
Other Income	242,183
	242,183
Total operating revenues	2,723,272
Operating Expenses:	
Transit service (note 12)	8,693,642
Terminal expenses	1,124,055
Administrative and general	694,528
Professional services	101,552
Depreciation	2,652,981
	2,652,981
Total operating expenses	13,266,758
Operating loss	(10,543,486)
Non-operating revenues (expense)	
Federal operating assistance	2,456,712
Commonwealth of Massachusetts contract assistance	3,063,872
Local Assessments	2,383,501
Interest income	3,859
Interest expense	(17,439)
	(17,439)
Total non-operating revenues	7,890,505
Loss before capital grants	(2,652,981)
Capital Grants:	
Federal	3,119,812
Commonwealth of Massachusetts	346,646
	346,646
Total capital grants	3,466,458
Change in net position	813,477
Net position, beginning of year	27,599,026
Net position, end of year	\$ 28,412,503

See accompanying notes to the financial statements

LOWELL REGIONAL TRANSIT AUTHORITY
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Statement of Cash Flows

Year ended June 30, 2014

Cash flows from operating activities:	
Passenger fares	\$ 1,323,831
Terminal revenue	1,157,258
Other cash receipts	242,183
Payments to operators	(8,881,994)
Payments to other vendors	(1,378,407)
Payments to employees for services	(406,304)
	<u>(7,943,433)</u>
Net cash used in operating activities	
Cash flows from non-capital financing activities:	
Proceeds from sale of revenue anticipation notes	8,310,000
Principal paid on revenue anticipation notes	(7,720,000)
Interest paid on revenue anticipation notes	(53,274)
Operating and contract assistance	10,316,870
	<u>10,853,596</u>
Net cash provided by non-capital financing activities	
Cash flows from financing activities:	
Capital grants	2,482,488
Purchase of capital assets	(3,466,458)
	<u>(983,970)</u>
Net cash used by capital and related financing activities	
Cash flows from investing activities:	
Interest income	3,859
	<u>3,859</u>
Net cash used by investing activities	
Net increase in cash and cash equivalents	
	1,930,052
Cash and cash equivalents, beginning of year	<u>565,433</u>
Cash and cash equivalents, end of year	<u>\$ 2,495,485</u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (10,543,486)
Adjustments:	
Depreciation	2,652,981
Changes in assets and liabilities	
Local assessment and other receivables	(225,875)
Accounts payable	172,947
	<u>(7,943,433)</u>
Net cash used in operating activities	

See accompanying notes to the financial statements

LOWELL 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 Lowell 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 City of Lowell and the towns of Billerica, Chelmsford, Dracut, Dunstable, Tewksbury, Tyngsboro, Pepperell, Acton, Groton, Townsend, Westford, Maynard, and Carlisle. 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 allowed to accumulate sick leave up to 60 days. In the event of termination, there is no provision to compensate employees for unused sick time. Upon retirement, there is a provision for employees who retire or die in service to be paid up to a maximum of 30 days, 50% of the value of their unused sick time, at the time of their retirement or death. The amount recorded is the unused days earned at the current rate of pay, up to a maximum of 30 days.

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.

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	30 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 grants receivable from Federal and State grants and local assessments. The Authority considers the credit risk associated with financial instruments to be minimal.

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Notes to Financial Statements

June 30, 2014

J. Investment Valuation

Investments are carried at fair value. Where applicable, fair values are based on quotations from national securities exchanges. The Authority invests in the Massachusetts Municipal Depository Trust, which is an external pool that is not SEC registered. This fund is regulated by the Commonwealth and is valued at current share price.

K. 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”).

Custodial credit risk is the risk that in the event of a bank failure, the Authority’s deposits may not be returned to it. The Authority does not have a deposit policy for custodial risk. As of June 30, 2014 \$-0- of the government’s bank balance of \$3,732,905 was exposed to custodial credit risk as uninsured and uncollateralized. The fair value of the MMDT investment was \$3,512,596 and its average maturity was less than three months.

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 Commonwealth’s Executive Office 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.

LOWELL REGIONAL TRANSIT AUTHORITY
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Notes to Financial Statements

June 30, 2014

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 \$2,995,212. The state operating contract assistance receivable, in the accompanying Statement of Net Position in prior years, was inclusive of \$609,289 related to funds due from the Commonwealth for prior years; this amount was received as part of the forward funding process.

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	\$ 1,454,571	-	-	1,454,571
Construction in progress	-	3,410,249	-	3,410,249
Total capital assets not being depreciated	1,454,571	3,410,249	-	4,864,820
Other capital assets:				
Buildings and improvements	40,549,300	-	-	40,549,300
Transit equipment	16,291,486	30,684	226,127	16,096,043
Service equipment	1,018,406	-	-	1,018,406
Service vehicles	408,584	25,525	16,972	417,137
Office equipment	134,520	-	-	134,520
Bus shelters	75,228	-	-	75,228
Total other capital assets at historical cost	58,477,524	56,209	243,099	58,290,634
Less accumulated depreciation for:				
Buildings and improvements	22,303,248	1,120,889	-	23,424,137
Transit equipment	8,474,156	1,489,512	226,127	9,737,541
Service equipment	983,531	8,835	-	992,366
Service vehicles	367,257	29,782	16,972	380,067
Office equipment	129,649	3,963	-	133,612
Bus shelters	75,228	-	-	75,228
Total accumulated depreciation	32,333,069	2,652,981	243,099	34,742,951
Other capital assets, net	26,144,455	(2,596,772)	-	23,547,683
Total capital assets, net	\$ 27,599,026	813,477	-	28,412,503

LOWELL 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	\$ 7,720,000
New notes issued	8,310,000
Notes retired	<u>(7,720,000)</u>
Ending balance	<u><u>\$ 8,310,000</u></u>

The \$8,310,000 of RANS outstanding were issued on August 9, 2013, carried an interest rate of 1.50% and were due August 8, 2014. The Authority refinanced its Revenue Anticipation at a base of \$5,900,000 at a rate of 1.00% with a due date of August 7, 2015. The Authority uses the proceeds of these notes to fund its mass transit operations.

Note 6. Pension Plan

A. Plan Description

The Authority contributes to the City of Lowell Retirement System (Retirement System), a cost-sharing multiple employer defined benefit pension plan administered by the City of Lowell Retirement Board. 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 \$97,017, 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.

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Note 7. Other Postemployment Benefits

GASB No. 45 requires governments to account for other postemployment benefits, primarily healthcare, on an accrual basis rather than on a pay-as-you-go basis. The effect is the recognition of an actuarially required contribution as an expense on the statement of revenues, expenses, and changes in net position when a future retiree earns their postemployment benefit rather than when they use their postemployment benefit. To the extent that an entity does not fund their actuarially required contribution, a postemployment benefit liability is recognized on the balance sheet over time.

A. Plan Description

The Lowell Regional Transit Authority Healthcare Plan (LRTAHP) is a single-employer defined benefit healthcare plan administered by the Lowell Regional Transit Authority. LRTAHP provides medical benefits to eligible retirees and their spouses. Chapter 32B of the Massachusetts General Laws assigns the authority to establish and amend benefit provisions. The plan does not issue a separate financial report.

B. Benefits Provided

The Authority provides medical, prescription drug, and mental health/substance abuse to retirees and their covered dependents. All active employees who retire from the Authority and meet the eligibility criteria will receive these benefits.

C. Funding Policy

The contribution requirements of plan members and the Authority are established and may be amended by the state legislature. The required contribution is based on the projected pay-as-you-go financing requirements, with an additional amount to prefund benefits as determined annually by the Authority. The Authority began prefunding the plan in October, 2009.

D. Annual OPEB Cost and Net OPEB Obligation

The Authority's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the *annual required contribution of the employer (ARC)*, an amount actuarially determined in accordance with the parameters of GASB Statement 45. Fiscal 2008 was the first year of the adoption of GASB 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the Authority's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Authority's net OPEB obligation to LRTAHP.

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Annual required contribution		\$ 80,705
Interest on net OPEB obligation		3,488
Adjustment to annual required contribution		(2,056)
Annual OPEB cost (expense)		82,137
Contributions made		(44,000)
Increase in net OPEB obligation		38,137
Net OPEB obligation - beginning of year		49,825
Net OPEB obligation - end of year		\$ 87,962

The Authority's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation were as follows:

Fiscal year ended	Annual OPEB Cost	Percentage of OPEB cost contributed	Net OPEB obligation
2012	\$ 81,772	100.0%	\$ -
2013	78,225	92.6%	5,825
2014	82,137	0.0%	82,137

The Authority's net OPEB obligation as of June 30, 2014 is recorded as "other postemployment benefits" line item.

E. Funded Status and Funding Progress

As of July 1, 2011, the most recent actuarial valuation date, the plan was 34.42 percent funded. The actuarial accrued liability for benefits was \$775,706 and the actuarial value of assets was \$267,015, resulting in an unfunded actuarial accrued liability (UAAL) of \$508,691. The covered payroll (annual payroll of active employees covered by the plan) was \$406,303 and the ratio of the UAAL to the covered payroll was 125.2%. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimated about the future. A schedule of funding progress will be presented when the plan has been in place for a sufficient number of years to allow it present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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June 30, 2014

F. Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the plan as understood by the Authority and the Plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the Authority and Plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with long-term perspective of the calculations. In the July 1, 2011 actuarial valuation the projected unit credit method was used. The actuarial assumptions included a 7.0 percent investment return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date, and an annual healthcare cost trend rate of 5 percent initially, reduced by decrements to an ultimate rate of 5 percent after eight years. Both rates included a 4.5 percent inflation assumption. The actuarial value of assets was determined using techniques that spread the effects of the short-term volatility in the market value of investments over a thirty year period. The UAAL is being amortized as a level percentage of projected payroll on an closed basis. The remaining amortization period at July 1, 2011 was twenty six years.

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 reduction 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.

Note 9. Disaggregation of Receivable and Payable Balances

Receivables are primarily comprised of current intergovernmental receivables representing 97.59% of the balance at year end. The remaining current receivables are comprised of amounts due from vendors and auxiliary revenue sources. Payable balances are comprised of 83.22% current payables to contractors and vendors with the remaining balance representing deferred employee liabilities.

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June 30, 2014

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	\$ 8,190,150	6,982,057	1,208,093
State and local sources	4,854,406	5,175,143	(320,737)
Total	<u>\$ 13,044,556</u>	<u>12,157,200</u>	<u>887,356</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.

The Authority had entered into a three year agreement for fixed route management and preventive maintenance services effective July 1, 2010. The contract had a termination date of June 30, 2013 and extended for two more years. The Authority had also entered into a two year management agreement for the provision of its demand responsive services effective July 1, 2009. The contract was extended to June 30, 2014. A new contract was awarded to a new vendor effective July 1, 2014.

C. Fuel Hedges

The Authority has one hedge outstanding that will terminate on August 31, 2014. The aggregate notional amount for ultra low sulfur diesel was 225,000 gallons with a price of \$3.01 per gallon.

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Note 11. Net Assets – 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	\$ 63,155,454
Less: Accumulated Depreciation	34,742,951
Less: Outstanding Debt Related to Capital Assets	<u>-</u>
	<u><u>\$ 28,412,503</u></u>

Note 12. Transit Service

The operation of the Authority's fixed route service and maintenance of the Authority's transportation property were performed by Lowell Transportation Management, Inc. under the terms of an agreement whereby Lowell Transportation Management, Inc. operated mass transit along such routes and according to such schedules as defined by the Authority. In return, the Authority agreed to pay Lowell Transportation Management, Inc. a management fee and to reimburse it for all costs and expenses which were reasonable and necessary for the efficient operation of the service.

The operation of the Authority's "road runner" bus service for the elderly, handicapped, and low-income persons is performed by Paratransit Management of Lowell, Inc. In return, the Authority agrees to pay Paratransit Management of Lowell, Inc. a management fee and to reimburse it for all costs and expenses which were reasonable and necessary for the efficient operation of the service. Paratransit Management of Lowell, Inc. is a subsidiary of First Transit, Inc.

The Authority enters into an annual contract with each of the Towns of Acton, Billerica, Chelmsford, Dracut, Groton, Maynard, Townsend, Tyngsboro, and Westford to provide paratransit services for the elderly, handicapped, and low-income persons who are unable to use the fixed route service. Service policies are defined by the Authority, which has agreed to reimburse for all reasonable and necessary expenses for the efficient operation of the paratransit service.

Note 13. 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 and the chief financial officer are the only individuals for whom disclosure is required. Based on the above definition of compensation the administrator received \$127,843 during the fiscal year while the chief financial officer received \$100,337.

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Notes to Financial Statements

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Note 14. Subsequent Events

The Authority has evaluated subsequent events 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.

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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	646,160	636,223	9,937
Professional Services	78,500	95,759	(17,259)
Office and Administrative	35,557	58,307	(22,750)
Advertising	5,000	5,792	(792)
Debt Service - Interest	100,000	17,439	82,561
Transportation			
Fixed Route	7,241,417	6,893,235	348,182
Special Services	1,966,071	1,800,407	165,664
Terminal Expenses - Gallagher	639,595	704,512	(64,917)
Terminal Expenses - No. Billerica	278,784	419,542	(140,758)
Total Expenses	<u>\$ 10,991,084</u>	<u>10,631,216</u>	<u>359,868</u>

See accompanying independent auditors' report

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Schedule of Net Cost of Service

For the Year Ended June 30, 2014

OPERATING COSTS

LRTA administrative costs	\$ 796,081
Purchased services	
Fixed route	6,893,235
Demand responsive	1,800,407
Terminal expense	1,124,054
Debt service - interest	17,439
Total operating costs	10,631,216

FEDERAL OPERATING ASSISTANCE

FTA operating and administrative	2,456,712
Other federal	-
Total federal assistance	2,456,712

REVENUES

Operating	
Farebox revenue	1,323,831
Other Revenue	
Advertising	71,331
Parking	1,157,258
Interest income	3,859
Miscellaneous	170,852
Total other revenue	1,403,300

NET OPERATING DEFICIT

5,447,373

ADJUSTMENTS

Extraordinary expenses	-
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NET COST OF SERVICE

5,447,373

NET COST OF SERVICE FUNDING

Local assessments	2,383,501
State contract assistance to be funded	3,063,872
Less: state operating assistance received	3,063,872
Balance requested from the State	-

UNREIMBURSED DEFICIT

-

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Schedule of Local Assessments

For the Year Ended June 30, 2014

The following table shows the local share that has been assessed upon each member municipality by the Commonwealth for fiscal year 2013 as well as the audited amount for fiscal 2014.

	Fiscal 2013 Assessment	Fiscal 2014 Audited
Acton	\$ 72,037	73,838
Billerica	279,037	286,013
Carlisle	41,734	42,777
Chelmsford	229,588	235,328
Dunstable	-	-
Dracut	136,801	140,221
Groton	97,896	67,554
Lowell	923,043	946,119
Maynard	73,517	75,355
Pepperell	16,469	16,881
Tewksbury	245,821	251,967
Townsend	40,616	41,631
Tyngsborough	43,735	50,189
Westford	151,832	155,628
	<u>151,832</u>	<u>155,628</u>
Totals	<u>\$ 2,352,126</u>	<u>2,383,501</u>